

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

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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

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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

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

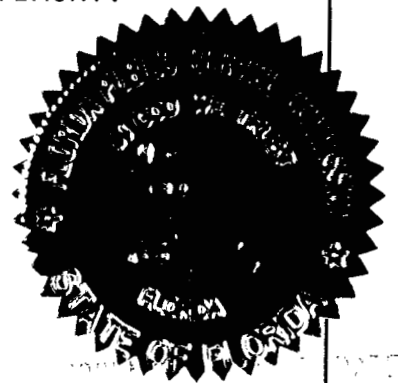
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VOLUME 9

PAGES 933 THROUGH 1150

PROCEEDINGS: HEARING



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

6 DATE: Thursday, December 11, 2003

7 TIME: Commenced at 8:40 a.m.  
8 Concluded at 8:45 p.m.

9 PLACE: Betty Easley Conference Center  
10 Room 148  
11 4075 Esplanade Way  
12 Tallahassee, Florida

13 REPORTED BY: TRICIA DeMARTE, RPR  
14 Official FPSC Reporter  
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16 APPEARANCES: (As heretofore noted.)  
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## P R O C E E D I N G S

(Transcript continues in sequence from Volume 8.)

CARL R. DANNER

continues his testimony under oath from Volume 8:

## CONTINUED CROSS EXAMINATION

BY MR. TWOMEY:

Q On your direct testimony, your amended direct testimony, Page 1 where you summarize your experience, at Page 13, you say, "Since leaving the CPUC, I have provided consulting services to various clients on regulation and policy, with emphases on the telecommunications and energy industries. What percentage of those clients have not been regulated entities?"

A Percentage of clients. I can't do a percentage because I don't really have a client list in mind as such. I mean, a lot of them are law firms which are not regulated entities. I've done a lot of work for the United States Postal Service which is a regulated entity but not a privately owned regulated entity. I've done some work for local and state government on occasion. I would say the majority of my work has been for various regulated entities but not exclusively.

Q Okay. On Page 5 of your testimony, you say at Line 5, "Verizon's basic local residential services is a supported service because, as Verizon Witness Fulp describes, it is priced below its incremental cost, and thus makes no

1 contribution to the recovery of Verizon's joint and common  
2 costs." Now, you go on later in your testimony, do you not,  
3 and state that in order to incent or induce competition in the  
4 local markets, that you need to bring -- the Commission needs  
5 to bring Verizon's rates closer to the costs; is that correct?

6 A Yes.

7 Q Okay. Now, I believe that at one point Mr. Fulp  
8 tossed the ball to you to talk about which levels or what  
9 levels of increases in various rate groups would incent more  
10 competition from potential competitors. Do you recall him  
11 saying that?

12 A I think so, yes.

13 Q Are you capable of doing that?

14 A I can make a go at it.

15 Q Okay. Do you have his testimony?

16 A I don't.

17 MR. CHAPKIS: Can we take a moment and I'll provide  
18 him with Mr. Fulp's testimony?

19 CHAIRMAN JABER: Sure. Mr. Twomey, it was an  
20 exhibit, wasn't it? Or was it the testimony?

21 MR. TWOMEY: I think it was a table. I'm trying to  
22 find it right now.

23 CHAIRMAN JABER: Okay. Good.

24 MR. TWOMEY: Yes, Madam Chair. It's Page 25, 24 and  
25 25, yeah, I think.

1           CHAIRMAN JABER: While you're doing that, let me  
2 announce to the audience and to the Commissioners that the  
3 doors outside that way are going to be locked at 6:00. So if  
4 you need to leave the building from that entrance, you cannot  
5 get back in unless someone on the inside opens it for you. So  
6 take that into account when you take breaks and things like  
7 that.

8 BY MR. TWOMEY:

9           Q     Okay. Dr. Danner, I want to ask you to rely upon  
10 your degree in economics in addition to your regulatory  
11 experience in trying to answer my questions, but if the goal is  
12 to incent competition to come in -- let me ask you this way. A  
13 goal of raising Verizon's local rates is to induce competition  
14 by potential competitors; correct?

15          A     Yes.

16          Q     Okay. And you said a minute ago that in your own  
17 testimony that in order to do that I think you said that you  
18 have to bring prices closer to cost; right?

19          A     Yes.

20          Q     Okay. Now, would you agree with me that to provide  
21 the maximum amount of incentive to induce competition, that you  
22 should try and get as close to cost with your prices as  
23 possible?

24          A     Yes. For a given rate group or a given set of  
25 customers, if the price is closer to cost rather than farther

1 from cost, you will incent more, but you don't necessarily need  
2 to get all the way there to incent a great deal of competition  
3 from a wide diversity of providers, as my testimony indicates.

4 Q Yes, sir. Now, on Page 25 of Mr. Fulp's amended  
5 direct testimony, if you look at Line 11, Rate Group 5.

6 A Yes, sir.

7 Q Okay. The current rate is 12.10; correct?

8 A Yes.

9 Q With the SLC added, it is 18.60, and then the company  
10 is proposing to add \$4.73; correct?

11 A Yes.

12 Q It's 23.33; is that correct, sir?

13 A I apologize. I think I'm looking at the wrong place  
14 now. You said 23.33.

15 Q I added -- I attempted to add 4.73 to 18.60.

16 A Oh, I see. 4.73 to 18.60.

17 Q I think I get 23.33; is that correct?

18 A I'll accept that for the moment, yes.

19 Q Okay. So that would put them pretty close to what  
20 they see as a surrogate for the cost of the loop at 23.90;  
21 correct?

22 A Yes. I mean, you've got retailing costs still, but  
23 that's getting close, yes.

24 Q Now, if you look at Rate Group 1 and did the same  
25 thing with the 16.62, the present rate with the SLC added, and



1 then you add the 4.73, you're looking at \$21-and-something, but  
2 the disparity between some of those numbers and the 35.75 cost  
3 to serve is substantially greater than the cost difference in  
4 Rate Group 5; correct?

5 A With respect to Verizon's costs, yes.

6 Q Okay. So where would a potential competitor who is  
7 interested in maximizing return on his or her dollars likely go  
8 first amongst Rate Group 5 or 1?

9 A That depends on the competitor's cost structure and  
10 competitive strategy. Just knowing nothing about competitors  
11 and their possible cost structures and strategies and assuming  
12 that their costs might be similar to Verizon's, the Rate Group  
13 5 might be more attractive to them, but we do know something  
14 about potential competitors and competitors that are real  
15 options for customers, and their costs aren't necessarily the  
16 same as Verizon's. And so I'm not sure that it's necessarily  
17 the case that you'll drive them, you know, one way or the other  
18 that you can tell. Some providers might have different  
19 approaches that would still -- where an increase in Rate Group  
20 1 might still be of some appeal to them.

21 Q Well, isn't the general thesis of Verizon's case and  
22 the other companies' cases, to the extent you know, and even  
23 the foundation of the legislation that was passed, that the  
24 LECs have an inherent advantage with their facilities-based  
25 depreciated plant and that it's assumed that potential

1 competitors will have higher costs than the LECs that would be  
2 forced to compete against?

3 A Well, you know, we just heard from Knology that these  
4 rate increases, which would still leave all the rates below  
5 Verizon's costs, would be a sufficient inducement for them to  
6 make an increased commitment to Florida and, indeed, that they  
7 came here in the first place in the expectation that something  
8 like this proposal would come to pass. So one of the things  
9 that competition does is it allows new providers with different  
10 and innovative technologies and different business plans to  
11 come in and provide service. And some of them may well beat  
12 Verizon on cost or on other factors that will prove attractive  
13 to customers without having to reach Verizon's incremental  
14 costs. That's one of the benefits of competition.

15 Q Dr. Danner, did you hear the question I asked you?

16 MR. CHAPKIS: Objection. That's argumentative.

17 CHAIRMAN JABER: The question was -- did you hear the  
18 question? Frankly, I don't remember the question.

19 MR. TWOMEY: Madam Chair --

20 CHAIRMAN JABER: Mr. Twomey, repeat your question to  
21 me.

22 MR. TWOMEY: -- it's not argumentative.

23 CHAIRMAN JABER: I don't remember the initial  
24 question asked.

25 MR. TWOMEY: The witness didn't give a yes-or-no

1 answer as you have directed all witnesses.

2 CHAIRMAN JABER: To which question?

3 MR. TWOMEY: The question was, wasn't the thesis  
4 that -- would you read the question back, please?

5 CHAIRMAN JABER: Mr. Twomey, I don't think you were  
6 being argumentative either. I just don't remember the initial  
7 question.

8 Trish, why don't you read it back.

9 (Requested question read back by court reporter.)

10 THE WITNESS: No.

11 BY MR. TWOMEY:

12 Q That's not the thesis of Verizon's case?

13 A I beg your pardon, Mr. Twomey. There's about five  
14 questions in there, but as a general matter, I don't agree with  
15 much of what you put forth in that statement.

16 Q Okay. Let me try again. Doesn't Verizon assume when  
17 it argues to this Commission that it needs to raise its rates  
18 to induce competition that potential competitors will have  
19 higher price structures, higher cost structures?

20 A No. No, sir, it doesn't.

21 Q Okay. I want you to look at -- still on Page 25 of  
22 Witness Fulp's direct testimony. If we do this same type of  
23 comparison with the business rates, Dr. Danner, which rate  
24 group are potential competitors most likely to seek out in an  
25 attempt to take customers from Verizon?

1           A     I don't know the answer to that specifically. I  
2 think that many of these rate groups could be attractive to  
3 customers -- to competitors, particularly those who might have  
4 a cost advantage over Verizon.

5           Q     If it's your testimony, Dr. Danner, that to induce  
6 competition you have to get the rates close to cost, doesn't it  
7 follow that competitors would go to the rate groupings in both  
8 residential and business services for Verizon where the rates  
9 were closest to cost?

10          A     They may or may not. For example, a provider who  
11 wants to offer an integrated broadband network that might have  
12 to match a cable franchise could well offer competing  
13 residential service in relatively less dense rate groups at a  
14 rate that more than covered its out-of-pocket or incremental  
15 cost for that service, yet still was feasible in light of the  
16 broader scale operation they were able to put into place given  
17 the more favorable rates with respect to all the other  
18 customers in the territory.

19           CHAIRMAN JABER: Dr. Danner, let me tell you, the  
20 evening is long, and I would appreciate more straightforward --

21           THE WITNESS: I apologize, Madam Chairman.

22           CHAIRMAN JABER: -- more concise answers. All of the  
23 witnesses thus far and the testimony put on by all of the  
24 companies indicates that one of the ways to induce market entry  
25 is to remove subsidies from the local market and to bring

1 prices closer to cost. That testimony has not been prefaced or  
2 caveated or anything like that. You induce market entry, you  
3 remove subsidies, you get prices closer to cost. Saying that,  
4 would you answer the question, please.

5 THE WITNESS: Yes, Madam Chairman. Raising prices  
6 closer to cost, even for prices that are significantly below  
7 cost, can make them more attractive to competitors and could  
8 potentially induce more competition from a variety of options.

9 BY MR. TWOMEY:

10 Q On Page 6, back to your own testimony, your amended  
11 testimony, you say beginning at Line 6, "The existence of more  
12 accurate price signals will increase consumer welfare by, one,  
13 making the local exchange market more attractive to  
14 competitors, thereby inducing enhanced market entry." And I  
15 want to stop there for the moment. And I want you to tell me  
16 how making the local exchange market more attractive to  
17 competitors and inducing enhanced market entry could lower Ed  
18 Pasquale's (phonetic) basic service rates if he was served by  
19 Verizon?

20 A I'm sorry, I don't know Ed Pasquale's rate. Are you  
21 assuming that he's got --

22 Q He's a residential customer.

23 A Yes.

24 Q The question is, how will he or other residential  
25 customers of Verizon have increased consumer welfare by having

1 their local residential rates raised by the amounts Verizon is  
2 requesting here?

3 A For one -- in one respect, he will get increased  
4 consumer welfare by making more long distance calls in response  
5 to lower prices or starting to make such calls if he's not  
6 doing it now. In other respects, competitors will be  
7 stimulated or encouraged to enter Verizon's territory and offer  
8 a variety of different service options that he may not have  
9 available to him now. And I guess that's it, a short list.

10 Q Okay, sir. Let's talk about the long distance calls.  
11 What if my consumer uses an AT&T calling card he buys at -- or  
12 she buys at Sam's? How will they benefit by having their rates  
13 raised locally?

14 A If your consumer is already buying that kind of  
15 service, they're a smart consumer and have generally taken  
16 advantage of the same kind of reform that's occurred at the  
17 federal level because the only way that Sam's and other  
18 providers can offer such low prices for calling card services  
19 is that they have a significant weighting of low federal access  
20 charges in their picture. So in that respect, in a sense, your  
21 customer may have gotten some benefits in advance from other  
22 pricing reform that they won't get again here.

