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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.

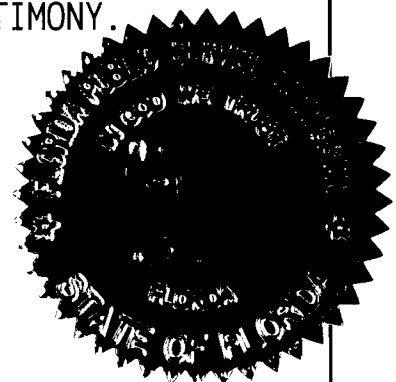
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VOLUME 7

PAGES 671 THROUGH 739

PROCEEDINGS: HEARING



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FPSC-COMMISSION CLERK

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

6 DATE: Thursday, December 11, 2003

7 TIME: Commenced at 8:30 a.m.

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

10 REPORTED BY: JANE FAUROT, RPR
11 Official FPSC Reporter
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13 APPEARANCES: (As heretofore noted.)
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I N D E X

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NAME:

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P R O C E E D I N G S

(Transcript continues in sequence from Volume 6.)

ORVILLE D. FULP

continues his testimony under oath from Volume 6:

CONTINUED CROSS EXAMINATION

CHAIRMAN JABER: Under the Act to be collected at the federal level. I am looking at Page 5 of your rebuttal testimony and you acknowledge that Mr. Ostrander's confusion may have arisen because this Commission has never implemented intrastate access reform as did the FCC. NTS charges, which would have been incorporated into an intrastate PICC if rates had been formed in the same manner as FCC access charges, still reside in the intrastate end office switching and, therefore, you felt like you had enough ability and rationale to impute this. What I need to understand is at the state level we have never allowed you to collect the PICC charge.

THE WITNESS: That is correct. We do not have an intrastate PICC, and the only reason that we have one today with our proposal is because of the Act and the definition of parity. And as we interpreted the Act, the PICC should be included in our composite rate calculation.

CHAIRMAN JABER: Which definition of parity are you referring to?

THE WITNESS: The definition in the Act which lays out --

1 CHAIRMAN JABER: Which act?

2 THE WITNESS: I'm sorry.

3 CHAIRMAN JABER: Maybe that's where we are getting
4 hung up. When you say act to me I am assuming you mean the
5 federal act.

6 THE WITNESS: 364.164. And Number 6 in that act
7 states the term intrastate switched network access rate means
8 the composite of the originating and terminating access rate
9 for carrier common line, local channel entrance facility.
10 Under carrier common line in our interstate tariff we have the
11 PICC, and so in our interpretation of the definition here, and
12 we look at our interstate tariff, that's why we have included a
13 PICC with our proposal.

14 CHAIRMAN JABER: That is very helpful to me. Now, do
15 you know if BellSouth calculated minutes of use the way you
16 have?

17 THE WITNESS: For the PICC?

18 CHAIRMAN JABER: Right.

19 THE WITNESS: No, they did not because they don't
20 have an interstate PICC today.

21 CHAIRMAN JABER: Okay. Mr. Hatch.

22 BY MR. HATCH:

23 Q Turn to Page 15 of your testimony. Look at Lines 22
24 through 24, which continues on over to Page 16 to the end of
25 the paragraph. Now, as I understand the gist of the text

1 there, you have reduced the CCL on the intrastate side
2 essentially coincident with what you have done at the federal
3 level. And you make the statement there that it is now
4 appropriate to eliminate this charge at the state level
5 referring to the intrastate originating CCL, is that correct?

6 A That is correct.

7 Q And the reason that the carrier common line charges
8 at the federal level have been marching down or trending down
9 through various proceedings including the CALLS proceeding, was
10 to remove nontraffic sensitive cost recovery from a traffic
11 sensitive rate element. I think we established that before, is
12 that correct?

13 A That is correct.

14 Q Now, with respect to Verizon's PICC, is it correct
15 that Verizon has eliminated its PICC as of July 1st -- I think
16 it is July 1st, 2003, is that correct?

17 A No, not to my knowledge.

18 Q It is in Verizon's tariffs, but as I understand it it
19 is zero rated, is that correct?

20 A No, that is not my understanding.

21 Q Now, one of the purposes of the instant proceeding is
22 to remove support from switched access charges, is that
23 correct?

24 A That is correct.

25 Q Now, including your PICC as a traffic sensitive item

1 which will be recovered on a traffic sensitive basis at the
2 intrastate level, doesn't that essentially perpetuate or
3 increase the amount of support going forward for Verizon on its
4 intrastate access charges?

5 A Could you restate your question again.

6 Q I wish that I could. Isn't it correct that by taking
7 your PICC revenues at the interstate level you have converted
8 them into an intrastate per minute of use charge and that
9 charge essentially is -- those minutes of use have been added
10 into all your other switched access rate elements, and in doing
11 so you are increasing the amount of support in access than you
12 otherwise would?

13 A No, I would characterize it differently. If you look
14 at the plan today under the Act in the proposal, we did not
15 reduce our access rates to a greater level because of the
16 recovery of the PICC and, therefore, less support is being
17 taken out of our access -- in our access proposal today. As I
18 stated in my rebuttal testimony, if we had not included the
19 PICC in our calculations, then it would end up being on basic
20 service rates, those dollar amounts, because otherwise without
21 the PICC our access reductions would be greater and the
22 increase to the local rates that we would charge would be
23 greater.

24 Q And the result of that would be removing more support
25 from intrastate access, is that correct? I mean, that is the

1 net effect of what you described, is that correct?

2 A The result of what?

3 Q What you described in terms of if you didn't include
4 the PICC it would increase the amount of revenues that would
5 flow -- or it would decrease the amount of revenues being
6 collected by switched access, increase the amount of revenues
7 being collected in terms of rate increases?

8 A Yes.

9 Q And that would in effect increase the amount of
10 reduction of support from switched access?

11 A Yes. And I think that is what I said at the
12 beginning. It just reduced the amount of support that was
13 taken away.

14 Q Do you anticipate that the PICC for Verizon will go
15 away at the interstate level?

16 A I don't know because that depends on a number of
17 factors. Part of the PICC phaseout was contingent upon the SLC
18 phasing up, and so the SLC has phased up, I think, to the
19 maximum it can at this point. And so now we have got to look
20 at what factors would impact the interstate PICC aside from any
21 changes in the SLC, because as I understood it as the SLC
22 transitioned up you had some change with your PICC, and that is
23 how we were allowed -- and we have reduced it substantially.

24 To answer your question, I don't know going forward
25 if we are going to have cost changes in the carrier common line

1 basket that would allow us to reduce it and/or eliminate it,
2 and I don't know that we will have any other changes to the SLC
3 at this point that would cause the PICC to be reduced or
4 eliminated. So I just don't know, it depends on certain
5 factors.

6 Q With your proposal to recover your PICC revenues on a
7 per minute of use basis, isn't that proposal inconsistent with
8 the trend at the federal level and at the state levels to
9 remove nontraffic sensitive costs from traffic sensitive rate
10 elements?

11 A I guess you could say that --

12 Q Was that a yes?

13 A Yes on the face of your question, it could be viewed
14 as inconsistent. Again, in looking at what we were doing with
15 the parity criteria under the Act today, we have parity and we
16 have revenue neutral and we have removal of basic support. And
17 when we looked at our overall plan on how do we accomplish what
18 we need to do with the Act, we looked at a strict mirroring,
19 which I know AT&T has brought up the CCL, terminating CCL rate,
20 we looked at what would happen if we strictly mirrored. Our
21 interpretation of the Act said, okay, are you going to mirror
22 and have an intrastate PICC? That didn't seem to make sense to
23 us to have another per line charge on the intrastate side. So,
24 again, looking at the whole picture and what we had to do and
25 looking at the PICC, looking at mirroring, looking if we didn't

1 incorporate it and the impact on local rates, we chose to, you
2 know, propose our rate design.

3 Q Could you turn in your rebuttal testimony --

4 CHAIRMAN JABER: Mr. Hatch, may I interrupt you for a
5 second. At the end of the day the way you treated the PICC
6 charge has resulted in your opinion in a lesser increase to the
7 local monthly rate of the consumer?

8 THE WITNESS: Yes, it has.

9 CHAIRMAN JABER: You were going to recover it. You
10 have two choices; you could have put the PICC charge in -- you
11 could have removed it from consideration of the access charges,
12 therefore, lowering the switched access rate to competitors,
13 but that would have increased local rates to the consumers.
14 The way you have done it you haven't removed all of the
15 subsidies from access, but you have come up with a proposal
16 that results in a lower increase to the consumer monthly bills.

17 THE WITNESS: That is correct.

18 BY MR. HATCH:

19 Q Could you turn to Page 8 in your rebuttal testimony,
20 please?

21 COMMISSIONER DEASON: Before we leave that, I have a
22 better understanding of what you are trying to do, and it seems
23 to me that it boils -- and see if you agree with this. It
24 seems to me it boils down as to how you define what parity is
25 in the Act or the statute, and that when you indicated that you

1 could have simply took the per line charge from the federal
2 recovery or access and put it in as a per line charge on the
3 intrastate, you could have done that, but that didn't make
4 sense. You wanted to put it on a per minute basis and to do
5 that you had to use intrastate minutes, correct?