23 Q Yes, sir. But wouldn't it be true if they were doing  
24 that and were getting long distance service both intrastate and  
25 interstate at, say, 4 cents a minute or less, that they might

1 not be able to take advantage or want to take advantage of  
2 reduced toll rates in Florida as a result of these proceedings?

3 A I would agree that that particular consumer might  
4 not, but I would represent that we should try to bring those  
5 benefits to all consumers in Florida.

6 Q Okay. And didn't you tell Mr. Beck during his  
7 cross-examination that you, in fact, don't know or didn't read  
8 the testimony of the IXCs and review the proportions by which  
9 they propose to return the access reductions they receive to  
10 their residential customers?

11 A I didn't see the confidential exhibits, no.

12 Q So then it follows, does it not, that you cannot know  
13 how much residential customers can benefit by making more  
14 in-state toll calls even if they use the traditional IXCs;  
15 isn't that correct?

16 A No, I disagree.

17 Q How can you know that, Dr. Danner?

18 A Because the long distance market is a tremendously  
19 competitive market. We are talking about very large reductions  
20 in access costs for Verizon. It would be almost 8 cents per  
21 minute on both ends. Those reductions will have to be passed  
22 through to consumers on a broad basis. The market won't permit  
23 otherwise.

24 Q I saw an article on the Internet this morning before  
25 coming here, Dr. Danner, that I forget the source, and I'll

1 just ask if you've seen it or not, that suggested that shortly  
2 AT&T is going to raise its rates throughout the United States  
3 by some \$3.95. Did you see that article?

4 A No, I did not.

5 Q Okay. Still on Page 6, Number 2 on Line 9, "Giving  
6 consumers improved economic incentives to demand services based  
7 on comparing their value (to a consumer) against their actual  
8 economic cost." How does that benefit a residential consumer  
9 being served by Verizon?

10 A Well, for example, in the case of broadband, right  
11 now broadband services are priced on a market basis, but  
12 narrowband traditional loops are priced on a subsidized basis.  
13 A frequent use of a low-usage customer for a traditional  
14 service is a second line to access the Internet through  
15 dial-up. When a customer realizes that the cost of the dial-up  
16 line is really not so much different from the cost of a  
17 broadband line as they thought, they will be more likely to  
18 take the broadband line and gain some benefits in that. That's  
19 one example.

20 Q I see. In that example, though, if I understand you,  
21 you're saying that the value and cost of the broadband is more  
22 readily equal to the dial-up service but only because the cost  
23 of the dial-up service went up?

24 A Well, the cost didn't go up. The price changed to  
25 more clearly reflect the price, yes.



1 Q Yes, sir, the price.

2 Okay. And you're saying that would benefit a  
3 residential customer of Verizon?

4 A Well, it could in terms of giving them broadband  
5 access and the benefits that that affords.

6 Q But presumably that customer would already have  
7 access to broadband through cable or whatever and would have it  
8 at roughly the same rate that would be available after the  
9 increase is awarded here?

10 A I wasn't assuming any change in the price of  
11 broadband, no.

12 Q Okay. Would you agree with me that -- and I asked  
13 Mr. Fulp this and you probably heard it -- if they chose to  
14 increase their local business and residential rates as a  
15 percentage to each rate group, would you agree with me that  
16 that would result in more competitors being induced to come in?

17 A As I suggested before, I don't know that I can agree  
18 with that.

19 Q I'll just check the rest of my notes. Page 10 of  
20 your testimony.

21 MR. CHAPKIS: Are you referring to his direct?

22 MR. TWOMEY: Yes. Yes, his amended direct.

23 BY MR. TWOMEY:

24 Q You respond to the question at 17 by saying at  
25 Line 20, "Yes. Because the newly enacted legislation requires

1 long distance providers to flow through access reductions.  
2 Toll and long distance prices will fall which in turn would  
3 stimulate toll and long distance usage;" right?

4 A Yes.

5 Q And you're speaking to making residential customers  
6 more attractive to competition; correct?

7 A Yes.

8 Q Now, are you aware that the statute that requires the  
9 flow-throughs by the IXC's only requires that they make a  
10 portion of the flow-through to each of the classes of business  
11 and residential customers?

12 A Yes.

13 Q And would you accept that under that statutory  
14 language that they could give as much as 99 percent to the  
15 business customers and only 1 to the residential and be in  
16 compliance with the law?

17 A They might be in legal compliance but that will never  
18 happen.

19 Q Why not?

20 A Because the market is too competitive.

21 Q What if they all did it, Dr. Danner? What if all of  
22 the IXC's did the same thing or followed the price leader, if  
23 there was such a thing as a price leader, in long distance  
24 pricing?

25 A You're referring to a hypothetical that is

1 fundamentally inconsistent with all observed behavior in the  
2 long distance market. That will not happen.

3 Q On Page 11, you talk about at Line 4, "Competitive  
4 pressures will likely force Verizon to reduce its toll prices;"  
5 right?

6 A Yes.

7 Q But you, in fact, don't know that to be true, do you?

8 A It is my belief that they will. The statute does not  
9 give them any credit for that since their own toll prices don't  
10 have access charges associated with them, but I don't think  
11 they will have a choice about that.

12 Q Okay. But again, you don't know that they will do  
13 it, and even if they did, you don't know what the reductions  
14 would be; is that correct?

15 A It's impossible to know something that hasn't  
16 happened yet. In that sense I don't know. But I am very  
17 confident that they will, and I believe that the reductions  
18 will approximate those in the general market caused by access  
19 charges. I don't believe they will have a choice.

20 Q Okay. Same page, Dr. Danner. The question at Line  
21 8, "Is there a particular class of residential customer that  
22 benefits the most from Verizon's plan?" And you go on to say  
23 that, yes, that's the existing Lifeline customers; right?

24 A Yes.

25 Q And why is that?

1           A     Because they are protected from the increases but  
2 they get the benefit of the reductions, as I mentioned  
3 previously and is in my rebuttal testimony and the numbers.

4           Q     You are aware, aren't you, that whenever the extended  
5 protected period that Verizon has agreed to expires, that the  
6 company may be forced to increase the rates at the same level  
7 as the other customers; right?

8           A     I don't know that they would be forced to. I know  
9 it's a possibility or it's not precluded.

10          Q     If and when that happens, would you agree with me  
11 that they would no longer be protected under this notion?

12          A     If they receive the increases, they would not be  
13 protected from the increases, yes.

14          Q     Do you know enough about the -- now, you've analyzed  
15 the law throughout your rebuttal and your direct testimony. Do  
16 you know enough about the law to know whether or not it's true  
17 that if the Florida Public Service Commission does not grant  
18 these rate increases, that rate increases going to the Lifeline  
19 class would be limited to at most the rate of inflation minus  
20 1 percent annually? If you don't know, it's fine.

21          A     Are you referring to the price cap plan?

22          Q     Yes, sir.

23          A     That sounds correct, but I'm not certain.

24          Q     Okay. Page 12, Line 12, you talk about customers  
25 benefiting from increased availability of competitive options.

1 Can you name one?

2 A Yes. Voice over IP service, wireless options, the  
3 whole variety of options that are listed in my testimony,  
4 service from Knology as we've heard testimony.

5 Q Yes, sir, but aren't those available now and becoming  
6 available without this Commission improving rate increases?

7 A I don't know that that's correct. As I mentioned in  
8 my testimony as Mr. Leo documented, at present with respect to  
9 facilities-based competition, there is a 100-to-1 ratio in  
10 Verizon's territory with respect to business versus residential  
11 customers. The disparity is striking.

12 CHAIRMAN JABER: Said differently, there's more  
13 facilities-based competition in the business part of the  
14 Verizon territory and residential is primarily UNE-P? Is that  
15 what you mean?

16 THE WITNESS: Yes, Madam Chairman. But even with  
17 UNE-P there's a large disparity as well. If you include UNE-P,  
18 the disparity is not the same ratio that I mentioned, but it's  
19 still quite a substantial disparity between the two classes of  
20 customers, yes.

21 CHAIRMAN JABER: Are you referring to resale? What  
22 do you mean? There's a disparity between what and what?

23 THE WITNESS: Well, I was about to refer to Mr. Leo's  
24 testimony and perhaps you might want to ask him.

25 CHAIRMAN JABER: Well, your response, you said

1 there's a 100-to-1 ratio in the business part of the Verizon  
2 territory. What did you mean by that?

3 THE WITNESS: I believe some of these numbers are  
4 confidential, but if you look at the number of customers who  
5 are served by facilities-based lines in Verizon's service area  
6 who are business customers and compare that to the number of  
7 residential customers who are served by facilities-based lines,  
8 the ratio is over 100-to-1. If you include UNE platform and  
9 resale, at least as of February 2003, the ratio declines to  
10 about 10-to-1.

11 BY MR. TWOMEY:

12 Q So is it your testimony that residential customers  
13 benefit by having their local service rates increased  
14 substantially in order to see Verizon lose some of its  
15 business?

16 A No. I wasn't speaking about business competition in  
17 the context of this. I was speaking about increased  
18 residential competition. The point -- I'll stop there.

19 Q Yes, sir. I'm sorry. I got the question wrong. My  
20 point is, you're suggesting -- is it your testimony that  
21 residential customers should want to pay more for their basic  
22 local service to see the ratio of business to residential that  
23 are held by competitors change?

24 A My testimony is that this Commission and the country  
25 has been through an arduous process, including a whole list of

1 proceedings that I won't repeat here but which the Commission  
2 and everyone is quite familiar with, in an effort to create  
3 competition for residential customers. Verizon's proposal  
4 initially, before we take account of any of these dynamic  
5 effects, would increase the average bill by about a dollar. If  
6 no one in this room thinks the effort towards promoting local  
7 competition and some of the benefits we heard as from Knology  
8 and these other sources is worth a dollar, I don't know what  
9 we're doing with all these proceedings. I don't know what the  
10 point is.

11 Q Are you aware of any residential customers or groups  
12 of residential customers, Dr. Danner, that supported the  
13 adoption of this legislation or are supporting the approval of  
14 these petitions?

15 A I understand there are some residential customers who  
16 spoke in favor of the petitions at some of the public witness  
17 hearings. I do not know about the lobbying of the legislation.

18 Q Lastly, in your rebuttal testimony, are you  
19 attempting to rebut anything that Staff Witness Shafer said?

20 A I don't believe I'm attempting to rebut Mr. Shafer.  
21 I offered a comment on a comment that he offered. I don't know  
22 that I'd call it rebuttal necessarily.

23 Q Actually, it's more -- it would be fair, wouldn't it,  
24 to call it more complementary than rebuttal, would it not?

25 A No. I was responding to a suggestion he offered in

1 my opening testimony that I think wasn't fully understood, and  
2 I was trying to clarify it.

3 MR. TWOMEY: Thank you. That's all, Madam Chair.

4 CHAIRMAN JABER: Staff.

5 MS. CHRISTENSEN: Thank you.

6 CROSS EXAMINATION

7 BY MS. CHRISTENSEN:

8 Q Dr. Danner, you believe that Verizon's filing, should  
9 it be approved, creates appropriate conditions for market  
10 entry; is that correct?

11 A Yes. It will create enhanced market entry, yes.

12 Q It's your position -- or your position is based more  
13 on theory than empirical evidence; is that correct?

14 A No, I would respectfully disagree with that. I  
15 believe we have a substantial amount of empirical evidence as  
16 well as referenced by historical patterns of entry in  
17 competition in the industry, which I refer to, the specific  
18 information about Verizon's service territory that's contained  
19 in Mr. Leo's report, and the specific information about  
20 different types of competitive alternatives and in some cases  
21 their costs and prices that's contained in my testimony. So I  
22 would suggest that both forms of evidence are included.

23 Q Do you believe there must be empirical evidence in  
24 order to satisfy the criterion that rebalancing will induce  
25 enhanced market entry?



1           A     I believe it's certainly useful to have empirical  
2 evidence. I think if you had a strong enough theoretical  
3 showing coupled with the expertise and experience of the  
4 Commission that you could probably make an adequate finding,  
5 but I would leave that to the Commission to decide what they  
6 need.

7           Q     Let me follow up on that. Do you believe then and is  
8 it your testimony that the empirical evidence in the Verizon  
9 case is sufficient to assure the Commission that there will be  
10 induced market entry if Verizon's petition is granted?

11          A     I believe there is.

12          Q     And let me ask you, in your mind, could the  
13 Commission rely solely upon economic theory without any  
14 empirical evidence to determine whether granting the Verizon  
15 petition will induce enhanced market entry?

16          A     I guess, to me, it's a hypothetical question. But  
17 again, I think if the Commission had a strong enough  
18 theoretical basis validated by experience in other spheres,  
19 that they could with their expertise make such findings, yes.

20          Q     And is it also your belief that economic theory  
21 provides adequate assurances that granting Verizon's petition  
22 will induce market entry; is that correct?

23          A     I guess I believe it could. Again, I would suggest  
24 that we have a lot of empirical evidence along with theory and  
25 that we really have both.

1 Q Wouldn't it be fair to say that we will not know for  
2 sure whether the criterion induced enhanced market entry is met  
3 until some time has elapsed after the petitions are approved?

4 A Well, it is an inherent quality in any exercise such  
5 as this that the Commission is making its best judgment about  
6 the future. And it's impossible to see the results of the  
7 Commission's action in fact until after they occur. So from a  
8 logical standpoint, yes, I would agree with you. I think again  
9 we have a lot of good evidence and assurance, but it will  
10 happen -- we won't actually know for certain until after the  
11 Commission issues the order and then market developments occur,  
12 but that shouldn't be any bar to moving ahead. That's just  
13 inherent in the exercise.

14 MS. CHRISTENSEN: Staff has no further questions.

15 CHAIRMAN JABER: Commissioners, do you have  
16 questions? Commissioner Davidson.

17 COMMISSIONER DAVIDSON: Dr. Danner, if you would turn  
18 to Mr. Twomey's art work, the central office residential  
19 customer local loop with a listing of a variety of services.

20 THE WITNESS: Yes, Commissioner.

21 COMMISSIONER DAVIDSON: My question is a general  
22 question. If an existing asset, in this case the local loop,  
23 is used to generate new revenue, is there any economic  
24 principle that instructs some allocation of the cost of that  
25 asset across the various services that might depend on it to

1 generate revenue?

2 THE WITNESS: No, sir, there is not. You've already  
3 incurred the cost to acquire the asset so that would not be  
4 appropriate.

5 COMMISSIONER DAVIDSON: If the Commission chose to  
6 require an allocation of the cost of a local loop that is  
7 required to provide basic telephone service across the various  
8 services that do depend on that loop to generate revenue, what  
9 type of signal, in your opinion, would such decision send to  
10 companies considering whether to provide services in Florida?

11 THE WITNESS: Well, Commissioner, in my opinion, that  
12 would be a very troubling signal because that would signal a  
13 departure from this Commission's recent decisions and actions  
14 anyway and certainly supporting economic principles in costing  
15 and pricing of telecommunications services. The difficulty is  
16 that new entrants, as we've discussed for, I guess, this whole  
17 hearing, have to react to and respond to the price signals that  
18 are sent in part by the incumbents' services. And if those  
19 price signals are going to be set on a basis that is not  
20 grounded in economic principles, then all sorts of problematic  
21 situations can exist for a new investor, and I think they would  
22 be rather reluctant to put capital in the state, at least on  
23 that basis.

24 COMMISSIONER DAVIDSON: Would you turn, please, to  
25 Page 1 of your amended direct testimony. At Lines 11 through

1 13, you note that you played an important role in the  
2 initiation of a successful pricing reform effort with many  
3 parallels to that which Verizon's petition will accomplish in  
4 Florida. Please describe any notable parallels that you  
5 reference there and any notable differences.

6 THE WITNESS: Yes, Commissioner. Some notable  
7 parallels would include the fact that the access charges in  
8 California at least by comparison to Verizon's access charges  
9 in Florida I think were fairly comparable. We were also very  
10 concerned with competition at the time since at that time we  
11 were looking at competition within the LATA for toll service.  
12 There was no thought of local competition yet in the late 1980s  
13 when we initiated this process. But we understood that pricing  
14 reform was necessary to support competition and promote  
15 competition for intraLATA toll service just as we're discussing  
16 it for local competition here today in Florida.

17 Another parallel was the approximate size of the  
18 basic rate increases that were being considered. Ultimately,  
19 in California, I believe for Pacific Bell the rate increases  
20 were on the order of a little over \$3 per month, but for GTE  
21 California, which is a large provider, the rate increases were  
22 more like \$7 a month, as well for another company, Roseville  
23 Telephone Company, a somewhat significant provider. So we had  
24 experience with rate increases, especially adjusted for  
25 inflation that are even -- you know, more than are being

1 considered here.

2           The rate increases were imposed on flash cut in  
3 California as opposed the transition that is proposed here to  
4 kind of ease them in more slowly. We also had a lot of  
5 concerns expressed about possible impacts on customers; a lot  
6 of adverse publicity we had to deal with in California as part  
7 of that process. I guess -- so those are many of the  
8 parallels. I think I've described some of the differences as  
9 well.

10           And ultimately, as I mentioned in my testimony, once  
11 the rates were put into place, there really wasn't any  
12 disruption on the part of customers or any loss of universal  
13 service. In fact, I believe it was in preparation for the Fair  
14 and Affordable Rates Workshop at this Commission back in  
15 1998 that I went back and spoke personally to the public  
16 adviser at the California Public Utilities Commission as well  
17 as senior regulatory executives at each of the companies I  
18 mentioned to ask them specifically if they have seen any  
19 upsurge in customer complaints, disconnections, or any other  
20 problems associated with the implementation of that pricing  
21 reform, and they all reported to me they did not.

22           COMMISSIONER DAVIDSON: Do you know what Verizon's  
23 rate is for basic local telephone service in California without  
24 the additional charges relating to universal service, 911,  
25 et cetera?

1 THE WITNESS: I don't have the exact figure in mind,  
2 but it's approximately \$18.

3 COMMISSIONER DAVIDSON: Do you know what Verizon's  
4 rate is for basic local service in Florida using the same  
5 inputs that you used to reach the estimated \$18 for California?

6 THE WITNESS: Well, we've seen the numbers in this  
7 proceeding, and they range from \$9-and-something to  
8 \$12-and-something for the five rate groups.

9 COMMISSIONER DAVIDSON: Who is Robert Crandall?

10 THE WITNESS: Robert Crandall is a well-respected  
11 economist at the Brookings Institution who often writes on  
12 regulatory issues.

13 COMMISSIONER DAVIDSON: You footnote him at Page 8 of  
14 your testimony for the statement, "Regulated flat rates are so  
15 low that no new entrant is interested in pursuing such  
16 customers. Only when rates are rebalanced toward cost will  
17 these entrants attempt to compete for residential customers."  
18 I can assume you agree with that statement?

19 THE WITNESS: Yes, I do.

20 COMMISSIONER DAVIDSON: What effect, if any, would  
21 you expect the flow-through of access reductions to have on  
22 prices in the toll and long distance markets?

23 THE WITNESS: My expectation, as I have suggested, is  
24 it would reduce them sharply. In preparation for this  
25 proceeding I did some research on the Internet at least on

1 in-state toll prices in Florida. It's interesting when you  
2 look at prices that are offered by various long distance  
3 competitors, they often cite their kind of interstate package  
4 once, and there's a little asterisk that says, "In-state rates  
5 may be higher."

6 For AT&T, MCI, and Sprint, I discovered in each  
7 instance that the Florida in-state rates were the highest they  
8 offer for any state in the country. There were a couple other  
9 states that had similar rates, but they were the highest that I  
10 could find.

11 COMMISSIONER DAVIDSON: A similar question. What  
12 effect, if any, would you expect any flow-through of access  
13 reductions to have on usage in terms of minutes in the toll and  
14 long distance markets?

15 THE WITNESS: Flow-through of access will stimulate  
16 minutes and create economic benefits for customers that are, in  
17 economic terms, the equivalent of cash that can be thought of  
18 as an offset to any bill increase that might occur.

19 COMMISSIONER DAVIDSON: If there were, in fact, any  
20 declining prices in the toll and long distance markets as a  
21 result of any access reduction flow-through, would you expect  
22 such decline in prices, again assuming they would exist, we  
23 don't know that, but assuming they would exist, would you  
24 expect any effect on the prices that wireless providers might  
25 charge, for example?

1 THE WITNESS: Yes. That might put some additional  
2 pressure on wireless providers because right now they have a  
3 large competitive advantage in being able to offer essentially  
4 free, not quite free, but very, very inexpensive prices for  
5 long distance calling. So that's a big advantage they have in  
6 competing against wired service. So if that advantage was  
7 reduced, it would put some additional pressure on wireless  
8 carriers in Florida in terms of possibly inducing them to offer  
9 some different plans.

10 COMMISSIONER DAVIDSON: The Florida Public Service  
11 Commission just this month issued its 2003 Competition Report.  
12 Have you seen that report?

13 THE WITNESS: Yes, I have.

14 COMMISSIONER DAVIDSON: At Page 24, the report states  
15 that traditional wireline providers such as ILECs and CLECs  
16 continue to compete for market share but are also facing an  
17 influx of nontraditional competitors entering the local market  
18 using alternatives such as wireless, satellite, and broadband  
19 technologies. Do you agree with that statement?

20 THE WITNESS: Yes, I do, Commissioner. It is a very  
21 accurate statement. It is consistent with information that I  
22 read from a variety of sources, and you saw some of it in my  
23 testimony, but it's an entirely accurate statement.

24 COMMISSIONER DAVIDSON: Page 26, the report states  
25 that today's communications market is increasingly



1 characterized by competing in rapidly evolving technologies,  
2 new business models, and greater consumer choice. Other  
3 providers of communications services, including providers of  
4 cable, DSL, satellite, VOIP, fixed wireless, and WiFi  
5 technologies, are competing for market share. Do you agree  
6 with that? Just a yes or no.

7 THE WITNESS: Yes, Commissioner, I do.

8 COMMISSIONER DAVIDSON: In this type of increasingly  
9 competitive market, would a service provider, any service  
10 provider, in your opinion, likely be able to charge  
11 supra-competitive prices or monopoly prices or recover  
12 supra-competitive profits or monopoly profits?

13 THE WITNESS: No, Commissioner, I do not believe they  
14 would be able to.

15 COMMISSIONER DAVIDSON: At Page 11 of your testimony,  
16 you state that Verizon's plan will benefit existing Lifeline  
17 customers and existing Lifeline customers. You touched upon  
18 this a bit in your summary and in cross-exam. What percentage  
19 of Verizon's customers, if you know, are eligible for  
20 Lifeline/Link-Up?

21 THE WITNESS: I apologize, Commissioner. I don't  
22 know that figure.

23 COMMISSIONER DAVIDSON: I believe you had mentioned  
24 before that the extent of actual participation currently was  
25 20,000 customers.

1 THE WITNESS: Just over 21,000, yes.

2 COMMISSIONER DAVIDSON: And you stated that -- I  
3 believe the Chairman wrote down the numbers. There was an  
4 increase of an additional 20,000 or 21,000 customers that would  
5 be eligible under the legislation.

6 THE WITNESS: Well, the expectation is that an  
7 additional 20,000 will sign up. I don't know what  
8 participation that would be among those eligible.

9 COMMISSIONER DAVIDSON: You may not be the proper  
10 witness for this or you may be. I'll ask the question anyway.  
11 Do you know what, if anything, Verizon is actually doing to try  
12 and increase participation in Lifeline/Link-Up, which is a  
13 critically important program for the state?

14 THE WITNESS: My understanding is that Verizon is  
15 undertaking new efforts to promote Lifeline in conjunction with  
16 in the Commission, potentially in conjunction with a number of  
17 legislators and a number of community organizations and  
18 representatives. I know that much. I believe that someone  
19 else from Verizon here could probably speak to that in more  
20 detail.

21 COMMISSIONER DAVIDSON: If, hypothetically, the  
22 Lifeline eligibility requirement was raised from its current  
23 125 percent of the poverty level to, say, 135 percent of the  
24 poverty level, what effect would this have, if you know, on the  
25 numbers of consumers potentially qualifying for Lifeline?

1 THE WITNESS: I would presume it would increase the  
2 numbers, and I think that a targeted benefit of that kind might  
3 be a good way to address some of the concerns that we've heard  
4 expressed.

5 COMMISSIONER DAVIDSON: This may be a question for  
6 the Chair, but I'll ask it to the witness right now.

7 CHAIRMAN JABER: I was just going to ask you,  
8 Commissioner Davidson, your question was, what effect would  
9 increasing the federal poverty income level eligibility to 135  
10 percent?

11 COMMISSIONER DAVIDSON: I believe that was -- was  
12 that the number, Chair, that the joint board recommended back  
13 in March?

14 CHAIRMAN JABER: Right.

15 COMMISSIONER DAVIDSON: Dr. Danner, if you know,  
16 could a company on its own expand the eligibility of its  
17 Lifeline program encompass consumers between, say, 125 percent  
18 and 135 percent of the poverty level, or is some type of  
19 official state or federal action necessary?

20 THE WITNESS: I'm afraid I don't know, Commissioner.

21 COMMISSIONER DAVIDSON: Do you have any information  
22 regarding the extent to which Verizon's Lifeline customers  
23 subscribe to only basic local telephone service or choose to  
24 pay more to have enhanced services such as call waiting, caller  
25 ID, or call forwarding?

1 THE WITNESS: I know generally that they buy those  
2 services at almost the rate of the average residential  
3 customer. I don't have a breakout specifically. The average  
4 bill impact I reported earlier for Lifeline customers is  
5 consistent as well with the fact that Lifeline customers  
6 actually do buy a considerable amount of services.