6 THE WITNESS: That is correct. That is correct.

7 COMMISSIONER DEASON: I have a very good
8 understanding now. Thank you.

9 BY MR. HATCH:

10 Q Going back to Page 8 of your rebuttal. Are you
11 there? Looking at Lines 13 through 16. Basically, it is the
12 sentence beginning on Line 13 and ending on the beginning of
13 16. Could you read that for me, please?

14 A Starting at Line --

15 Q Line 13. That sentence that starts "stated
16 otherwise."

17 A Are we on Page 8?

18 Q Page 8 of your rebuttal.

19 A And Line 13 starting with "must be"?

20 Q We might have different copies of your rebuttal. On
21 Line 13 on my copy of Page 8 says "stated otherwise." It is in
22 reference to some comments you made about Mr. Fonteix's
23 testimony.

24 A That is my Line 11.

25 Q It could be just a printing thing from electronic

1 copy. Do you see the sentence that starts "stated otherwise"?

2 A Yes.

3 Q Could you read that sentence, please?

4 A "Stated otherwise, the amount of revenue generated by
5 the PICC in the interstate state jurisdiction, 12.7 million,
6 must be the same amount of revenue generated in the intrastate
7 jurisdiction. Thus, Verizon has not doubled its intrastate
8 access rate as Mr. Fonteix contends. To the contrary, Verizon
9 has brought the intrastate average revenue per minute into
10 parity with the interstate ARPM as required by the statute."

11 Q I just needed that first sentence, but am I to
12 conclude from that sentence that what Verizon has accomplished
13 is it has transferred the recovery of the current PICC revenue
14 from the intrastate jurisdiction and it will be recovered from
15 the intrastate jurisdiction on a going-forward basis?

16 MR. CHAPKIS: Objection, misstates the witness'
17 testimony.

18 MR. HATCH: My question was that am I to conclude
19 that. I did not mischaracterize his testimony.

20 CHAIRMAN JABER: Mr. Hatch, what is your response? I
21 will allow the question.

22 THE WITNESS: I'm sorry.

23 BY MR. HATCH:

24 Q Do you want me to try it again?

25 A Yes.

1 Q Am I to conclude from that statement, that one
2 sentence that begins "stated otherwise," that what Verizon has
3 done is it has shifted recovery of its current PICC revenue
4 from the interstate jurisdiction to the intrastate
5 jurisdiction?

6 A No, it hasn't shifted recovery, it has allowed for
7 recovery of the NTS PICC revenues on the intrastate side as it
8 is recovered on the interstate side, but in a different
9 fashion. So it hasn't shifted burden. We did not have a PICC
10 on the intrastate side before. And then, again, going back to
11 what we are doing in reaching parity with our interstate rates,
12 we have now picked up to reach parity on the intrastate side a
13 PICC equivalent average revenue per minute. So I wouldn't call
14 it a shifting.

15 Q And this will be my final question. You have taken
16 nontraffic sensitive costs as represented by your PICC revenues
17 and you have -- and you will be recovering them on an
18 intrastate basis through traffic sensitive rate elements, is
19 that correct?

20 A That is correct.

21 MR. HATCH: No more questions.

22 CHAIRMAN JABER: Let's see, where did we leave off.

23 Ms. Bradley.

24 CROSS EXAMINATION

25 BY MS. BRADLEY:

1 Q I want to change the subject a little bit and ask you
2 about your testimony as to benefits to customers. If I
3 understand your testimony, and please correct me if I'm wrong,
4 but you see a benefit to customers because if you increase
5 their rates there will be more revenue and more companies will
6 want to come into the state and they will have a choice of
7 telephone companies, is that it?

8 A Are you referring to any specific portion of my
9 testimony where I discuss that?

10 Q I don't have the page number right in front of me.
11 Is that what you have indicated?

12 A I don't believe I have indicated that anywhere in my
13 testimony as far as -- I don't believe I am the witness
14 testifying to the benefits to consumers. If I have something
15 in my testimony, if you could point me to it, but I don't
16 believe I am the witness that --

17 Q Give me just a second to find the page for you.

18 CHAIRMAN JABER: Mr. Beck, I was just asking if I
19 skipped you all in questions.

20 MR. BECK: No, ma'am.

21 MS. BRADLEY: I'm looking for a page number here. It
22 looks like Page 17.

23 THE WITNESS: Is that my direct testimony?

24 MS. BRADLEY: Yes.

25 THE WITNESS: And specifically what are you referring

1 to there?

2 MS. BRADLEY: Line 18 through it looks like 19 going
3 into 20.

4 CHAIRMAN JABER: Ms. Bradley, the witness has already
5 said his lines are numbered differently, so you may want to
6 read exactly where you want him to refer to.

7 MS. BRADLEY: Thank you. The statement I'm looking
8 at says bringing rates more in line with costs will provide the
9 incentive for companies to enter the market, therefore,
10 providing customers with freedom of choice.

11 THE WITNESS: I'm sorry, you are on my direct
12 testimony, correct?

13 MS. BRADLEY: It looks like 17.

14 THE WITNESS: Page 17.

15 MS. BRADLEY: This is under Q, the Act permits
16 Verizon to petition to rebalance rates over two to four years.
17 Why did Verizon choose to rebalance rates over two years?

18 CHAIRMAN JABER: For whatever it is worth to you,
19 that is not what my page says, either. Do you want to just
20 walk over and show the witness that page?

21 MS. BRADLEY: Certainly.

22 MR. CHAPKIS: I might be able to help clarify this if
23 you want me to, Madam Chairman.

24 CHAIRMAN JABER: It looks like Page 19, counsel. Mr.
25 Fulp, I think it is probably on your Page 19.

1 THE WITNESS: I just found it.

2 CHAIRMAN JABER: Okay. Go right ahead, Ms. Bradley.

3 BY MS. BRADLEY:

4 Q So, did I understand that to be correct, you see the
5 benefit to customers as being the fact that they will
6 essentially have a choice of companies?

7 A That is one of the benefits, yes.

8 Q Would you agree to me -- we have heard testimony and
9 I don't know whether you have heard it all, but the Commission
10 has had system from citizens throughout the State of Florida
11 who have come in and said they are on fixed incomes, you know,
12 they may not qualify for Lifeline, but they have increasing
13 medical costs, increasing problems, and that essentially they
14 can't afford this kind of increase with their phones rates,
15 they will have to discontinue. Will you agree with me that for
16 those customers, they are probably not going to see a benefit
17 to having a choice of companies that they can't afford versus
18 one company they can't afford?

19 A Well, if there is increased competition they will
20 have a choice. Now, whether they are able to take advantage of
21 choices the same as other customers is a different question,
22 but they are still going to have choices.

23 Q But it's a choice of companies they isn't afford, and
24 you would agree they are not going to see that as a benefit?

25 MR. CHAPKIS: Objection, calls for speculation.

1 CHAIRMAN JABER: Ms. Bradley, your response?

2 MS. BRADLEY: I think it is common sense and that he
3 is provided as an expert in this area.

4 CHAIRMAN JABER: Ask your question again.

5 BY MS. BRADLEY:

6 Q You would agree that for the people that are not
7 going to be able to afford this, they are not going to see it
8 as a benefit to have a choice of companies they can't afford?

9 CHAIRMAN JABER: I will allow it.

10 THE WITNESS: I don't know. I'm not understanding
11 your question, I guess, I apologize.

12 CHAIRMAN JABER: I think simply put -- and it is
13 interesting Ms. Bradley used the word common sense. Many of
14 the customers when we traveled at the service hearings said
15 choice isn't going to help me if all the rates from all the
16 companies that approach me are the same. So the question is
17 does logic tell you freedom of choice is not going to make
18 these proposals look beneficial to customers in that position?
19 If you have an opinion on it, fine. If you don't, fine. But I
20 think it is a legitimate question to --

21 THE WITNESS: It may not for those customers to the
22 same extent as to other customers. But, again, you know, I
23 don't know. I don't know to what extent competition will be
24 coming in, how that will change things, and how that will
25 change how they view where they are in the telecommunications

1 sector as far as choices, payments.

2 BY MS. BRADLEY:

3 Q That is an unknown, in other words?

4 CHAIRMAN JABER: Did you hear the question, Mr. Fulp?

5 THE WITNESS: No. I'm sorry, what?

6 BY MS. BRADLEY:

7 Q That is an unknown?

8 A What is an unknown?

9 Q As to how is this going to effect the customers?

10 A Well, I think there is a lot of testimony on the
11 record that overall it is going to effect the customers, you
12 know, in a beneficial manner.

13 Q Well, we are trying to understand how is it going to
14 benefit them, and I can understand when you say it will provide
15 them with a choice, except for those that have said that that
16 is not going to help them, but I'm trying to understand how it
17 benefits them?

18 A It benefits the customers that you are specifically
19 referring to that were not able to make the choices, could not
20 afford service, is that what you are referring to?

21 Q Can you tell me today how this is going to benefit
22 any customer other than those that -- other than giving them a
23 choice if they can afford it?

24 A Well, again, there is a lot of testimony, and Dr.
25 Danner, our witness, is probably the best witness to talk about

1 the Actual impacts on consumers. But depending upon your usage
2 of toll, depending upon, you know, the overall effect of the
3 proposals and the overall effect of enhanced competition, you
4 have got to look at all of that to see what the benefits are
5 going to be. So I can't sit here and, you know, speculate as
6 to the exact benefits that each individual customer is going to
7 see. But I think the record and the testimony of Dr. Danner
8 and other witnesses clearly points that there is going to be
9 benefits to enhanced competition in the market.

10 Q But you are not prepared to testify as to what those
11 benefits are, you would defer to Dr. Danner?

12 A I don't think I am the best witness to do that. I
13 think Dr. Danner is a much better witness to discuss that.

14 MS. BRADLEY: No further questions.

15 CHAIRMAN JABER: Mr. Twomey.

16 MR. TWOMEY: Yes, ma'am. Thank you.

17 CROSS EXAMINATION

18 BY MR. TWOMEY:

19 Q Good afternoon.

20 A Good afternoon.

21 Q I will probably suffer from the same problem with the
22 page numbers and we will have to just try and deal with that
23 the best we can. Let me ask you a question about your rebuttal
24 testimony first, sir, at what I think is on my copy Page 9 of
25 your rebuttal testimony. At Line 16 there is a discussion of

1 Lifeline customers are protected under the Act. Do you see
2 that? Rebuttal testimony, Page 9.

3 A It is not on my Page 9, but give me a second and let
4 me see if I can --

5 Q I guess it is the paragraph or chapter heading Roman
6 numeral III.

7 A Got it.

8 Q Okay. After the break I think your company assured
9 the Chairman that you will agree to institute the same level of
10 protection of your Lifeline customers from the rate increases
11 granted in this case, if any, as afforded by BellSouth, is that
12 correct?

13 A That is correct.

14 Q Okay. What are you planning to do at the end of
15 period? Is it your intention to impose the totality of rate
16 increases that have been applied to the other customers when
17 that period runs out?

18 A I can't say exactly what we are going to do at the
19 end of four years with Lifeline customers, but I think -- well,
20 I don't think, I know that Verizon is concerned about Lifeline
21 customers. That is why we have proposed to do what we propose,
22 to go four years. At this point in time we have no current
23 plans of increasing the Lifeline customers' rates. And as I
24 stated in my testimony, we are also willing to work on a longer
25 term proposal that will ensure Lifeline funding going forward,

1 but at this point I can't speculate on what we are going to do
2 in four years.

3 Q Okay, sir. Irrespective of what you decide to do,
4 would you agree with me that all other factors being held
5 equal, if you do impose the increases on your Lifeline
6 customers at the end of the four years or later, those
7 increases would be \$4.61 plus additional applicable taxes and
8 fees?

9 A I don't agree with your hypothetical. I don't know
10 that we would do that at all.

11 Q Let me ask you this. Isn't your testimony that the
12 rate increase you propose this Commission to approve here is
13 \$4.61 for residential basic local service?

14 A Yes.

15 Q And isn't it true then if you decided, I'm not saying
16 you will, I'm saying if you decided at the conclusion of the
17 protected period to give the Lifeline customers the same
18 increases that you would achieve here if you are successful,
19 that they would receive rate increases of \$4.61 plus additional
20 taxes and fees?

21 A Holding everything else constant, nothing else
22 changes in funding for Lifeline, I guess the answer would be
23 yes. But, again, I do not agree with that hypothetical because
24 I don't know that we would do that at all.

25 Q Well, if you did, then wouldn't you agree with me

1 that if all other things were held equal, no additional
2 increases in Lifeline financial assistance to these customers,
3 they would be at a deficit of \$4.61 versus their current
4 situation?

5 A Again, I don't agree with that hypothetical because I
6 don't know that we would do that.

7 MR. TWOMEY: Madam Chairman, that question I believe
8 was capable of a yes or no answer to be followed by whatever
9 explanation he wants to offer.

10 CHAIRMAN JABER: You know, Mr. Twomey, candidly, I
11 had trouble with that question, too. But I think the answer is
12 sufficient. I think the answer is sufficient. Do you want to
13 try asking it a different way? I mean, you are asking him to
14 assume facts going forward that he is telling you he doesn't
15 agree with the hypothetical, so if you want to give it another
16 try and rephrase the question.

17 MR. TWOMEY: Well, Madam Chairman, let me just say
18 this. The question I asked him, I believe, was if you give
19 these customers, the Lifeline customers, the same rate increase
20 you are seeking of your other residential customers, \$4.61, and
21 there are no other increases in their assistance, isn't it true
22 that they are at a \$4.61 deficit as compared to the current
23 situation.

24 CHAIRMAN JABER: Mr. Fulp -- let me try it this way.
25 Mr. Fulp, recognizing that you don't know, nor do you agree

1 with the characterization that your company might increase the
2 rates to those Lifeline customers after four years, you would
3 agree that that four dollar plus difference is more than the
4 Lifeline customers are paying today?

5 THE WITNESS: Yes.

6 CHAIRMAN JABER: Does that accomplish it for you, Mr.
7 Twomey?

8 MR. TWOMEY: Yes, ma'am. It wasn't -- it does, thank
9 you.

10 BY MR. TWOMEY:

11 Q And if that were to occur, Mr. Fulp, that is if your
12 current Lifeline customers were to receive a rate increase of
13 \$4.61 and not receive additional financial assistance in that
14 amount, would you agree with me that that would likely lead to
15 some discontinuance of service by those customers?

16 A Again, that is asking me to speculate that nothing
17 else changes, that is again assuming the hypothetical which I
18 didn't want to assume, so I can't answer that question.

19 Q Fine. Would your company support legislation that
20 would preclude Lifeline customers, your Lifeline customers
21 receiving any other rate increases on an annual basis other
22 than those that would be equal to the rate of inflation minus
23 one percent?

24 MR. CHAPKIS: Objection, calls for speculation.

25 MR. TWOMEY: He is an official of the company.

1 CHAIRMAN JABER: Mr. Twomey, the objection is
2 speculation. Respond and I will rule.

3 THE WITNESS: I don't know. I mean, we would -- I
4 have no idea.

5 BY MR. TWOMEY:

6 Q Okay. At Page 14 that I have, and maybe it is Page
7 16 of your testimony, there is a discussion --

8 A I'm sorry, is that of my rebuttal or direct?

9 Q I'm sorry, it is your direct, yes, sir.

10 A Page 16?

11 Q I show Page 14. If there is a two-page difference it
12 may be on 16. The question is please describe the basic local
13 rates that will be adjusted to ensure that the rebalancing
14 process is revenue neutral.

15 A Okay, I'm there.

16 Q Now, I have used my calculator and attempted to
17 figure out what percentage the \$71.4 million that you propose
18 to the Commission to apply to your residential basic rates of
19 the 76.8 million that you are seeking in increases, and I got a
20 percentage of 92.9 percent. Does that sound right to you?

21 A I'm sorry, could we make sure we have the same
22 numbers.

23 Q Yes, sir. I'm sorry. And I apologize if I am
24 working from the unrevised edition. My understanding is that
25 your company is seeking a total of \$76.8 million in basic local

1 service rate increases, is that correct?

2 A 76.2 is what I have on Page 16, Line 9.

3 Q I'm sorry, I'm working from the wrong --

4 CHAIRMAN JABER: You know, Mr. Twomey, I have been
5 looking for a normal breaking point for lunch, so --

6 MR. TWOMEY: I will get the right one. And I mean
7 during lunch I will get the right edition.

8 CHAIRMAN JABER: Well, here is actually my request of
9 you. I don't know about the other Commissioners, but the pages
10 I have consistent with the pages that you have. Is that the
11 same for you, Commissioners? So my request is --

12 COMMISSIONER DEASON: I am on Page 16 right now.

13 CHAIRMAN JABER: Yes, me too. Mr. Chapkis, if I
14 could trouble you to get a copy of that to your witness, that
15 may help.

16 MR. TWOMEY: Madam Chair, I am out of order here. I
17 was guessing that it was 16, but I am on 14. Since you had
18 said before that --

19 CHAIRMAN JABER: Okay. Then you are definitely the
20 problem.

21 MR. TWOMEY: I am the problem.

22 CHAIRMAN JABER: You are the problem. You just said
23 that. Okay. Let's get you the right copy. Commissioners,
24 let's take a one hour break and come back and finish with this
25 witness.

1 MR. TWOMEY: Thank you.

2 CHAIRMAN JABER: Thank you.

3 (Lunch recess.)

4 CHAIRMAN JABER: Let's get back on the record. Mr.
5 Twomey, you and Mr. Chapkis, I believe, were going to compare
6 the pages of testimony you had on Mr. Fulp to make sure you
7 were all looking at the same page.

8 MR. TWOMEY: Yes, ma'am, that is correct. And I
9 replaced my first version of the testimony with the amended. I
10 apologize for the inconvenience that caused.

11 BY MR. TWOMEY:

12 Q Mr. Fulp, I want to start over if I may on your
13 direct testimony now that I have the correct version, and
14 briefly cover your position and your responsibilities. I
15 understand from Page 1 of your direct testimony amended that
16 you are the director of regulatory of the company, correct?
17 And that is company-wide throughout the United States?

18 A Yes.

19 Q You also have a Master's degree in economics?

20 A Yes.

21 Q And 18 years of phone company experience in rate
22 case, access pricing, and other experience, correct?

23 A Yes.

24 Q If you will turn to Page 16 of your testimony. The
25 point I was trying to get to before when you recognized I had

1 the wrong numbers, isn't it correct that of the \$62 point
2 million (sic) that you are asking this Commission to allow you
3 to increase your basic local service rates, of that you propose
4 to apportion fully 93 percent of it to your residential
5 customers?