7 COMMISSIONER DAVIDSON: I have no further questions,  
8 Chairman.

9 CHAIRMAN JABER: Commissioners, do you have any other  
10 questions?

11 Dr. Danner, I want to make sure I understood your  
12 response to Commissioner Davidson on the 135 percent,  
13 increasing the eligibility using that percentage of the federal  
14 income level. Did you say you would support -- it's your  
15 testimony that that would add more eligible customers for the  
16 Lifeline program.

17 THE WITNESS: Yes, Madam Chairman. It's my  
18 expectation that raising the eligibility level would make more  
19 customer eligible, yes.

20 CHAIRMAN JABER: And you went further to say that  
21 that sort of approach is probably a better fit to address  
22 getting more people on phone service. I think you went that  
23 far.

24 THE WITNESS: It certainly could be, yes, Madam  
25 Chairman.

1 CHAIRMAN JABER: Do you know what Verizon's position  
2 has been at the federal level on increasing the percentage to  
3 135 percent?

4 THE WITNESS: I'm afraid I don't.

5 CHAIRMAN JABER: Well, if their position might be  
6 that they're opposed to it, through your testimony today, are  
7 you changing -- do you think there's some consideration to  
8 supporting the 135 percent even if it's a volunteer approach at  
9 the state level?

10 THE WITNESS: I don't know, Madam Chairman. I don't  
11 believe I can speak for Verizon in that regard.

12 COMMISSIONER DAVIDSON: Sure, you can. Go ahead and  
13 bind them.

14 CHAIRMAN JABER: Yeah, you've been speaking for  
15 Verizon. Well, here's the question. You just testified that  
16 that might be a better, more effective approach. To the degree  
17 that that position is inconsistent at the federal level and you  
18 might consider expanding eligibility at least at the state  
19 level, I would appreciate a response in that regard before the  
20 proceeding is over. And if you can't do it now, that's fine.

21 THE WITNESS: Just so I can be clear, Madam Chairman,  
22 a response from me personally, or would you like something from  
23 the company?

24 CHAIRMAN JABER: The company will be fine.

25 SPEAKER: (Inaudible. Microphone off.)

1 CHAIRMAN JABER: No. We need to do it through a  
2 witness, but sometime before your case is over, maybe one of  
3 your witnesses --

4 Mr. Chapkis.

5 MR. CHAPKIS: That's fine. If you feel that you need  
6 to do it through a witness, we can prepare a witness to answer  
7 that question.

8 CHAIRMAN JABER: Or through some sort of commitment  
9 you're willing to make. Are you willing to make a commitment?

10 MR. CHAPKIS: When you say are we willing to make a  
11 commitment, I can say that we would be willing to consider that  
12 if that would create more appropriate benefits.

13 CHAIRMAN JABER: Okay. So if the option is on the  
14 table through some action by the Commission, you would be  
15 willing to accept that option?

16 MR. CHAPKIS: Correct.

17 COMMISSIONER DAVIDSON: And I would hope that others  
18 would follow suit.

19 CHAIRMAN JABER: Now, I'm going to switch gears on  
20 you a little bit. We've heard so far throughout the  
21 proceeding, Doctor, that the long distance market is highly  
22 competitive.

23 THE WITNESS: Yes.

24 CHAIRMAN JABER: And I'm pretty sure I've read and  
25 heard witnesses talk about how the long distance market is

1 still overpriced. I guess I'm struggling with reconciling both  
2 of those facts in evidence with your statement that the market  
3 won't allow these long distance companies not to flow through  
4 more reductions to the residential side knowing -- I'm sorry,  
5 this is a long question -- knowing that just two years ago AT&T  
6 and WorldCom increased their long distance rates by \$1.90,  
7 \$1.85, and I forget what MCI did, but --

8 THE WITNESS: Yes, Madam Chairman. I'm afraid this  
9 might be a longer answer than others.

10 I guess I would offer two observations. The first is  
11 it's a long-standing academic controversy; a controversy funded  
12 by competing interests as well to some extent as to the extent  
13 to which long distance carriers actually pass-through access  
14 charge reductions. And the controversy really centered around  
15 the 271 proceedings. Prior to 271 approval, the experts who  
16 tended to work with the RBOCs tended to assert based on a  
17 variety of evidence that they didn't think flow-through was  
18 occurring, and experts who tended to be associated with AT&T  
19 and some of the competitors tended to assert that they did.

20 I followed that debate for a number of years, even  
21 was involved in some initial review of some studies by some  
22 eminent folks. And, you know, I have to say, both sides had  
23 fairly compelling cases at one point, but I think there's  
24 general agreement now with the 271 approvals that pass-through  
25 is occurring on a rapid and complete basis.

1           With respect to pricing of particular packages in the  
2 market or pricing of particular services, there's been a real  
3 dynamic occurring where the carriers are -- no other way to put  
4 it -- kind of bleeding. Price wars have been intense in the  
5 long distance market. There's also been a certain sort of  
6 rationalization of prices that has occurred where long distance  
7 companies have set up schedules to where they can sort of  
8 collect, you know, the cost of billing the customer at least  
9 from a customer who makes very few calls. And that's led to  
10 some of the increases in some of the basic plans that you've  
11 observed. But everything I see and read about the industry  
12 from Wall Street analysts and elsewhere is pretty unequivocal  
13 that it's very highly competitive, pass-through is occurring.

14           Executives in the industry even believe that some  
15 companies are pricing almost to an anticompetitive level. I  
16 know Dave Doorman (phonetic) from AT&T has expressed that  
17 opinion repeatedly. So I apologize for the long answer, but  
18 that's sort of a summary of some of the information in which I  
19 base my opinion.

20           CHAIRMAN JABER: Does he allege -- and I recognize  
21 you're just repeating what you've read from one individual, but  
22 does his statement go along with that's a pricing scheme that  
23 the RBOCs who have gotten into long distance have used as  
24 opposed to AT&T and MCI?

25           THE WITNESS: No. I remember his particular comments



1 at one point were directed at Qwest, not as a local carrier,  
2 but as a long distance carrier. He just couldn't understand  
3 how they could charge rates that low as a bulk long distance  
4 carrier.

5 CHAIRMAN JABER: And Qwest had to go through  
6 271 approval to become a long distance carrier, didn't it?

7 THE WITNESS: Well, that's not quite right. Qwest  
8 was created by the merger of Qwest and US West. And he was  
9 referring to the portion of the Qwest business that was not  
10 associated with the US West territories.

11 CHAIRMAN JABER: Commissioners, do you have any other  
12 questions?

13 Okay. Redirect, Mr. Chapkis.

14 MR. CHAPKIS: No redirect, Chairman Jaber.

15 CHAIRMAN JABER: Thank you. Dr. Danner, thank you  
16 for your testimony.

17 THE WITNESS: Thank you very much, Madam Chairman.

18 CHAIRMAN JABER: We have Exhibits 62 and 63. Without  
19 objection, both will be admitted into the record.

20 (Exhibits 62 and 63 admitted into the record.)

21 MR. CHAPKIS: And the witness may be excused?

22 CHAIRMAN JABER: Yes.

23 (Witness excused.)

24 CHAIRMAN JABER: Ms. White, I think this is something  
25 that Ms. Mays passed out earlier in the day. You can collect

1 that one too.

2 Mr. Chapkis, has this witness been sworn?

3 MR. CHAPKIS: Mr. Leo, were you here yesterday for  
4 the swearing in?

5 MR. LEO: Yes, I was.

6 MR. CHAPKIS: Yes, he has. Is it okay to proceed,  
7 Chairman?

8 CHAIRMAN JABER: (Nodding head in the affirmative.)

9 EVAN T. LEO

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

12 DIRECT EXAMINATION

13 BY MR. CHAPKIS:

14 Q Mr. Leo, could you please state your name and address  
15 for the record.

16 A Yes. My name Evan Leo. My business address is 1615  
17 M Street, Northwest, Washington, D.C. 20036.

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

19 A I am a partner in the law firm of Kellogg, Huber,  
20 Hansen, Todd & Evans.

21 Q Have you caused to be filed direct testimony in this  
22 docket consisting of two pages?

23 A Yes, I have.

24 Q Do you have any changes to that testimony?

25 A No, I do not.

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

3 A Yes, they would.

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

6 CHAIRMAN JABER: The prefiled testimony of Evan T.  
7 Leo shall be inserted into the record as though read.

8 BY MR. CHAPKIS:

9 Q Did you cause to be filed one exhibit to that  
10 testimony numbered ETL-1 to be filed as an attachment to your  
11 direct testimony?

12 A Yes.

13 Q Was this exhibit created under your control?

14 A Yes.

15 Q Do you have any changes to that exhibit?

16 A No.

17 MR. CHAPKIS: I would ask that that exhibit be given  
18 the next number in order. I would note that there are two  
19 pages of that exhibit which are confidential, Pages 2 and Page  
20 6, so that I would ask that it be made a confidential exhibit.

21 CHAIRMAN JABER: Sure. ETL-1 will identified as  
22 Confidential Exhibit 64.

23 (Exhibit 64 marked for identification.)

24

25

1           **Q.   PLEASE STATE YOUR NAME, TITLE, AND BUSINESS**  
2           **ADDRESS.**

3           A.   My name is Evan T. Leo. I am a partner at Kellogg, Huber,  
4           Hansen, Todd & Evans, P.L.L.C. My business address is 1615  
5           M Street, N.W., Suite 400, Washington, DC 20036.

6

7           **Q.   PLEASE SUMMARIZE YOUR BACKGROUND AND**  
8           **QUALIFICATIONS.**

9           A.   I have been practicing law for approximately 10 years, all at my  
10          current firm. I was an associate at the firm from 1993 until 2000,  
11          when I was elected partner. Throughout this period I have  
12          specialized in telecommunications law. I am the co-author of a  
13          casebook on telecommunications law (*The Law and Regulation of*  
14          *Telecommunications Carriers*) and of a chapter in the leading  
15          treatise on the subject (*Federal Telecommunications Law*). I am  
16          also the author or co-author of a number of factual reports that have  
17          been used in a variety of FCC proceedings to evaluate the state of  
18          competition in various telecommunications markets.

19

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

21          A.   The purpose of my testimony is to describe the state of local  
22          telephone competition in Verizon's service area in Florida.

23

24          **Q.   HAVE YOU PREPARED A REPORT DESCRIBING THE STATE**  
25          **OF LOCAL TELEPHONE COMPETITION IN VERIZON'S**

1                   **SERVICE AREA IN FLORIDA?**

2           A.    Yes. I am the author of the report entitled *Local Competition in*  
3                   *Florida* that is attached hereto as Exhibit ETL-1. I compiled this  
4                   report, with the help of research assistants, using a combination of  
5                   public sources (e.g., trade press, industry reports, company Web  
6                   sites) and internal data that I received from Verizon. I hereby affirm  
7                   that, to the best of my knowledge and belief, these sources are  
8                   accurate and truthful, as is the report itself.

9

10           **Q.    WHAT DOES THE REPORT DEMONSTRATE?**

11           A.    The report demonstrates that there is extensive facilities-based  
12                   competition in Verizon's service territory in Florida. It further  
13                   demonstrates that competition from traditional CLECs is focused  
14                   more heavily on business customers than residential customers. It  
15                   also shows that significant facilities-based competition for  
16                   residential customers has emerged, though it has come mainly from  
17                   intermodal sources, such as wireless, cable, and voice over Internet  
18                   protocol networks.

19

20           **Q.    DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

21           A.    Yes.

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1 BY MR. CHAPKIS:

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

3 A Yes. Thank you. I am the author of a report  
4 submitted in this proceeding entitled, "Local Competition In  
5 Florida." That report describes the state of local telephone  
6 competition in Verizon's service area in Florida. This report  
7 was compiled using a combination of public sources such as  
8 trade press, industry reports, and company Web sites and  
9 internal data that I received from Verizon.

10 My report demonstrates that there is extensive  
11 facilities-based competition in Verizon's service territory in  
12 Florida. It further demonstrates that facilities-based  
13 competition from traditional CLECs is focussed more heavily on  
14 business customers than residential customers. It also shows  
15 that significant facilities-based competition for residential  
16 customers has emerged, though it has come mainly from  
17 intermodal sources such as wireless, cable, and voice over IP  
18 networks.

19 My report describes the state of local competition in  
20 Verizon's service territory as of July 2003. As of that date,  
21 more than 15 competing carriers of all sizes have deployed  
22 approximately 20 local circuit switches and at least 15 packet  
23 switches within Verizon's service area in Florida. More than  
24 15 competitors also have deployed fiber networks in the Tampa  
25 and Sarasota, Bradenton MSAs that Verizon serves. These

1 facilities are currently being used primarily to serve business  
2 customers. For example, as of the date of my report,  
3 competitors in Verizon's service territory in Florida were  
4 serving over 100 times more business lines in whole or in part  
5 over their own facilities than they were serving residential  
6 lines in whole or in part over their own facilities. Most of  
7 the lines that alternative local carriers are currently  
8 providing to residential customers in Verizon's service  
9 territory are being provided through resale.