6 A Can you tell me the number you said?

7 Q Yes, sir. I am --

8 A Where did that number come from?

9 CHAIRMAN JABER: Mr. Twomey, what he is referring to
10 I picked up on, as well. You said 66, I think, .2. Don't you
11 mean 76.2?

12 MR. TWOMEY: I meant to say that. I apologize.

13 BY MR. TWOMEY:

14 Q Of the 76.2 million that you are seeking in
15 increases, you want the Commission to allow you to apportion
16 fully 93 percent of it to your residential customers, correct?

17 A I haven't done a percentage calculation, but hear on
18 my testimony on Page 17 it splits the increases between
19 business and residence, as well as recurring and nonrecurring.

20 Q Yes, sir. I am on 16. You will accept, won't you,
21 subject to check that 70.9 million is 93 percent of 76.2
22 million, correct?

23 A I will accept it, subject to check.

24 Q And you propose to increase all of your residential
25 rate groups by the same uniform amount of \$4.73, correct?

1 A That is correct, over two years and three increments.

2 Q Yes, sir. And the nonrecurring charges increases you
3 propose are listing there, as well, correct?

4 A Yes.

5 Q A \$5 increase for residence nonrecurring and a \$5
6 increase as well for nonrecurring central office connection,
7 correct?

8 A Correct.

9 Q On the next page, 17, you say at Line 14, Verizon's
10 objective is to comply with the statute and remove support
11 flowing from the access rates to basic local rates. And my
12 question is is that your primary goal, I suppose, to increasing
13 competition?

14 A No, that is one of the criteria of the Act.

15 Q Okay. Now, the maximum amount that you can increase
16 your local rates is directly related to how much you have to
17 lose or reduce access fees to get to parity, correct?

18 A Per the Act, that is correct.

19 Q And so the amount of support that you can remove from
20 your basic local rates is limited by that amount, but the
21 manner in which you do it is left up to the company,
22 apparently, is that correct?

23 A Well, no, it is not entirely left up to the company.
24 We have to follow the guidelines that were in the Act, and it
25 is pretty definitive as far as the increases and where they go

1 as far as basic rates.

2 Q Okay. I want to ask you about one of them that you
3 describe on Page 17, to help me understand it. You say
4 starting at Line 20, Verizon is increasing all basic local
5 residential rates by a uniform amount due to the legislative
6 constraints that prohibits residential Lifeline rate increases
7 during the rebalancing period. Today Lifeline customers
8 receive a monthly credit for subscriber line charge of \$6.50,
9 and other Lifeline credits totaling \$7, for a total Lifeline
10 credit of 13.50. This is a uniform credit across all rate
11 groups. If Verizon were to increase residential rates by
12 differing amounts, as we are proposing to do for the business
13 rates, a different Lifeline credit would have to be established
14 for each rate group. Is that true?

15 A Yes.

16 Q And why is it true? If you had different increases
17 for different rate groups, why would that change the amount of
18 the Lifeline credit?

19 A Well, it wouldn't change the amount of the Lifeline
20 credit. What this refers to is in looking at the differences
21 in our residential versus our business rate design, we chose on
22 the residential side to have a flat increase across all rate
23 groups, and one of the reasons that we chose to do that is to
24 ensure that we follow what we need to do for Lifeline
25 customers. And today for our billing purposes, you have to

1 have a credit specifically for Lifeline that is by rate group.
2 And so to go in and change the different amounts that we would
3 have increases by across our rate groups was going to be a
4 major billing change. We didn't want to take that on at this
5 point in time and risk messing something up with our billing
6 for the Lifeline credits. And so that is, again, one of the
7 reasons that we chose to use a flat increase across the board.

8 Q Help me understand a little bit better. Isn't it
9 correct that currently under your existing rates that you give
10 each rate group the same Lifeline credit?

11 A We give credits by rate group.

12 Q Yes, sir, and my question was isn't it true that
13 under your current rates you give each rate group the same
14 \$13.50 Lifeline credit?

15 A Correct.

16 Q Okay. So why is this statement in your testimony
17 that if you were to increase residential rates by differing
18 amounts, your residential rates currently by rate group are
19 different amounts, correct?

20 A Yes.

21 Q So, if Verizon were to increase residential rates by
22 differing amounts, why would that require that you establish
23 different Lifeline credits for each rate group?

24 A Because, as I stated in my testimony, if you look on
25 Line 3 of Page 16, it says if we were to increase the

1 residential rates by differing amounts, different Lifeline
2 credits would have to be established for each rate group. And
3 what we were told when we looked at what would have to happen
4 for systems changes to our billing and stuff, is that we didn't
5 want to undertake doing that at this point. And so my
6 understanding is, and I'm not a billing expert, but my
7 understanding is for us to go in and make changes across the
8 different rate groups would require that Lifeline credits would
9 have to be established separately for the different rate groups
10 and we didn't want to do that at this point in time.

11 Q Yes, sir, but let me try again. Currently isn't it
12 true that the Lifeline credits for each of your five
13 residential rate groups is \$13.50 per month?

14 A Yes. We have a uniform credit across the rate
15 groups.

16 Q Yes. And isn't it true that under your proposed
17 changes, the Lifeline credit for each rate group would stay
18 exactly the same, namely \$13.50?

19 A I think the answer is yes. But, again, if we went
20 in -- my understanding is if we went in and changed our rates
21 by differing rate groups, that the way the billing system has
22 to pick up the credit, that we would actually have to change
23 the credit that would be applied across the different rate
24 groups.

25 CHAIRMAN JABER: Mr. Fulp, may I interject because

1 you are losing me. Let me see if I can understand. Some
2 customers in some rate groups have a local monthly bill perhaps
3 of less than 13.50, is that a fair statement?

4 THE WITNESS: Yes, that is a fair statement.

5 CHAIRMAN JABER: So the credit is up to 13.50. When
6 you are talking about changes to rate groups, I think what is
7 confusing is it makes it sound like you are changing the 13.50.
8 This is what I was asking you about in your summary. You keep
9 saying that there are changes to the Lifeline credit. I think
10 what you are trying to explain is if a customer's local monthly
11 bill is \$10, and he is a Lifeline customer, then he has got a
12 \$10 credit to his bill, because he is a Lifeline customer.

13 THE WITNESS: That is correct.

14 CHAIRMAN JABER: And then in the next rate group,
15 maybe there is a customer that has a \$12 monthly bill?

16 THE WITNESS: Yes.

17 CHAIRMAN JABER: And his Lifeline credit is \$12?

18 THE WITNESS: Yes.

19 CHAIRMAN JABER: Mr. Twomey, I didn't mean to
20 interrupt, but you picked up on something that was very
21 confusing, and if you want to take --

22 MR. TWOMEY: I will stop there. And I'm not trying
23 to quibble on this, but I think there are important
24 implications.

25 CHAIRMAN JABER: But is that the confusion you were

1 trying to address?

2 MR. TWOMEY: No. I mean, I hear what you are saying
3 and I heard his response, and I will just stop with it. I'm
4 not convinced that that answers my question, but I will stop
5 with it for the moment.

6 CHAIRMAN JABER: Okay. But to satisfy my concern,
7 Mr. Fulp, you can affirmatively say that this proposal is no
8 attempt on your part to effectuate any changes to the \$13.50
9 Lifeline credit?

10 THE WITNESS: Absolutely not. And, again, it was a
11 reason because of the Lifeline credits that we didn't have a
12 proposal that changed our rates by varying it across rate
13 groups. I mean, it was one of the reasons.

14 CHAIRMAN JABER: All right. And is that really more
15 of an administrative concern?

16 THE WITNESS: It is an administrative and a billing
17 change, systems change, as well as we didn't want to institute
18 something like that at this point. And not to say that we ever
19 have problems with billing, but we didn't want one in this case
20 with Lifeline credits.

21 BY MR. TWOMEY:

22 Q Okay, sir. You said that was one of the reasons.
23 Isn't it true, though, that another one of the reasons for
24 attempting to implement uniform rate increases across all rate
25 groups is to protect your most dense rate groups from

1 additional competition?

2 A I don't know that that is a major reason for choosing
3 our rate design. If you looked at our rates and you looked at
4 our support that we are currently getting and you look at our
5 rates in conjunction with cost, they all needed to be increased
6 because they were below cost. And so, you know, I wouldn't say
7 that it was to protect any set of customers from competition as
8 to why we chose to increase rates on a uniform manner across
9 the board.

10 Q Yes, sir, I will accept that. But whether it was the
11 major reason or not, isn't it, in fact, true that it was one of
12 the reasons that you selected that methodology?

13 A No, I don't know that it was one of the reasons, that
14 is what I just explained.

15 Q Okay. It has that result, doesn't it?

16 A Could you explain again what result you are referring
17 to.

18 Q Yes, sir. And I know you are an economist, and I am
19 going to take that into consideration, and you are an expert in
20 this field. The question is doesn't the attempt to have the
21 access fee increases apportioned evenly by dollar amount over
22 all rate groups tend to protect from competition to some degree
23 the most dense rate groups?

24 MR. CHAPKIS: I am going to object at this point.
25 Dr. Danner is our witness on competition and the effects of

1 competition, and I think that this line of inquiry is more
2 appropriately addressed to him. Mr. Fulp was --

3 CHAIRMAN JABER: Mr. Chapkis, what is your objection,
4 that this is outside the scope of --

5 MR. CHAPKIS: Beyond the scope of the witness'
6 testimony.

7 CHAIRMAN JABER: Let me tell you, I am going to allow
8 the question because this witness does testify with regard to
9 how the allocations are spread across rate groups. I know that
10 because I have questions in that regard, as well. So I will
11 allow the question.

12 MR. TWOMEY: Thank you, Madam Chair.

13 BY MR. TWOMEY:

14 Q Do you understand my question, Mr. Fulp?

15 A Could you repeat the question again.

16 Q Yes, sir. Let me change it a little bit and maybe it
17 will help. Would you agree with me that if the full amount of
18 the requested rate increases were apportioned across the
19 residential customers on a percentage increase as opposed to a
20 uniform dollar amount per rate group, necessarily that the
21 current groups of the highest rates, that is your most densely
22 populated rate group, would have to have higher dollar
23 increases than the less dense rate groups?

24 A I will agree with the mathematics of that, yes.

25 Q It is mathematically necessary, right?

1 A If you used a percent versus an across the board flat
2 rate increase, yes, I would agree with your math.

3 Q And isn't one of the underlying theories of your
4 company's case that to promote competition amongst your various
5 customer rate groups, residential and business, that in order
6 to incent competitors or potential competitors to come in and
7 try and seek your customers you have to try and bring your
8 rates closer to cost?

9 A That is correct.

10 Q So, isn't it true that if you chose to seek the rate
11 increases through a percentage basis, that the more dense
12 residential groups would have their ultimate rates come closer
13 to cost than under the methodology you have chosen in this
14 case?

15 A Well, they would have a higher increase --

16 Q Yes, sir.

17 A -- in their rates.

18 Q Yes, sir. And this is not a trick question. I'm not
19 attempting a trick question. Isn't it mathematically
20 conclusive that if they had a higher rate increase -- which
21 rate group is your most dense, five?

22 A Five.

23 Q I think we have established that if you used a
24 percentage increase as opposed to a uniform dollar increase,
25 that Rate Group 5 residential rates would go up more than they

1 would under the proposal in this petition, correct?

2 A Correct.

3 Q And that would necessarily put that group closer to
4 the cost of providing service in that rate group's area than
5 under the current proposal, right?

6 A It would bring them closer to their cost.

7 Q Than under the current proposal?

8 A Than under the current proposal.

9 Q And under the theory, isn't it true that under the
10 theory that the closer you get your customer rates to cost that
11 they become more attractive to potential competitors, your Rate
12 Group 5 residential customers will be more attractive to
13 competitors if you used a percentage increase methodology as
14 opposed to the uniform dollar methodology, isn't that correct?

15 A It is correct that the rates would be higher than a
16 competitor would see if they came into our market for those
17 areas. Again, if you look at all of our rates across all of
18 our rate groups in conjunction with their cost, they are all
19 below cost. And so -- I am trying to answer your question, I'm
20 just trying to understand --

21 Q You answered it. I mean, you can explain it more if
22 you want to, but you have answered to my satisfaction.

23 A Again, what I am agreeing to is that, yes, they would
24 have a larger rate increase than the other rates. And, you
25 know, holding everything else equal, that could possibly mean

1 that a competitor would look at that differently than he would
2 another rate group.

3 Q Yes, sir, thank you. Which of your business, single
4 line business rate groups, which number is the most densely
5 populated?

6 A It would be Rate Group 5, as well.

7 Q Okay. And would I be correct in assuming that Rate
8 Group 5 of the business customers has at least in the near term
9 history been that group most subject to competitive pressures?

10 A I don't know that I can answer that specifically by
11 rate group. I think that would be -- well, I don't think I can
12 answer that by rate group. I am not familiar with a
13 competitive analysis that looks specifically at one rate group
14 versus another rate group.

15 Q Okay. Which of your witnesses would be better at
16 that?

17 A Mr. Leo has prepared a competition report. I don't
18 know if that report would look at competition by rate group, in
19 fact, I don't believe that it does.

20 Q Okay, sir. Thank you. On Page 18 of your testimony
21 starting at Line 13 you discuss the reasons that you are moving
22 all of your basic local business rates to \$32. And down at
23 Line 19 you say for Number 3 to help limit price increases on
24 the other services in this process. Which services do you
25 refer to?

1 A Hold on, I just want to -- I think what we were
2 referring to here is just in general other products and
3 services where we chose to increase business rates, we wouldn't
4 have to increase. And let's say to the extent we didn't
5 increase business services and we would put that on residential
6 service rates versus business rates.

7 Q So you are including residential local service rates
8 in that category?

9 A That could be one of the things included, yes.

10 Q Okay, thank you. The next page, sir, Page 19, Line 5,
11 is the question the Act permits Verizon to petition to
12 rebalance rates over two to four years. Why did Verizon choose
13 to rebalance rates over two years? First, I want to ask you,
14 aren't I correct in understanding that your company's
15 representatives told the members of the Florida Legislature
16 that the transition implementation of the rate increases if the
17 legislation was approved would be over four years?

18 MR. CHAPKIS: Objection, lacks foundation.

19 CHAIRMAN JABER: Mr. Twomey.

20 MR. TWOMEY: I don't think that is a legitimate
21 objection. The witness is the senior director for rates for
22 this company in the United States. He must have some awareness
23 of what this legislative proposal was.

24 BY MR. TWOMEY:

25 Q Or let me ask you. Were you aware of the legislation

1 in Florida being promoted by your company this year and the
2 year previous?

3 A I am aware that our company was involved in the
4 legislative process.

5 Q Okay, sir. Are you aware during either year
6 whether -- of what the number of years of transition your
7 company was proposing?

8 A No.

9 Q Okay. So you don't know if it was four, is that
10 correct?

11 A No, I don't know the answer to your question.

12 Q Okay. Your answer at eight is Verizon chose to
13 rebalance rates in three increments over two years to bring the
14 benefits of rate rebalancing to ratepayers in the shortest
15 period allowed by the Act. And you go on and discuss some of
16 the benefits. Ms. Bradley asked you about those. Is it my
17 understanding from your testimony here that you are telling the
18 Commission that you are seeking to raise my clients' rates and
19 your other customers' rates in a shorter period of time for
20 their own good?

21 A I don't know if I would characterize it the way you
22 did. I think my testimony speaks for itself. Our thought is
23 that this type of proposal has been in the works for numerous
24 years. It needs to be implemented and the sooner that we can
25 implement it the better we think we are going to be in the

1 State of Florida.

2 Q The better you are going to be in the State of
3 Florida. You mean --

4 A No, the better Florida ratepayers are going to be.

5 Q Okay. You wouldn't deny, would you, Mr. Fulp, that
6 this change of four years to two years also benefits the
7 company, would you?

8 MR. CHAPKIS: Objection, assumes facts not in
9 evidence, change from four years to two years.

10 BY MR. TWOMEY:

11 Q Let me ask you this way. Isn't it true, Mr. Fulp,
12 that your company has over the last several years lost access
13 fee revenue within the State of Florida?

14 A Yes, as well as local revenue.

15 Q And do you know in your position, your
16 responsibility, what the percentage of access fee loss has
17 been?

18 A No.

19 Q To your knowledge, is it a progressive loss rate or a
20 consistent lost rate, is it accelerating, what is it?

21 MR. CHAPKIS: Objection.

22 CHAIRMAN JABER: What is your objection?

23 MR. CHAPKIS: Objection. The witness has already
24 testified that he doesn't know and we are progressing further
25 down this line.

1 CHAIRMAN JABER: The witness testified that there has
2 been an access fee loss in revenues and that there have been
3 loss of revenues associated with the local market. So I will
4 allow the question. And, Mr. Chapkis, in the future quickly
5 state your objection and try not to send any messages to your
6 witness.

7 MR. CHAPKIS: I will try do it more quickly in the
8 future.

9 MR. TWOMEY: Thank you, Madam Chair.

10 BY MR. TWOMEY:

11 Q To be clear, you said there was loss in access fee.
12 You said you didn't know the amount, but my question is whether
13 you know the amount or not, do you know whether the amount is
14 stable or if it is accelerating?

15 A And, number one, I didn't mean to say access fees,
16 but our access minutes of use have been declining on the
17 intrastate and interstate side. And I believe there may have
18 been a data request that provided access minutes of use is why
19 I can't remember exactly what the declines are off the top of
20 my head. And as far as whether they have increased or
21 stabilized, I can't remember that. But there has been access
22 minutes of use loss on both the inter and intrastate side, and
23 I just, I can't remember the magnitudes of those and whether it
24 has been a stable loss, but we have experienced loss over the
25 last few years.

1 Q And it is true, of course, isn't it, that there are
2 dollars associated with the loss of those access minutes?

3 A That is correct.

4 Q And if you will assume with me for a moment that the
5 rate of loss was consistent, and just hypothetically if it was
6 10 percent per year, wouldn't it be more advantageous for
7 Verizon to shift responsibility for the \$72.6 million of access
8 fee reductions you want to have shifted onto local rates sooner
9 rather than later?

10 A I don't know that you could say that, because at the
11 same time that you have had access minutes of use declining, we
12 have had local lines declining. And so, you know, depending
13 upon the rate of decline between access and local, I don't know
14 that that would be correct.