10 Although traditional alternative local carriers are  
11 not providing facilities-based residential competition to any  
12 significant degree, such competition is rapidly increasing from  
13 alternative sources such as mobile wireless, IP telephony,  
14 e-mail, and instant messaging. These competitors are now  
15 substituting for a large and increasing share of the local  
16 telephone services that Verizon provides. That concludes my  
17 summary.

18 MR. CHAPKIS: Madam Chair, in my haste to move things  
19 along I failed to address his rebuttal testimony, so I'd like  
20 to do that now.

21 BY MR. CHAPKIS:

22 Q Have you caused to be filed in this docket rebuttal  
23 testimony consisting of three pages?

24 A Yes.

25 Q Do you have any changes to that testimony?

1 A No.

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

4 A Yes.

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

7 CHAIRMAN JABER: Sure.

8 MR. CHAPKIS: I would note that it does have one  
9 confidential number in it and that is on Page 2.

10 CHAIRMAN JABER: The prefiled rebuttal testimony of  
11 Evan T. Leo shall be inserted into the record as though read.

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2 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

3 A. My name is Evan T. Leo. I am a partner at Kellogg, Huber, Hansen, Todd  
4 & Evans, P.L.L.C. My business address is 1615 M Street, N.W., Suite  
5 400, Washington, DC 20036.

6

7 **Q. ARE YOU THE SAME EVAN T. LEO WHO SUBMITTED DIRECT**  
8 **TESTIMONY ON BEHALF OF VERIZON IN THIS PROCEEDING?**

9 A. Yes.

10

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

12 A. I respond to Dr. Cooper's criticism of Verizon's presentation on the state of  
13 competition in Verizon's service territory.

14

15 **Q. DO YOU AGREE WITH DR. COOPER THAT VERIZON'S**  
16 **PRESENTATION OF COMPETITION IS "UNNECESSARILY**  
17 **NEGATIVE"?**

18 A. No. This characterization is inaccurate. Verizon demonstrated that there  
19 was extensive business competition in its service territory in Florida, and  
20 that this competition was likely to increase in the future. Residential  
21 competition, however, is a different matter.

22

23 **Q. CAN YOU GIVE EXAMPLES OF THE EVIDENCE OF LOCAL**  
24 **COMPETITION THAT VERIZON PROVIDED?**

25 A. Yes. Verizon demonstrated that alternative local exchange carriers in

1 Verizon's service territory were serving more than \*REDACTED\* lines over  
2 their own facilities, more than 5,000 lines through UNE-P, and  
3 approximately 28,000 lines through resale.

4 Verizon further demonstrated that, although most of this competition was  
5 provided to business customers, alternative local exchange carriers were  
6 also providing approximately \*\*REDACTED\*\* lines to residential customers  
7 (through all three means identified above – i.e., facilities-based, UNE-P  
8 and resale). Verizon explained that most of these lines provided to  
9 residential customers – approximately 19,000 – were provided through  
10 resale.

11 Verizon also demonstrated that competition is rapidly increasing from  
12 alternative sources such as mobile wireless, IP telephony, e-mail, and  
13 instant messaging. As Verizon explained, although this extensive  
14 competition is not counted in traditional line counts, it is substituting for a  
15 large and increasing share of the local telephone services that Verizon  
16 provides.

17 **Q. DID VERIZON DEMONSTRATE THAT ALL FORMS OF COMPETITION**  
18 **WERE THRIVING TO THE SAME DEGREE IN ITS SERVICE**  
19 **TERRITORY IN FLORIDA?**

20 **A.** No. Verizon demonstrated that facilities-based competition in Verizon's  
21 service territory in Florida has emerged more rapidly for business  
22 customers than for residential customers. Verizon explained that while  
23 significant facilities-based competition for residential customers has  
24 emerged, it has come mainly from intermodal sources – such as wireless,  
25 cable, and voice over IP networks.

1 Q. WHAT IS THE REASON THAT FACILITIES-BASED COMPETITION FOR  
2 RESIDENTIAL CUSTOMERS HAS EVOLVED MORE SLOWLY THAN  
3 FACILITIES-BASED COMPETITION FOR BUSINESS CUSTOMERS?

4 A. As Dr. Danner explained in his opening testimony, a major contributing  
5 factor to this disparity is that, unlike in the business market, retail rates for  
6 residential customers have historically been set too low, which means that  
7 competitors cannot come in to undercut them as they can and do in  
8 business markets.

9

10 Q. DOES DR. COOPER DISPUTE ANY OF VERIZON'S DATA REGARDING  
11 LOCAL COMPETITION IN FLORIDA?

12 A. No. Dr. Cooper does not question the accuracy of any of Verizon's data.

13

14 Q. DOES DR. COOPER ACKNOWLEDGE THAT THERE IS MORE  
15 COMPETITION FOR BUSINESS CUSTOMERS THAN FOR  
16 RESIDENTIAL CUSTOMERS?

17 A. Yes. Relying on FCC data, Dr. Cooper presents evidence that competition  
18 in Florida is strongly tilted toward business customers.

19

20 Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

21 A. Yes.

22

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1 MR. CHAPKIS: With that done, the witness is now  
2 available for cross-examination.

3 CHAIRMAN JABER: Mr. Beck.

4 MR. BECK: Thank you, Madam Chairman.

5 CROSS EXAMINATION

6 BY MR. BECK:

7 Q Good evening, Mr. Leo.

8 A Good evening.

9 Q My name is Charlie Beck with the Public Counsel's  
10 Office. Could you turn to Page 16 of your exhibit, please. At  
11 Paragraph 26 you start off by saying the wireless is directly  
12 price competitive with wireline services, particularly when the  
13 comparison is made between equivalent bundles of service. Do  
14 you see that?

15 A Yes.

16 Q And you have a chart on the next page, on Page 17,  
17 that's used to demonstrate; is that right?

18 A Well, the chart may demonstrate that, but the cite to  
19 that actual table comes later in the paragraph, after another  
20 sentence which refers specifically to bundled service  
21 offerings.

22 Q I'd like to ask you some questions about your Table  
23 6, the chart I mentioned. You list a number of plans that are  
24 both some offered by the local exchange company and some by  
25 cellular companies; is that right?

1 A That is correct.

2 Q Okay. And the Verizon Freedom plan is the  
3 first column listed. Is that a plan that's offered by the  
4 local telephone company?

5 A Yes.

6 Q Okay. Is that available to any customer in Verizon's  
7 territory that would elect to choose that option or that  
8 service?

9 A I honestly do not remember whether it's available in  
10 Verizon's service territory in Florida. I do know it's  
11 available throughout many parts of Verizon's service territory  
12 elsewhere.

13 Q Well, isn't the table labeled "Examples of Bundled  
14 Service Offerings in Florida"?

15 A It is. So I would assume that it is offered in  
16 Florida. I just don't specifically remember, but that's what  
17 this table indicates.

18 Q The next column is BellSouth Unlimited Answers. Do  
19 you see that?

20 A Yes.

21 Q Is that a service that BellSouth, the local telephone  
22 company, offers in Florida?

23 A Yes, I believe so.

24 Q And then the next column shows various offerings by  
25 cellular telephone companies, do they not?

1 A Yes, they do.

2 Q The Cingular option is a national program that  
3 Cingular has, isn't it?

4 A Yes, I believe that's correct.

5 Q So what's listed there is available in Florida, but  
6 it would be offered anywhere else in the country that Cingular  
7 offers service, wouldn't it?

8 A I believe so.

9 Q Is the same true for the AT&T mLife National Next  
10 Generation service you describe?

11 A Yes, I believe so.

12 Q The Sprint PSC Free and Clear, is that a national  
13 offering?

14 A I'm not positive, but I believe so.

15 Q And is the T-Mobile Get More, is that a national  
16 offering that's offered in any state that T-Mobile offers  
17 service in?

18 A I believe so.

19 Q Okay. And I take it, one of the things you're  
20 showing here is the comparability of the cellular telephone  
21 plans with the two incumbent local exchange carrier package  
22 plans that are listed there; is that right?

23 A That's correct.

24 Q Is Florida different than the rest of the country  
25 with respect to the types of bundled plans that the carriers

1 offer? Do you understand my question?

2 A Are you asking whether these same bundles are being  
3 offered in different states?

4 Q Yes. If you lived in another state, would such types  
5 of offerings generally be available that are comparable to what  
6 you see here?

7 A I think on the wireless side, yes. I am not as sure  
8 what the Verizon Freedom rate or the BellSouth rate would be in  
9 other states. I just don't know.

10 Q I thought when I first asked you about the Verizon  
11 Freedom plan you said that was a national plan.

12 A Well, I did not say it was national. I said it was  
13 offered in -- I know that to be offered in many parts of  
14 Verizon's service territory, but I'm not sure that the price at  
15 which that service is offered is uniform everywhere in  
16 Verizon's territory. As I understand it, it varies from state  
17 to state.

18 Q If the Commission grants the petitions in these  
19 cases, you wouldn't expect any of those cellular telephone  
20 plans to change, would you?

21 A Potentially, yes.

22 Q How would you expect those national plans to change  
23 in response to these petitions?

24 A As Mr. Danner alluded to, there is the potential for  
25 price competition on the long distance and in the wireless

1 market. I don't know if it would have a big enough effect on  
2 the national plans offered, but it's a possibility.

3 Q Do you know whether Verizon or BellSouth are planning  
4 to change their packaged plans you've listed here in response  
5 to the petitions if they're granted?

6 A I have no knowledge of that, no.

7 Q Do you know whether any competitive local exchange  
8 companies offer similar plans to the Verizon Freedom and  
9 BellSouth Answer plans?

10 A Could you restate that question?

11 Q Do you know of any other competitive plans offered by  
12 competitive local exchange companies that are similar to the  
13 Verizon and BellSouth plans you describe here?

14 A Within Verizon's service territory in Florida, I'm  
15 not aware of any such plans.

16 Q Are you familiar with the MCI Neighborhood plan?

17 A Yes, I have familiarity with it.

18 Q Isn't that similar to the Verizon and the BellSouth  
19 plans that are listed here?

20 A It is, but my understanding is that the MCI  
21 Neighborhood plan was not being offered within Verizon's  
22 service territory in Florida. That's my understanding. I may  
23 be incorrect about that. And my previous response referred  
24 specifically to Verizon service territory in Florida.

25 Q Do you know whether it's offered in the BellSouth



1 service territory?

2 A I'm not positive, but I believe it is.

3 Q And would the different UNE rates help explain why  
4 it's being offered in one territory and not in the other, in  
5 your opinion?

6 MR. CHAPKIS: Objection, beyond the scope of the  
7 witness's testimony. He's not here as an expert on  
8 competition.

9 MR. BECK: He's not?

10 CHAIRMAN JABER: Mr. Beck, your response.

11 MR. BECK: I thought he was here as an expert on  
12 competition.

13 COMMISSIONER DAVIDSON: I'd have to say he's close to  
14 that. He's got a report titled, "Facilities-based Local  
15 Exchange Companies."

16 MR. CHAPKIS: No, I'm not saying the motivations  
17 behind the competition. He's here to demonstrate what is going  
18 on with the companies in the state, not what is driving their  
19 actions.

20 CHAIRMAN JABER: Mr. Chapkis, let me just  
21 short-circuit this by saying that I'm going to overrule your  
22 objection and allow the question.

23 Go ahead, Mr. Beck.

24 MR. BECK: I have no more questions.

25 CHAIRMAN JABER: Okay. Mr. Shreve.

1 MR. SHREVE: No questions.

2 CHAIRMAN JABER: Mr. Twomey.

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

4 CROSS EXAMINATION

5 BY MR. TWOMEY:

6 Q Good evening, sir.

7 A Good evening.

8 Q You're an attorney; correct?

9 A That's correct.

10 Q Do you have an opinion on whether the Florida statute  
11 in question here requires or seeks, I should say, wireline --  
12 increased wireline competition or any competition for the  
13 ILECs?

14 MR. CHAPKIS: I'm sorry. Could you please restate  
15 that question? I didn't hear it.

16 MR. TWOMEY: Yes, I can.

17 BY MR. TWOMEY:

18 Q Do you have an opinion on whether the statute in  
19 question here, 364.164, requires or seeks increased wireline  
20 competition for the ILECs or just competition for the ILECs?

21 A I really have not studied the statute closely enough  
22 to form such an opinion.

23 Q Okay. But in your rebuttal testimony, you criticize  
24 Dr. Cooper for saying that Verizon's presentation of  
25 competition is unnecessarily negative; correct?