15 Q Yes, sir.

16 A And I don't know what it would be, you know, in the
17 future, as well.

18 Q But wouldn't it be mathematically correct that the
19 shift would benefit Verizon if the loss of access minutes and
20 dollars exceeded the rate of loss of access lines?

21 A I don't know.

22 Q I want to -- briefly on Page 20, you talk about, at
23 Line 19 you talk about Verizon's basic local residential
24 telecommunications services receive support, correct? And I
25 want to ask you, that definition of support and subsidy is

1 dependent upon what revenues you count against what costs for
2 the loop, is that correct?

3 A That is correct.

4 Q Are you an appropriate witness, if not the most
5 appropriate to be subjected to my local loop chart? Without
6 even going to the chart, if I were to ask you in what was
7 Exhibit 54 that I drew myself, do you recall the discussion of
8 that?

9 A Yes, I do.

10 Q Would you agree with me that none of those services
11 indicated in that column could be provided without the
12 existence of the local loop by the LEC, by your LEC?

13 A That is correct, because you have to have the local
14 loop as a base before you can provide any other services over
15 it.

16 Q Okay, sir. Now, just briefly if you would consider
17 that kind of an abbreviated LEC hypothetically had on average
18 from his customers \$10 of revenue from basic local service for
19 residential, and \$5 per month from access revenue, and \$10 from
20 vertical services for a total of \$25 of revenue, if the
21 Commission or another body wanted to, could they apportion the
22 costs of the local loop to the various services that must have
23 it to be provided on a revenue basis if they wanted?

24 A Yes. And as was stated before by the BellSouth
25 witness, that would be bad economics, bad policy, and shouldn't

1 be done. But, of course, the Commission if they chose to do
2 something like that could do it.

3 Q Okay. Thank you. If you would turn to Page 24 of
4 your testimony, please.

5 MR. CHAPKIS: I'm sorry, I didn't hear the page.

6 MR. TWOMEY: 24, 2-4.

7 BY MR. TWOMEY:

8 Q Okay. Now, as I understand it for purposes of your
9 testimony and your filing you have used the UNE-P rates ordered
10 by the Commission, notwithstanding the fact that your company
11 is appealing those rates, is that correct?

12 A That is correct.

13 Q And you are using the UNE-P rates as ordered by the
14 Commission as a surrogate for what the costs of providing
15 service in each of those rate groups is, is that correct?

16 A That is correct.

17 Q And you say at Line 11 of Page 24 that the estimated
18 amount of support is the difference between the current basic
19 rates and the UNE composite rate for each rate group. You go
20 on to say, for example, the basic residential rate in Rate
21 Group 5, the most dense group, including the \$6.50 SLC, is
22 18.60. The composite UNE rate for this rate group is 23.90,
23 therefore, the support or subsidy -- I am paraphrasing now --
24 is 5.30, correct, for Rate Group 5?

25 A Correct.

1 Q If you had elected to use a percentage rate increase
2 as opposed to a uniform dollar, you probably could have brought
3 that rate group to a point where rates were equal to costs, is
4 that correct?

5 A I don't know. You know, number one, it would depend
6 upon the percentage. I guess if it was high enough that could
7 happen.

8 Q But, if I understand you correctly, isn't it your
9 testimony, or if not your testimony the theory of your
10 company's case, that for Rate Group 5, the closer the rate
11 approved and charged for Rate Group 5 gets to 23.90, the more
12 attractive it is for potential competitors, correct?

13 A Well, it is not just for Rate Group 5, it is for all
14 of our rates. The closer that we can get rates to cost, not
15 just Rate Group 5.

16 Q Okay, sir. If you would turn the page to Page 25.

17 MR. CHAPKIS: I would just like to point out that
18 page has some confidential data on it, so if we could be
19 careful, I would appreciate it.

20 MR. TWOMEY: Thank you very much. That shouldn't be
21 a problem because I have the redacted copy.

22 CHAIRMAN JABER: Mr. Twomey, let me make sure I have
23 the redacted copy, please. Mr. Chapkis, my Page 25 has numbers
24 under residence, numbers under business. What part is
25 confidential, I can't tell?

1 MR. CHAPKIS: The column titled annualized units.

2 CHAIRMAN JABER: Okay. Thank you.

3 BY MR. TWOMEY:

4 Q Okay, sir. On Page 25, for the residential group,
5 your text on the previous page spoke to Rate Group 5, that is
6 on Line 11, correct?

7 A Correct.

8 Q And the present rate is \$12.10, which when you add
9 the 6.50 -- is that pronounced SLC, is that the acronym?

10 A Yes.

11 Q When you add the SLC, your total revenue from that
12 customer is 18.60, correct?

13 A Correct.

14 Q Not counting any of the other revenues you might not
15 consider. So, the UNE-P, the UNE-P is 23.90, correct?

16 A Correct, on this page.

17 Q Yes, sir. Now, when you add your -- what is your
18 increase, 4.78?

19 A 4.73.

20 Q I'm sorry, 4.73. Then you bring that, you bring your
21 Rate Group 5 rates, if your petition is approved, up in the
22 22-dollar range or thereabouts, right, or 23, correct?

23 A Yes.

24 Q And that necessarily makes that group of customers
25 more attractive to potential competitors than it is currently,

1 correct?

2 A I don't know that it does. It brings it closer to
3 cost, and it recovers its costs more than it had. Again,
4 looking at, you know, one specific rate group and saying that
5 it is closer to cost versus another specific rate group and
6 making the analogy that that is going to be better for a
7 competitor, I don't know. I don't know that a competitor is
8 going to target a particular rate group in the future. Or, you
9 know, if they do that today by rate group. But, it would be
10 closer to covering its costs.

11 Q Yes, sir. And I may misunderstand the theory of you
12 all's cases, but isn't that basically one of the underlying
13 principles of promoting or inducing competition, that if you
14 bring rates closer to cost that you will incent competitors to
15 come into the state and seek to compete for your customers?

16 A Yes, but it is not confined to just Rate Group 5, and
17 I guess that is my point.

18 Q Oh, I'm sorry. I didn't mean to suggest that it was.
19 But if you look at Rate Group 1, the present, the column that
20 has the 16.62, which is the current rate, plus the SLC, gives
21 you 16.62, correct? Do you see that?

22 A Yes.

23 Q Okay. And you add -- your current proposal is to add
24 to that 4.73, correct?

25 A Yes.

1 Q Okay. Which gives you 21-something, correct?

2 A Correct.

3 Q Which is a long ways away from the UNE-P, correct, of
4 35.75, right?

5 A Yes.

6 Q And I just want you to help me understand. Wouldn't
7 a company, a CLEC thinking of coming to Florida, logically go
8 to your Rate Group 5 before they would go to your Rate Group 1?

9 A I don't know. I think that that maybe could be
10 better addressed to one of the CLECs, possibly Knology, and ask
11 their opinion. I just don't want to speculate on how a CLEC is
12 going to specifically target our market.

13 Q Okay, sir. Let me ask you this. I mean, you are
14 responsible for your company's operations throughout the United
15 States, correct?

16 A No, I'm just a director of regulatory.

17 Q I'm sorry. But in your field you cover the United
18 States?

19 A Yes.

20 Q Isn't it true that since -- isn't it true that in the
21 states that have allowed local service competition that you
22 have experienced losses, some losses to competitors?

23 MR. CHAPKIS: Objection, beyond the scope of this
24 witness' testimony.

25 CHAIRMAN JABER: Mr. Twomey, I don't know where that

1 is in the testimony.

2 MR. TWOMEY: Okay, I will drop it.

3 CHAIRMAN JABER: Thank you.

4 MR. TWOMEY: That is all I have, Mr. Fulp. Thank
5 you.

6 CHAIRMAN JABER: Staff.

7 CROSS EXAMINATION

8 BY MS. CHRISTENSEN:

9 Q Good afternoon, Mr. Fulp. I would like to follow up
10 on Mr. Twomey's concept, and I just wanted to make sure I am
11 understanding correctly. Is it my understanding that you have
12 testified consistently with Dr. Gordon's position earlier where
13 he indicated that he does not believe that the local rate
14 increases proposed by the ILECs will result in rates that are
15 at or above forward-looking costs, would you agree with that?

16 A Yes.

17 Q Okay. Could the increases be allocated in such a way
18 that the costs are met at least in some of the rate groups?

19 A I want to make sure I understand your question.

20 Q I can repeat the question if you would like.

21 A Would you, please.

22 Q Could the increases that your company is proposing be
23 allocated in such a way that those costs, the cost of providing
24 basic local service, could be met at least in some of those
25 rate groups?

1 A Yes, depending upon how much you were to increase
2 rates and depending upon your definition of cost, that could
3 happen. I guess I just want to point out, again, that the cost
4 proxy that we utilized is not what we feel our true costs are.
5 And so if you are referring to the cost proxy that I have here,
6 the answer to your question is yes, that could happen.

7 Q Right. That is the cost proxy you chose to use in
8 this proceeding?

9 A Yes.

10 Q And in doing so, if you could allocate it in that
11 way, wouldn't it be possible that some of the rate groups would
12 not experience an increase? I guess to say it another way, if
13 you were to allocate the costs in such a way that the higher
14 rate groups would get more allocation of the rate increase,
15 would that necessarily cause certain other rate groups not to
16 receive any portion of the increase?

17 A I want to make sure that I'm not misunderstanding.
18 Are you talking revenues or costs, because I think you may have
19 switched between the two. And I just want to make sure before
20 answering that I understand if you are talking revenues or if
21 you are talking costs, or maybe you are talking both.

22 Q I think we are talking about allocation of the
23 revenue.

24 A Okay, so not cost. Not cost. You are talking
25 revenue.

1 Q Yes. Allocation of the revenue to meet cost, and if
2 you did it in such a way that you were trying to at least meet
3 cost in the higher end rate groups would that necessarily mean
4 that some of the higher cost rate groups would not receive any
5 of that allocation?

6 A If you chose to increase some rate groups and apply
7 no increases to other rate groups, is that what you are saying?

8 Q Not quite. I think what we are talking about here is
9 if you -- let's assume that you allocated your revenues in such
10 a way that you would try and make at least the higher end rate
11 groups meet their basic costs to make those more competitive.
12 Let's assume that. If you were to take that approach, would
13 there be rate groups or groups of customers that would have --
14 would not receive any of that rebalancing, would that be a
15 possibility?

16 CHAIRMAN JABER: Do you understand the question, Mr.
17 Fulp?

18 THE WITNESS: Yes. And I apologize for having to
19 qualify, but I am going to have to do it again. Are you
20 referring to the revenues that we have proposed in this
21 proceeding, the dollars there?

22 BY MS. CHRISTENSEN:

23 Q Yes.

24 A So if I allocate a certain amount of those dollars
25 here, I don't have them to allocate here, so it is a finite set

1 of revenues that --

2 Q Correct. That would be the assumption is you are
3 dealing with the rate proposal you have proposed in here, and
4 just basing that on a different allocation of that finite sum.
5 In that scenario would you agree that you may end up with
6 certain customers that don't get any of that allocated to them
7 if you were to choose to try and bring up as many of the rate
8 groups to cost as possible, if that was your goal?

9 A Then I don't believe, given the finite revenues that
10 we are speaking of in our proposal, that you would be able to
11 do that. If you just took the -- if you just took certain rate
12 groups to their cost and you stopped, that is not going to -- I
13 don't believe that is going to give you the revenues that you
14 would need for the revenue neutral criteria that we would have
15 here, you know, based upon the Act.

16 Q Let me move to a different subject area.

17 CHAIRMAN JABER: May I ask, I think, a similar
18 question a little bit differently. The whole notion of the
19 theory that you propose, and I think you believe is in the
20 Florida law, is that subsidies should be removed from the local
21 market. And in doing that you want to get prices as close to
22 cost as possible. If you could pick rate groups where it would
23 make sense to try to get those rate groups, if not at cost very
24 close to cost, would there be other rate groups that would
25 warrant no increase at all?

1 THE WITNESS: I don't believe so.

2 CHAIRMAN JABER: And why not?

3 THE WITNESS: Because of the dollars. If we are
4 talking \$70 million and you are talking say five rate groups,
5 and, again, sticking to the proposal that we have before us,
6 and what we have utilized as a proxy for cost, if you just
7 increased rates to bring some of those to the cost, you would
8 still have, I think you would still have a dollar amount that
9 would need to be collected from other rates.

10 CHAIRMAN JABER: And that is because the densities
11 are different in the rate groups, the usage will be different
12 in the rate groups?

13 THE WITNESS: Well, it's because the -- that would be
14 part of it. It is just the finite amount of dollars and how
15 many headroom you have to get to cost. If you just put it on
16 select rate groups, I don't know that you would collect the
17 dollars that you would need for revenue neutrality. And I have
18 not done that analysis. But, again, trying to understand, you
19 know, what she is wanting to look at I think the answer is no
20 as I understand it. With the constraints that I have put in.
21 Because, again, finite set of dollars that you are going to
22 allocate for revenue neutrality under our proposal. The cost
23 proxy that we have under our proposal, and if I match that up
24 and say I am going to put increases on certain rates, I don't
25 know that I would not be able to increase other rate groups.

1 BY MS. CHRISTENSEN:

2 Q Let me see if I can try a follow up question to that
3 and see if I am understanding the implication of that answer
4 correctly. Is what you are saying is using the finite pool of
5 money that your proposal is talking about, if you were to bring
6 the higher end rate groups up to cost, that under that kind of
7 proposal where you would bring the higher end rate groups up to
8 cost, those people may receive less of an increase than what is
9 currently proposed by Verizon?

10 A The other rate groups that you had mentioned before
11 that may not get an increase?

12 Q No, the higher end rate groups. Let's assume for
13 sake of this argument that they have -- is it impossible
14 under -- if you were just to allocate this so that you would
15 cover your cost, is it possible that the higher end rate groups
16 would receive a lesser increase if you were to allocate it that
17 way?

18 A Yes. Depending upon where they are in relation to
19 the cost, yes.

20 Q All right. Let me move on to a different set of
21 questions. There was a lot of discussion about the PICC charge
22 earlier, and I just wanted to clarify one point. Is it correct
23 that in order to achieve revenue neutrality residential basic
24 rates would have to increase by 86 cents per month if the PICC
25 charge was removed from the calculation of the interstate

1 access charges?

2 A Yes, and that is what I have stated in my rebuttal
3 testimony.

4 Q Okay. In your deposition you were given some
5 hypothetical situations and asked about access charges that
6 Verizon would receive under various scenarios concerning
7 wireless calls. And during that deposition you were also asked
8 to file a late-filed exhibit concerning those scenarios, and I
9 wanted to ask you have a few questions regarding that.

10 A Okay.

11 Q Does Verizon receive access revenues from wireless
12 carriers?

13 A In general, I don't believe so. If the wireless
14 carrier utilizes an interchange carrier for a toll call, we
15 would receive that revenue. I'm not aware of where wireless
16 carriers are paying direct access to the company.

17 Q Okay. Under what scenarios would Verizon receive
18 access revenues to either originate or terminate a call which
19 involves a wireless customer?

20 A If a wireless customer -- and this is for Verizon --
21 was to make an interLATA call and/or an interstate call, and
22 they have an IXC -- let's say that they are using an IXC, then
23 there would be access charges that the ILEC would receive for
24 that call. So to the extent that a wireless call is interLATA
25 and/or interstate, and however that is being routed by a

1 carrier, there would be access charges for that call paid to
2 Verizon.

3 Q Okay. Referring to Confidential Exhibit ODF-1, I
4 don't think we are going to elicit any confidential responses,
5 but specifically referring to Page 4 of that. And if I do
6 unintentionally elicit a confidential response, just let me
7 know.

8 A Page 4?

9 Q Correct.

10 A Okay.

11 Q Am I correct that all of the access revenues shown on
12 Page 4 of that exhibit are from the IXC's and that none are from
13 wireless providers?

14 A That is my understanding, yes.

15 Q Okay. In situations where an IXC has a wireless
16 affiliate, are the IXC's and its wireless affiliate billed for
17 access charges on a single bill or is each entity billed
18 separately?

19 A I don't know.

20 MS. CHRISTENSEN: Staff has no further questions.

21 CHAIRMAN JABER: Commissioner Bradley, I know you
22 said you had a question, or not anymore?

23 COMMISSIONER BRADLEY: Yes. My question is one that
24 deals with apportionment of the rate increase relative to
25 business customers and residential customers. Let me ask this,

1 let me see if I can get my information by asking my question
2 this way. In combining the two categories, intrastate as well
3 as interstate long distance calls, and you may or may not be
4 able to answer this, and if you can't, just let me know. What
5 percentage of your long distance calls are made by residential
6 customers and what percentage of your long distance calls are
7 made by residential customers, would you happen to know?

8 THE WITNESS: I don't know.

9 COMMISSIONER BRADLEY: Okay.

10 CHAIRMAN JABER: Commissioner Bradley, Verizon Long
11 Distance, if you want to pose that same question to them, I
12 think is coming up later. Right, Mr. Chapkis, did I see
13 Verizon Long Distance on the list?

14 MR. CHAPKIS: That is correct. Witness John Broten
15 will be representing Verizon Long Distance.

16 CHAIRMAN JABER: Okay. Commissioner Davidson and
17 then Commissioner Deason. Commissioner Davidson.

18 COMMISSIONER DAVIDSON: Thank you, Chairman. I just
19 have one question, if you know, sir. If you know, what impact
20 would Verizon's local rate increase coupled with Verizon's
21 access reductions have on the average Verizon residential
22 customer's monthly bill?

23 THE WITNESS: I think that answer would best be
24 answered by Dr. Danner, he has the information on that. I
25 don't want to give you the wrong numbers, but Dr. Danner has

1 that information and can give you that.

2 COMMISSIONER DAVIDSON: Fine, thank you. Thank you,
3 Chairman.

4 CHAIRMAN JABER: Commissioner Deason.

5 COMMISSIONER DEASON: Yes. I'm looking at Page 25 of
6 your testimony, and I'm looking at the business section. And
7 using the cost proxy which I understand that you consider to be
8 conservative, but using that cost proxy of the UNE-P there are
9 a number of rate groups in the business category which exceed
10 that cost, is that correct?

11 THE WITNESS: That is correct.

12 COMMISSIONER DEASON: But it is your proposal to
13 increase all rate groups to an amount of \$32 per month, is that
14 correct?

15 THE WITNESS: That is correct.

16 COMMISSIONER DEASON: So for some rate groups you are
17 not removing support, you are just changing the rate, is that
18 correct?