1 A That is correct.

2 Q And you do it on the basis that -- as I understand  
3 it, you do it on the basis that Verizon has substantially more  
4 competition for its business lines than it does for its  
5 residential lines; correct?

6 A That's one of the reasons, yes.

7 Q Okay. What's the other reason?

8 A Well, I think Dr. Cooper also ignores, if I recall  
9 correctly, a lot of the intermodal competition that is  
10 demonstrated in my report.

11 Q I wanted to ask you briefly about your report.  
12 Starting at the same page that Mr. Beck asked you about,  
13 Page 16, Paragraph 26. As Mr. Beck pointed out that says --  
14 the first sentence says, "Wireless is directly price  
15 competitive with wireline services, particularly when the  
16 comparison is made between equivalent bundles of services."

17 Then in the center, you have another sentence that  
18 says, "Taking into account the whole package of service most  
19 typically sold, a Gartner Dataquest study concludes that  
20 wireless calling prices are already 'competitive with, and in  
21 some cases better than, wireline calling rates;" is that true?

22 A It is true that that is what my testimony says and  
23 that is what the Gartner Dataquest study says.

24 Q Okay. And then it goes on in the next sentence to  
25 say, "And wireless prices continue to decline rapidly, by as

1 much as 10 to 20 percent a year in recent years."

2           The last sentence says, "The attractiveness of  
3 wireless bundles has become such a threat to wireline providers  
4 that they offer competing bundles of their own;" correct?

5           A     Yes, that's what it says.

6           Q     Okay. And my question is, if wireless currently,  
7 quote, is directly price competitive with wireline services,  
8 close quote, and, two, wireless is continuing to decline --  
9 wireless prices are continuing to decline as much as 10 to  
10 20 percent per year, won't increasing local rates further  
11 accelerate that process?

12          A     I think you're asking me to make a conclusion at some  
13 kind of economic level which is beyond the scope of my  
14 testimony. Beyond that, what process specifically are you  
15 referring to?

16          Q     The process of -- good question. The process of the  
17 LECs -- the ILECs losing customers to intermodal methodologies,  
18 including wireless.

19               MR. CHAPKIS: Objection. The witness has already  
20 testified that this is beyond the scope of his testimony, that  
21 this is the proper scope of testimony for an economist, which  
22 is Dr. Danner who has already been here.

23               CHAIRMAN JABER: Mr. Chapkis, he said two things. He  
24 wasn't sure exactly what the question was asking and, second,  
25 that if his understanding was correct, then maybe it was

1 outside the scope. So I'm going to allow the clarification.  
2 And if you need to renew the objection, renew it. But again,  
3 stick to the objection.

4 MR. CHAPKIS: All right.

5 CHAIRMAN JABER: Mr. Twomey.

6 BY MR. TWOMEY:

7 Q Did you hear the question?

8 A I did.

9 Q Can you answer it?

10 A I could say this, I think, that my report states that  
11 Verizon is losing an increasing amount of business to  
12 intermodal competitors.

13 Q And as a conclusion of your study that the  
14 competition, the lowered rates by wireless, among others, are  
15 causing ILECs, including Verizon, to lose their access minutes;  
16 correct?

17 A I'm not -- that is correct.

18 Q Because on Page 19, Paragraph 30, there is -- the  
19 first sentence states, "Residential and business customers  
20 alike now use e-mail and instant messaging, IM, as direct  
21 substitutes for many voice calls." And I want to ask you -- or  
22 I want to tell you, in this case, for example, the attorneys  
23 and others corresponded greatly, at least as compared to my  
24 past practice, using e-mail as communications as well as  
25 attaching documents in a word processing format or PDF as

1 opposed to faxing those documents. Is this the type of thing  
2 you're talking about?

3 A In part, yes.

4 Q And would that in turn, those practices you describe  
5 there, cause the ILECs and Verizon to lose access revenue?

6 A In many cases I would think that would be the effect,  
7 yes.

8 CHAIRMAN JABER: Mr. Shreve, how did you get those  
9 documents?

10 MR. TWOMEY: Pony express.

11 BY MR. TWOMEY:

12 Q Mr. Leo, would you expect that the utilization of  
13 e-mail and instant messaging would increase on a going-forward  
14 basis or decrease?

15 A I would think that it would increase.

16 Q Okay. Just a couple more, Madam Chair. If you know,  
17 on Page 6, Footnote 16 is the statement, "ALECs are providing a  
18 much higher number of circuits to business customers using  
19 their switches, because many of the lines they serve are  
20 high-capacity lines." If you know, typically would those ALECs  
21 be serving customers that would be not residential or not  
22 single-line business customers if it refers to high-capacity  
23 lines?

24 A If your question is, what kinds of business -- what  
25 kinds of customers do competitive carriers serve with

1 high-capacity lines, the answer, I believe, is in most cases  
2 that are larger business customers.

3 Q Okay. Thank you. Page 15, Paragraph 25, "Today, a  
4 large and growing number of customers are abandoning their  
5 wireline phone service for a wireless phone, and an even larger  
6 share of traffic minutes are migrating to wireless networks;"  
7 correct?

8 A That's what it says, correct.

9 Q So that would reflect itself both in a loss of access  
10 minutes and revenue as well as apparently access lines; is that  
11 correct?

12 A Yes.

13 Q Do you know what the rate of decline or loss is for  
14 either of those access lines and minutes for Verizon?

15 A For Verizon specifically, no.

16 Q How about nationally?

17 A On the loss of lines, my understanding is that  
18 estimates vary, but it's -- the figures I've seen that I think  
19 are probably a year old now are in the range of 3 to 5 percent  
20 of lines -- Wireline lines have been lost to wireless entirely.  
21 And on access minutes, I don't recall the statistics.

22 Q As noted in one of your other paragraphs, if an  
23 increasing number of consumers and businesses are using e-mail  
24 and IM and causing losses of access, isn't it likely that the  
25 loss of access is greater as a percentage than the loss of

1 access lines?

2 A I'm sorry. Could you restate the question?

3 Q Yes, sir. One of your last notes that we talked  
4 about said that increasing numbers of consumers and businesses  
5 are using e-mail and instant messaging services in lieu of  
6 telephone calls; correct?

7 A Correct.

8 Q Okay. Unless all those people using e-mail and  
9 instant messaging are using them through Internet services  
10 provided by cable, doesn't it stand to reason that the loss of  
11 access lines is less than the loss of access minutes to the  
12 ILECs?

13 MR. CHAPKIS: Objection, beyond the scope of this  
14 witness's testimony.

15 CHAIRMAN JABER: Mr. Twomey, where is it in his  
16 testimony?

17 MR. TWOMEY: I'm sorry. Where is what?

18 CHAIRMAN JABER: Where can we find reference to the  
19 scope of your question in his testimony?

20 MR. TWOMEY: He is an attorney who has purported to  
21 practice telecommunications law for 10 years, I think. He is  
22 here as an expert to support a study. I'm asking him to take  
23 one conclusion of his report, which is that there's a loss of  
24 access minutes as a result of IM and e-mail, and contrast it to  
25 the loss of access lines and make a conclusion, if he can,



1 whether loss of access minutes should be greater than loss of  
2 access lines. If he can't do it, I'll accept that.

3 CHAIRMAN JABER: I'll allow the question.

4 THE WITNESS: I don't think I could say it with a  
5 certainty whether that's true, and the caveat that you put in  
6 your question with respect to cable complicates the issue quite  
7 a bit.

8 MR. TWOMEY: Okay. Thank you. That's all I have.

9 CHAIRMAN JABER: Staff.

10 MS. CHRISTENSEN: Staff has no questions.

11 CHAIRMAN JABER: Commissioners? Commissioner  
12 Davidson.

13 COMMISSIONER DAVIDSON: Thank you, Madam Chair.  
14 Mr. Leo, if you would turn to Page 1 of your direct testimony.  
15 You state that you were the co-author of a casebook on  
16 telecommunications law titled, "The Law and Regulation of  
17 Telecommunications Carriers" and of a chapter in the treatise  
18 "Federal Telecommunications Law." With regard to the first,  
19 what is the scope in general terms of that first publication?

20 THE WITNESS: Well, it's a law school casebook that  
21 deals primarily with the telephony industry. It discusses  
22 regulation mostly at the federal level and mostly with respect  
23 to local telephone companies both within their core businesses  
24 and in adjacent businesses such as long distance, wireless,  
25 enhanced information services.

1 COMMISSIONER DAVIDSON: And the federal  
2 telecommunications law chapter and the treatise, is that in  
3 part a shortened version of the casebook and more of black  
4 letter principles and laws, to the extent there are black  
5 letter principles and laws at this stage?

6 THE WITNESS: Not exactly. The chapter in the  
7 treatise is actually on jurisdiction, so jurisdictional issues  
8 involved in telecommunications.

9 COMMISSIONER DAVIDSON: If you would, please, turn to  
10 the exhibit to your direct testimony, the local competition in  
11 Florida, Page 3, Paragraph 7. What is a local circuit switch?

12 THE WITNESS: It is a switch -- it is a circuit  
13 switch used to provide local telephone service.

14 COMMISSIONER DAVIDSON: How many local circuit  
15 switches exist in Verizon's service territory?

16 THE WITNESS: In Florida?

17 COMMISSIONER DAVIDSON: In Florida.

18 THE WITNESS: I don't recall the exact number.

19 COMMISSIONER DAVIDSON: At Paragraph 7 of the report,  
20 you state that more than 15 competing carriers of all sizes  
21 have deployed local circuit switches in Verizon's service area  
22 in Florida, and you said state that competing carriers have  
23 deployed approximately 20 known local circuit switches; is that  
24 accurate?

25 THE WITNESS: I believe so, according to the sources

1 that I used.

2 COMMISSIONER DAVIDSON: What is a packet switch?

3 THE WITNESS: A packet switch is a switch that uses  
4 different protocols than a circuit switch and is used  
5 primarily -- or was designed primarily to carry data traffic  
6 but that may now in many cases also be used to carry voice  
7 traffic. It's a different technology switch, a newer  
8 technology switch. They are often cheaper and easier to deploy  
9 than circuit switches in many respects.

10 COMMISSIONER DAVIDSON: If you know, what companies  
11 manufacture local circuit switches?

12 THE WITNESS: Yes. The two largest manufacturers are  
13 Lucent and Nortel. There are others as well, but those are the  
14 two largest.

15 COMMISSIONER DAVIDSON: And if you know, what  
16 companies manufacture packet switches?

17 THE WITNESS: Yes. I believe Cisco is one of the  
18 manufacturers. I think Lucent and Nortel also manufacture  
19 circuit switches, Siemens.

20 COMMISSIONER DAVIDSON: Is it reasonable to conclude  
21 that there is a market for the production of local circuit  
22 switches?

23 THE WITNESS: I think that question at this point in  
24 the history of the telecommunications industry is actually a  
25 little difficult to answer. I think most -- many new

1 competitors are now saying that they are purchasing primarily  
2 packet switches going forward. I'm sure there's probably still  
3 a market for the upkeep of the circuit-switched infrastructure  
4 that exists, but even that, there are incumbent local exchange  
5 carriers saying that they plan to one day replace that  
6 infrastructure as well.

7 COMMISSIONER DAVIDSON: Turning to packet switches  
8 then is it reasonable to conclude that there's a market for the  
9 production of packet switches?

10 THE WITNESS: Yes, I believe so.

11 COMMISSIONER DAVIDSON: Could one reasonably conclude  
12 that an ALEC or CLEC wishing to serve customers in Verizon's  
13 territory could competitively procure a packet switch from one  
14 manufacturer or another?

15 THE WITNESS: Yes. And I think they have.

16 COMMISSIONER DAVIDSON: Thank you. I have no further  
17 questions.

18 CHAIRMAN JABER: Commissioners, do you have any  
19 questions?

20 Okay. Redirect.

21 MR. CHAPKIS: No redirect, Your Honor.

22 CHAIRMAN JABER: Mr. Leo, thank you for your  
23 testimony. You may be excused.

24 (Witness excused.)

25 CHAIRMAN JABER: And, Verizon, you have Exhibit 64.

1 MR. CHAPKIS: I'd like to have that admitted, please.

2 CHAIRMAN JABER: Without objection, Exhibit 64 will  
3 be admitted into the record.

4 (Exhibit 64 admitted into the record.)

5 CHAIRMAN JABER: Sprint.

6 MR. FONS: Sprint is ready.

7 CHAIRMAN JABER: Mr. Fons, were your witnesses sworn  
8 yesterday?

9 MR. FONS: They were not. I believe Mr. Felz may  
10 have, but Mr. Dickerson --

11 CHAIRMAN JABER: Are they all in the room, you think?

12 MR. FONS: -- and Dr. Staihr are in the room, and  
13 they can be sworn now, and Mr. Poag.

14 CHAIRMAN JABER: Let me just do this. If you're a  
15 witness in the room today and you weren't here yesterday and  
16 you weren't sworn, why don't you stand, for all companies, all  
17 witnesses, stand and raise your right hand.