19 THE WITNESS: That is correct.

20 COMMISSIONER DEASON: And that is consistent with
21 Chapter 364 with the provisions under which you are filing
22 these petitions, is that correct?

23 THE WITNESS: I believe so, yes.

24 CHAIRMAN JABER: Mr. Fulp, the only question I had is
25 the same one I asked Mr. Ruscilli yesterday from BellSouth. If

1 you look at -- and, Sprint, I will be asking you the same, so
2 if you could prepare for that, that would be great. If you
3 look at Page 16 of your testimony, the nonrecurring, the
4 nonrecurring charge on the residential goes up, if I am reading
5 this correctly, \$5, 20 to 25 under your proposal?

6 THE WITNESS: That is correct.

7 CHAIRMAN JABER: And the nonrecurring charge for
8 business goes up a dime under your proposal, is that correct?

9 THE WITNESS: That is correct.

10 CHAIRMAN JABER: My question is have you considered
11 how much more the nonrecurring charge could increase and how
12 much more the residential charges could decrease?

13 THE WITNESS: Yes, we considered that recently after
14 yesterdays discussion. And, number one, when we looked at our
15 nonrecurring rates and worked with our product management
16 folks, you know, there is a concern of raising your
17 nonrecurring charges too high, especially on the business side
18 given competition, and on the residential side, just so people
19 can afford service. So that is one constraint that you have on
20 what you can do with the nonrecurring charges. To get it where
21 I think you are going --

22 CHAIRMAN JABER: Let me --

23 THE WITNESS: I'm sorry, go ahead.

24 CHAIRMAN JABER: I'm going to let you finish, but let
25 me understand that constraint. Is it a concern that you may

1 lose new entrants, new customers if the connection charges are
2 set too high?

3 THE WITNESS: That is one concern, yes.

4 CHAIRMAN JABER: At some point that pricing level,
5 similar to the concern on the residential side, still remains
6 affordable. You are in the best position to know what that
7 price level is. My request is you consider what that price
8 level is. But recognizing I do want you to finish your
9 response, on the business side the reason I can't just yet
10 understand your concern is because all the witnesses that have
11 testified thus far have said there is much competition on the
12 business side. Entrants are more inclined to go into the
13 business market where prices are starting to look like costs.
14 Well, if there is competition on the business side, then
15 perhaps one of the things they shop is that connection charge.
16 Saying all of that, address my question, which is what is that
17 price level, will you consider it further and go ahead and tell
18 me all of your concerns?

19 THE WITNESS: Number one, we will consider it
20 further. The second constraint that you have when you look at
21 the nonrecurring cost is just the Actual demand and the units
22 that you have. And so if you are trying to utilize your
23 nonrecurring cost as an offset, let's say for residential
24 rates, and I think that is what you are looking at, there is
25 only so much money that you get from the nonrecurring charges

1 and there is only so many units. And so just to give you an
2 example, I went back and looked at the increase that we have
3 proposed for the residential network connection charge, the \$5
4 increase, which is a 25 percent increase to the rate. And if
5 you look at the revenue that you receive from that, and you
6 then say, okay, I am going to double that increase. How much
7 does that take off of my residential rate? It was like 10
8 cents. So the other problem that you are running into, and,
9 again, we will go back and look at what you are saying, but I
10 just want you to understand, you know, when you look at the
11 amount of revenue and the amount of demand for a nonrecurring
12 charge as compared to your monthly recurring charge and the
13 amount of demand you have there, it takes a lot of dollars to
14 make any meaningful change on the Actual monthly recurring
15 rate. And so that is just the other constraint that you have
16 in looking at that.

17 CHAIRMAN JABER: When you connect a new business
18 customer, or even a residential customer, in the new
19 competitive environment you propose under these petitions, if
20 we grant the petitions, I think there has been consensus that
21 there are opportunities for bundling packages. It seems to me
22 that while the revenue stream may not be able to be satisfied
23 by increasing the nonrecurring charges a little bit more, there
24 is more of a potential to bundle packages which should help in
25 terms of increasing demand, increasing your customer base. You

1 know, I mean, it is an overall picture I think is what several
2 witnesses have said. And to look at one constraint in a vacuum
3 may not be completely accurate. That is a statement I want you
4 to agree with.

5 THE WITNESS: I was wondering if that was question.
6 I apologize.

7 CHAIRMAN JABER: It's not a question. I'm trying to
8 understand why there might not be a greater willingness to help
9 mitigate the concerns the consumers have with regard to the
10 rate shock aspect, affordability, and maybe that concern. What
11 I am exploring with you is maybe one way to address that
12 concern is to recognize that if we all get what we want and we
13 have a greater telecommunications market, then maybe it is
14 appropriate to have higher nonrecurring charges, because
15 frankly if a customer doesn't like the connection charge for a
16 company they are talking to, then they can go on to the next
17 customer. As in they can go on to another company. But, you
18 know, a more gradual approach is what I'm asking you to
19 consider.

20 THE WITNESS: And we will consider that.

21 CHAIRMAN JABER: Okay. Commissioner Bradley, you had
22 another question?

23 COMMISSIONER BRADLEY: Right. In 2004, the proposal
24 is to eliminate the information surcharge. What exactly is the
25 information surcharge?

1 THE WITNESS: The information surcharge is a -- I
2 guess I will say that it is a carry-over from quite a few years
3 ago. And if you will allow me, let me go to where I address
4 this in my testimony. And on Page 15 of my direct testimony,
5 there is a description of where the information surcharge came.
6 It was established by the FCC in conjunction with interstate
7 directory assistance, and what it did was it set up a charge to
8 allow for recovery for some of those costs associated with
9 that. It is one of those rate elements that, again, like I
10 said, is a carry-over, and it is one reason that, you know, we
11 eliminated it on the interstate side and we chose to, you know,
12 do that on the intrastate side. If you, you know, were to go
13 on and look at what I said here, it was supposedly nontraffic
14 sensitive costs being picked up in a traffic sensitive
15 methodology, and we eliminated it in 1999 in the interstate
16 jurisdiction, and so now is the opportunity that we can
17 eliminate it on the intrastate side.

18 COMMISSIONER BRADLEY: And just to follow, what is
19 the fiscal impact of the elimination of that particular
20 surcharge? And that is a part of your access rates, right?

21 THE WITNESS: That is correct. Per my Exhibit ODF-1,
22 Page 4 of 7, I have the -- because this is grayed out, I
23 believe it is confidential. You can see the dollar amount for
24 the information surcharge.

25 COMMISSIONER BRADLEY: Okay.

1 THE WITNESS: Do you see that figure there?

2 COMMISSIONER BRADLEY: Yes. And also in 2005 the
3 intent is to eliminate the interconnection charge and to
4 eliminate the originating carrier common line charge. Is that
5 also confidential information?

6 THE WITNESS: Yes, the dollars are. But they are on
7 this same exhibit, that page that shows you the dollar amounts.

8 COMMISSIONER BRADLEY: So then my assumption is that
9 these three have been eliminated in order to move you closer to
10 parity?

11 THE WITNESS: Yes. Yes.

12 COMMISSIONER BRADLEY: Okay.

13 CHAIRMAN JABER: Mr. Chapkis, redirect.

14 MR. CHAPKIS: Yes, I just have a couple of quick
15 questions.

16 REDIRECT EXAMINATION

17 BY MR. CHAPKIS:

18 Q I wanted to clarify something that involved something
19 that Mr. Hatch went to with inclusion of the PICC. And my
20 question is this, did you intend to say that any interstate
21 costs or revenues would be shifted to the intrastate
22 jurisdiction by the inclusion of the PICC in our calculation?

23 A No, I did not. Again, I thought I had stated that
24 there was no shifting. What we had to do on the intrastate
25 state said was driven purely by what we have on the interstate

1 side to reach parity in our rates.

2 Q And I have one more quick question which is just a
3 followup to something staff asked recently. I think that staff
4 asked if you increase higher end rate groups to or above cost,
5 those increases would be less than the proposed increases. And
6 I wanted to get your response to that question. Did you mean
7 to say yes?

8 A I don't remember that I said yes.

9 CHAIRMAN JABER: You said yes. Ask it again, Mr.
10 Chapkis.

11 BY MR. CHAPKIS:

12 Q I just want -- staff asked you if you increase higher
13 end rate groups to or above cost, those increases would be less
14 than our proposed increases, is that correct?

15 A That may not be correct, I don't know.

16 MR. CHAPKIS: No further questions.

17 CHAIRMAN JABER: Okay. Mr. Fulp, thank you for your
18 testimony. And, Mr. Chapkis, we have Exhibits 59 and 60.

19 MR. CHAPKIS: Yes, please move those exhibits in.

20 CHAIRMAN JABER: Without objection, Exhibits 59 and
21 60 are admitted into the record.

22 (Exhibit 59 and 60 admitted into the record.)

23 MR. CHAPKIS: Chairman Jaber, may this witness be
24 excused, please?

25 CHAIRMAN JABER: Absolutely.

(Transcript continues in sequence with Volume 8.)

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1 STATE OF FLORIDA)

2 :

CERTIFICATE OF REPORTER

3 COUNTY OF LEON)

4

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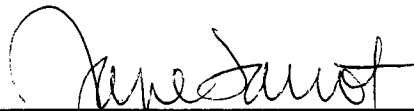
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