18 (Witnesses collectively sworn.)

19 KENT W. DICKERSON

20 was called as a witness on behalf of Sprint-Florida, Inc. and,  
21 having been duly sworn, testified as follows:

22 DIRECT EXAMINATION

23 BY MR. FONS:

24 Q Would you state your full name, please.

25 A Kent W. Dickerson.

1 Q Mr. Dickerson, did you previously have prepared and  
2 submitted to this Commission for filing direct testimony  
3 consisting of four pages dated August 27th, 2003?

4 A Yes.

5 Q And do you have any corrections or changes to that  
6 direct testimony?

7 A No.

8 Q And if I were to ask you the same questions today  
9 that were posed to you in your direct testimony, would your  
10 answers be the same today?

11 A Yes.

12 Q And, Mr. Dickerson, did you have two exhibits  
13 attached to your direct testimony, Exhibit KWD-1 and Exhibit  
14 KWD-2?

15 A Yes.

16 Q And Exhibit KWD-2, does that contain primarily  
17 confidential information?

18 A It contains some confidential information, yes.

19 Q And were these exhibits prepared by you or under your  
20 direction and supervision?

21 A Yes.

22 MR. FONS: Madam Chair, could we have  
23 Exhibits KWD-1 and KWD-2 marked as separate exhibits so that we  
24 can keep the confidential one as a different exhibit?

25 CHAIRMAN JABER: Sure. KWD-1 will be marked as

1 Exhibit 65. KWD-2, which is a confidential exhibit, will be  
2 marked as Exhibit 66.

3 (Exhibits 65 and 66 marked for identification.)

4 MR. FONS: Madam Chair, I'm not sure that I  
5 remembered to do this, but I would request that Mr. Dickerson's  
6 direct testimony be inserted in the testimony as though read.

7 CHAIRMAN JABER: The prefiled direct testimony of  
8 Kent W. Dickerson shall be inserted into the record as though  
9 read.

10 BY MR. FONS:

11 Q And, Mr. Dickerson, did you also prepare rebuttal  
12 testimony consisting of 11 pages of questions and answers dated  
13 November 19th, 2003?

14 A Yes, I did.

15 Q Do you have any corrections or changes to that  
16 rebuttal testimony?

17 A No.

18 Q If I were to ask you the same questions today, would  
19 your answers be the same today?

20 A Yes.

21 MR. FONS: Madam Chairman, I would ask that the  
22 rebuttal testimony of Mr. Dickerson be inserted in the record  
23 as though read.

24 CHAIRMAN JABER: The prefiled rebuttal testimony of  
25 Kent W. Dickerson shall be inserted into the record as though

1 read.

2 BY MR. FONS:

3 Q And, Mr. Dickerson, did you have two attachments or  
4 exhibits to that testimony, KWD-3 and KWD-4?

5 A Yes.

6 Q Is there any confidential information in either of  
7 those exhibits?

8 A No.

9 Q And were those exhibits prepared by you or under your  
10 direction and supervision?

11 A Yes.

12 MR. FONS: Madam Chairman, I would ask that the  
13 Exhibits KWD-3 and KWD-4 be marked as the next exhibit.

14 CHAIRMAN JABER: They will be identified as composite  
15 Exhibit 67.

16 (Exhibit 67 marked for identification.)  
17  
18  
19  
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24  
25



SPRINT-FLORIDA, INC.  
PETITION TO REDUCE ACCESS RATES  
FILED: AUGUST 27, 2003

1                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                                   **DIRECT TESTIMONY**

3   **OF**

4                                   **KENT W. DICKERSON**

5

6   **Q.    Please state your name, business address, employer and current position.**

7    A.    My name is Kent W. Dickerson. My business address is 6450 Sprint Parkway,  
8           Overland Park, KS 66251. I am employed as Director - Cost Support for  
9           Sprint/United Management Company.

10

11   **Q.    Please summarize your qualifications and work experience.**

12    A.    I received a Bachelor of Science degree from the University of Missouri - Kansas City  
13           in 1981 with a major in Accounting. In 1984, I passed the national exam and am a  
14           Certified Public Accountant in the State of Missouri.

15

16           From 1981 to 1983, I was employed as a Corporate Income Tax Auditor II for the  
17           Missouri Department of Revenue. From 1983 to 1985, I worked for Kansas Power  
18           and Light (now Western Resources) in the Tax and Internal Audit areas. I joined  
19           United Telephone Midwest Group in September, 1985 as a Staff Accountant in the  
20           Carrier Access Billing area. Thereafter, I moved through a progression of positions  
21           within the Toll Administration and General Accounting areas of the Finance  
22           Department.

23

24           In 1987, I was promoted into the Carrier and Regulatory Services group as a  
25           Separations/ Settlement Administrator performing Federal and Intrastate access/toll

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1 pool settlement, reporting and revenue budgeting functions. I was promoted to  
2 Manager - Pricing in June, 1989 where I performed FCC regulatory reporting and  
3 filing functions related to the United Telephone - Midwest Group Interstate Access  
4 revenue streams.

5  
6 In 1991, I was promoted to Senior Manager - Revenue Planning for United Telephone  
7 - Midwest Group. While serving in this position, my responsibilities consisted of  
8 numerous FCC regulatory reporting and costing functions. In 1994, I accepted a  
9 position within the Intrastate Regulatory operations of Sprint/United Telephone  
10 Company of Missouri where my responsibilities included regulatory compliance, tariff  
11 filings, and earnings analysis for the Missouri company's intrastate operations.

12  
13 Since December 1994, I have set-up and directed a work group which performs cost of  
14 service studies for retail services, wholesale unbundled network elements cost studies,  
15 and state and federal Universal Service Fund cost studies. Over the last seven years, I  
16 have been charged with developing and implementing cost study methods which  
17 conform with Total Service Long Run Incremental Cost ("TSLRIC") and Total  
18 Element Long Run Incremental Cost ("TELRIC") methodologies. I am responsible  
19 for written and oral testimony, serving on industry work groups, and participating in  
20 technical conferences related to TSLRIC/TELRIC costing methodology, filing of  
21 studies within 18 individual states that comprise Sprint's Local Telephone Division  
22 (LTD) and providing cost expertise to Sprint's participation in regulatory cost dockets  
23 outside of the LTD territories.

24  
25 **Q. Have you previously testified before state regulatory commissions?**

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1 A. Yes. I have testified before the Florida, Nevada, North Carolina, Texas, Kansas,  
2 Missouri, Georgia, and Wyoming regulatory commissions regarding  
3 TSLRIC/TELRIC cost matters.

4  
5 **Q. What is the purpose of your testimony?**

6 A. The purpose of my testimony is to introduce and support TSLRIC studies for Sprint-  
7 Florida, Inc.'s ("Sprint's") Residential (R1) service, Single Line Business (B1)  
8 service, and Intrastate Switched Network Access per minute of use.

9  
10 **Q. Please describe how the studies were completed.**

11 A. Exhibit KWD-1 provides a narrative description of how the TSLRIC studies were  
12 completed. Exhibit KWD-2 provides the TSLRIC studies for the previously  
13 mentioned services. Since it is extremely unlikely that the 90-day timeframe  
14 established by the Legislature contemplates rehashing of the very recently decided  
15 inputs and models related to the network elements comprising these services, Sprint is  
16 using the same cost studies that the Florida Public Service Commission approved in  
17 Docket No. 990649B-TP for Sprint's unbundled network element (UNE) prices (Final  
18 Order PSC-03-0918-FOF-TP, issued August 8, 2003, denying Motion for  
19 Reconsideration of Order PSC-03-0058-FOF-TP, issued January 8, 2003). Using the  
20 Commission-approved cost studies, Sprint deaveraged the investments to match the  
21 investments associated with R1 and B1 services. Since UNEs are sold to wholesale  
22 carrier customers, the UNE cost studies do not include any costs associated with retail  
23 functions. To appropriately account for the costs Sprint incurs to provide these  
24 services on a retail basis, the cost of retail service was added to the TSLRIC studies  
25 for R1 and B1 services.

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1   **Q.    What cost of money did Sprint use in developing these TSLRIC studies?**

2    A.    For the TSLRIC studies in this docket, Sprint is using the same cost of money the  
3           Commission ordered in Docket No. 990649B-TP.    Sprint believes that the  
4           Commission-ordered cost of money from Docket No. 990649B-TP understates  
5           Sprint's costs demonstrated in the testimony of Dr. Brian Staihr in that docket.  
6           Therefore, because the Commission-ordered cost of money understates Sprint's costs,  
7           the costs resulting from the TSLRIC studies presented here are also understated.

8

9   **Q.    Does this conclude your direct testimony?**

10   A.    Yes.

11

1                                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**2   **REBUTTAL TESTIMONY**3   **OF**4   **KENT W. DICKERSON**5  
6   **Q.    Please state your name, occupation and business address.**7   **A.**My name is Kent W. Dickerson. I am employed as Director-Cost Support for  
8           Sprint/United Management Company, 6450 Sprint Parkway, Overland Park, Kansas  
9           66251.10  
11   **Q.    Are you the same Kent W. Dickerson who filed direct testimony in this case on**  
12           **behalf of Sprint-Florida?**13   **A.**Yes.14  
15   **Q.    What is the purpose of your rebuttal testimony?**16   **A.**The purpose of my rebuttal testimony is to respond to the Direct Testimony of Dr.  
17           David J. Gabel filed on behalf of The Office of Public Counsel (OPC). Specifically I  
18           will explain why Dr. Gabel's criticisms of Sprint-Florida's TSLRIC studies are invalid  
19           and/or immaterial.20  
21   **Q.    Beginning at page 11 of his Direct Testimony, Dr. Gabel characterizes all three**  
22           **ILEC (Sprint, BellSouth and Verizon) Total Service Long Run Incremental Cost**  
23           **(TSLRIC) studies for Residential (R1) and Single Line Business (B1) Basic Local**  
24           **Telephone Service (BLTS) as inappropriate due to what he claims is use of a**  
25           **TELRIC cost methodology. Do you agree with Dr. Gabel's characterization of**

1           **the Sprint-Florida TSLRIC studies for Residential and Single-Line Business as**  
2           **TELRIC costs?**

3    **A.**    No, I do not. As I explained in my direct testimony, the starting point for determining  
4           the direct cost network components of BLTS is Sprint's recently approved TELRIC  
5           studies for the direct incremental cost network elements of Loop, Local Switching and  
6           Transport. However Dr. Gabel's criticism ignores several important adjustments that  
7           were included in Sprint's TSLRIC studies and explained in my Direct Testimony.

8

9    **Q.**    **Why did Sprint use the Commission approved UNE loop, Local Switching and**  
10           **Transport cost studies as the starting point for estimating the forward looking**  
11           **cost of these same network element costs in the BLTS R1 and B1 studies?**

12   **A.**    I used this approach primarily because the recent vintage of those network element  
13           cost analyses allows the Commission to avoid a laborious and redundant review of the  
14           literally hundreds of Commission-approved cost study inputs used in those network  
15           element cost estimates. Stated simply, the forwarding looking costs of engineering and  
16           constructing the loop, switching and transport network within Sprint-Florida's serving  
17           area necessary to provision either 2-wire UNE loops and voice grade switch ports, or  
18           for use in provisioning voice grade switched retail services such as BLTS R1 and B1  
19           has not changed appreciably since January 2003 (the date of the Commission order  
20           approving Sprint's UNE loop, switching and transport cost studies and associated  
21           prices - see Order No. PSC-03-0058-FOF-TP, Docket No. 990649B-TP).

22

23   **Q.**    **Are there any technical differences between the reconstructed network**  
24           **underlying Sprint's UNE-P voice grade 2-wire loops, switch ports and transport**  
25           **UNE-P prices reviewed and approved by the Commission in Docket No.**

1           **990649B-TP and the network necessary to provide BLTS?**

2    **A.**    No, there are not, and there-in lies the simple truth supporting Sprint-Florida's straight-  
3           forward approach to addressing the loop, switching and transport network components  
4           of the TSLRIC studies. They make up the same end-to-end network and thus quite  
5           clearly and logically require the same forward-looking engineering standards, vendor  
6           costs and labor to construct and maintain.

7

8    **Q.**    **What specific disagreement does Dr. Gabel express with Sprint's BLTS TSLRIC**  
9           **results?**

10   **A.**    Dr. Gabel expresses a generic concern that the TSLRIC studies have included costs  
11           which he characterizes as costs shared across multiple services. He thus argues that  
12           these costs should be excluded from TSLRIC results. Specifically, Dr. Gabel cites the  
13           loop cost components of trenching, conduit, poles, cable placement and Digital Loop  
14           Carrier (DLC) equipment as shared costs to be excluded in a TSLRIC study of BLTS.

15

16   **Q.**    **Do you agree with Dr. Gabel's concerns?**

17   **A.**    No, I do not. TSLRIC by definition includes all direct incremental costs necessary to  
18           provide the entire volume of the product or service being examined. Every unit of  
19           BLTS R1 or B1 service requires the use of a voice grade loop pair in order to function.  
20           This simple, undeniable fact demonstrates the direct cost relationship of loop cable  
21           pairs in the BLTS TSLRIC analysis. While Dr. Gabel indicates his disagreement with  
22           this reality, he does not directly argue to exclude the entire loop cost, but rather seeks  
23           now to remove numerous direct cost components of a loop which total approximately  
24           50 percent of the total loop cost.

25

1 **Q. Has the Florida Commission previously addressed this issue?**

2 **A.** Yes. In its February 1999 "Report on the Relationship of the Costs and Charges of  
3 Various Services Provided by Local Exchange Companies and Conclusions as to the  
4 Fair and Reasonable Florida Residential Basic Local Telecommunications Service  
5 Rate" the Commission concluded at page 51 of Chapter III, "Given such an  
6 identification of the cost object to be studied, the principle of cost causation leads one  
7 to the unavoidable conclusion that the decision to have local service leads to the  
8 incurrence of loop costs." Consequently, at page 10 of the Executive Summary, the  
9 Commission stated, "It is the Commission's position that the cost of local loop  
10 facilities is properly attributable to the provision of basic local telecommunications  
11 service." Thus, while Dr. Gabel indicates his disagreement with this foregone  
12 conclusion, he is forced in this case to adjust his core argument to now focus on  
13 specific direct cost components of the loop cost which the Commission has already  
14 determined to be a direct cost of BLTS.

15  
16 **Q. At page 29 of his testimony Dr. Gabel makes a brief acknowledgement of this  
17 Commission decision, but then goes on to characterize the Florida Statute's  
18 definition of BLTS to include a wider range of services. Is Dr. Gabel's  
19 characterization correct?**

20 **A.** No it is not. Section 364.02(2), Florida Statutes, defines BLTS as "voice-grade, flat-  
21 rate residential and flat-rate single-line business local exchange services which  
22 provide dial tone, local usage necessary to place unlimited calls within a local  
23 exchange area, dual tone multi-frequency dialing, and access to the following:  
24 emergency services such as "911", all locally available interexchange companies,  
25 directory assistance, operator services, relay services, and an alphabetical directory



1 listing.” However, requiring access to additional services does not equate to including  
2 those additional services within the definition of "basic service." This is easily  
3 demonstrated by the separate and distinct charges for operator services, DA and  
4 interexchange services. Thus Dr. Gabel’s testimony, which misconstrues the context  
5 of the Commission’s decision as being applicable to a multitude of services, is shown  
6 to be in error.

7  
8 **Q. Has the Florida Commission also previously addressed the subject of the**  
9 **TSLRIC of a network element e.g. a loop?**

10 **A.** Yes. The Commission’s conclusions regarding the use of TSLRIC for costing a  
11 network element directly contradicts Dr. Gabel’s views and arguments. In its decision  
12 in the BellSouth/ATT/MCI Arbitration PSC-96-1579-FOF-TP the Commission  
13 concluded as follows: “The TSLRIC based forward-looking approach considers the  
14 current architecture and the future replacement technology. Upon consideration, we do  
15 not believe there is a substantial difference between the TSLRIC cost of a network  
16 element and the TELRIC cost of a network element.”

17  
18 Dr. Gabel’s 50 percent decrease to the loop cost network element of BLTS via  
19 removal of the trenching, conduit, poles, cable placement and DLC equipment loop  
20 cost components constitutes a substantial difference between the TSLRIC of a network  
21 element and the TELRIC of a network element.

22  
23 **Q. Do you consider the trenching, conduit, poles, cable placement and DLC**  
24 **equipment loop cost components to be direct costs of a loop and thus a direct cost**  
25 **of BLTS requiring that loop?**

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1 A. Yes, the direct cost relationship is abundantly evident and naturally follows from the  
2 Commission's conclusions regarding the direct cost relationship of the entire loop to  
3 BLTS TSLRIC. This fact is easily demonstrated via the reality that never has a unit of  
4 BLTS been sold without an associated loop, and never has a loop been deployed  
5 without the underlying costs of trenching, conduit, poles, cable placement and DLC  
6 equipment costs (the latter for those loops requiring DLC only). It is physically  
7 impossible to deploy a loop without incurring these direct cost components of a loop.

8  
9 Q. **At page 18 of his testimony Dr. Gabel references a white paper he authored in**  
10 **December of 1996. Do you agree with Dr. Gabel's assertion that the white paper**  
11 **provides evidence of overstatement in Sprint's BLTS R1 TSLRIC study?**

12 A. No I do not. Actually, this seven year old work serves to support the validity of  
13 Sprint's TSLRIC study. I would first point out, however, that the model Dr. Gabel  
14 discusses in his 1996 white paper is the substantially improved BCM2, not the BCM  
15 that he references in his direct testimony. It is important to note that Dr. Gabel's  
16 alleged 50 percent difference to the ILEC TSLRIC studies was derived only after he  
17 excluded dramatic amounts of the direct cost of constructing loops. This exclusion of  
18 costs is based on a purely hypothetical construct that the network had already been  
19 built to serve business customers. By so doing, Dr. Gabel attributes only incremental  
20 cable pair costs to residential customers.

21

22 Dr. Gabel's reliance upon the BCM2 model which has been superseded by some 7  
23 subsequent model releases to validate his approach is totally misplaced. Even though  
24 I don't agree that his approach can be in any way validated, it is worth noting that the  
25 BCM2 does not validate Dr. Gabel's approach. For illustrative purposes, I have

1 prepared Exhibit KWD-3, which shows the BCM2 results for Sprint-Florida using the  
2 national default BCM2 inputs. The Sprint-Florida BCM2 results generated in 1996,  
3 using national default model inputs, is \$29.15 which compares quite favorably with  
4 Sprint's BLTS R1 TSLRIC study result of \$30.46.

5  
6 **Q. Are Dr. Gabel's urgings to ignore substantial direct costs of constructing loops in  
7 this docket consistent with his views seven years ago as written in his referenced  
8 white paper?**

9 **A.** Yes. The executive summary to Dr. Gabel's paper reads "The total service long-run  
10 incremental cost of residential service is the cost of adding residential service to a  
11 network that *already* provides business services, including both switched business and  
12 private line services." "In such localities, the TSLRIC of residential service should  
13 include *only* the incremental expense of additional pairs of cable and should not  
14 include the fixed cost per foot of installing the cable."

15  
16 **Q. Does Dr. Gabel's theoretical construct of adding residential customers to a  
17 network that already exists for switched business and private line services  
18 support his exclusion of trenching, conduit, poles, cable placement and DLCs?**

19 **A.** No, even using the never-seen-in-the-real-world construct of an existing network  
20 already in place serving business customers only, the alleged avoided construction  
21 costs to add residential customers to that network would not be avoided. It is an  
22 accepted fact, evidenced by the Commission approved plant mix cost study inputs for  
23 Sprint-Florida, that 72 percent of the cable in Florida is buried. In the real world,  
24 buried cable is generally placed at least 3 feet below the surface and is covered with  
25 earth. Thus, adding residential customers to an already-existing, business-only

1 network would require entirely new and incremental costs for engineering, trenching  
2 and placing new cables to serve the residential customer locations. Additionally, all of  
3 the Feeder/Distribution Interfaces cabinets, and DLC devices would require expansion  
4 thereby generating new incremental costs for those necessary loop components.

5  
6 The result of following through with Dr. Gabel's misapplied TSLRIC construct would  
7 unquestionably be a higher cost for loops serving the Residential customers than the  
8 economies depicted in Sprint's TSLRIC results.

9  
10 This is intuitively obvious because Sprint's TSLRIC study properly reflects the real-  
11 world economies of engineering and constructing loop networks to provision loop  
12 capacity for all BLTS customers requiring a loop. Sprint's TSLRIC study, on the other  
13 hand, avoids the costly rework and duplicative engineering, trenching and placing of  
14 cables, as well as the FDI's and DLC's expansions, that would be necessary in Dr.  
15 Gabel's theoretical-but-never-seen overlay construction to serve residential customers  
16 on a hypothetical existing business customer only loop network.

17  
18 **Q. If Dr. Gabel modified his hypothetical approach to TSLRIC to acknowledge**  
19 **simultaneous construction of loop network to serve all BLTS customer locations**  
20 **would that then support his 50 percent reductions?**

21 **A.** No it would not. Given his use of and reference to his historic white paper in his direct  
22 testimony it is unclear as to the degree to which Dr. Gabel intends to advance his  
23 hypothetical TSLRIC application in the direction of this reality. However, even  
24 assuming he now concedes this reality, the existence of 1,048,000 residential customer  
25 locations compared with 182,000 business customer locations for Sprint-Florida, leads

1 to the indisputable conclusion that an absolute minimum of 866,000 residential  
2 customer locations (6 fold increase!) require dedicated distribution cable, drop  
3 terminals and drop construction. Many of these locations also require dedicated sub-  
4 feeder, FDI and DLC equipment as well. Although in obvious conflict to his proposed  
5 50 percent reduction in Sprint's TSLRIC results, Dr. Gabel has acknowledged this  
6 reality in his 1996 white paper which contains the following footnote on page 7  
7 "Where the cable is used to serve *only* residential customers, the placement cost for  
8 the cable is part of the incremental cost of serving residential customers. Further, if the  
9 cable is *shared* by residential customers and business customers, and the capacity of  
10 the cable is exhausted, the cost of installing the cable is part of the incremental cost of  
11 serving residential customers."

12  
13 **Q. If the TSLRIC methodology assumes that the loop network to serve BLTS**  
14 **business and residential customers is engineered and constructed simultaneously**  
15 **what is the result?**

16 **A.** The result is exactly as depicted in Sprint-Florida's TSLRIC study. Sprint's study  
17 depicts the maximum attainable unit cost economies of constructing loop plant to  
18 serve all BLTS customer locations requiring 2-wire voice grade cable pairs.

19  
20 **Q. Does Dr. Gabel's "brand" of TSLRIC also conflict with your experience,**  
21 **application and knowledge of TSLRIC in other State and Federal cost work you**  
22 **have performed or observed?**

23 **A.** Yes it does. Perhaps the most glaring example of how Dr. Gabel's views regarding  
24 loop costs conflict with main stream TSLRIC applications is evidenced by it's stark  
25 contrast with the FCC's cost estimation model and process used in conjunction with

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1 Federal Universal Service Fund (USF) program. The FCC's USF program uses the  
2 Hybrid Cost Proxy Model (HCPM) to estimate the forward-looking cost of BLTS, and  
3 unquestionably includes the entire cost of the loop in its BLTS cost estimates. I have  
4 also worked directly with the USF programs at a state level in Texas, Kansas, and  
5 Wyoming and all include 100 percent of the loop network element in their forward-  
6 looking BLTS cost estimates.

7  
8 **Q. Can you suggest a more current BLTS TSLRIC benchmark tool for this**  
9 **Commission than the 8 year old, substainly superseded BCM2 used by Dr.**  
10 **Gabel?**

11 **A.** Yes, I can. The aforementioned FCC HCPM used to estimate the forward-looking cost  
12 of BLTS in association with the Federal USF program is instructive and readily  
13 available. I have prepared Exhibit KWD-4 which shows the BLTS TSLRIC results for  
14 Sprint-Florida's serving area using the HCPM.

15  
16 Use of HCPM and the Commission approved Florida-specific inputs from the most  
17 recent pricing proceeding, UNE Docket No. 990649-TP yields a forward-looking cost  
18 estimate for Sprint-Florida's BLTS of \$34.72 (see Exhibit KWD-4), thus providing yet  
19 another objective validation of Sprint's \$30.46 BLTS R1 TSLRIC study result.

20  
21 **Q. At page 21 of his testimony Dr. Gabel expresses concern for the use of the same**  
22 **retail cost figure within Sprint-Florida's TSLRIC studies for both BLTS R1 and**  
23 **B1. Do you believe his concern constitutes a material flaw in Sprint-Florida's**  
24 **TSLRIC analyses?**

25 **A.** No I do not. I agree with Dr. Gabel that the exact retail costs (marketing, sales,

1 product development) could likely be shown to be precisely different between R1 and  
2 B1 service, were one to undertake the effort of a service specific retail cost analysis.  
3 However, I would not expect that any such additional study effort would materially  
4 affect the overall study results. Thus I view it as an uneconomic trade-off between  
5 labor costs to pursue this refinement measured against it's potential impact on the  
6 overall TSLRIC study results. Most importantly, there is no likelihood that a more  
7 precise matching of service specific retail costs would alter the conclusion supported  
8 by Exhibit JMF-3 to Sprint Witness Mr. Felz's direct testimony which shows the  
9 current R1 prices to be (\$13.96) below cost. The (\$13.96) is computed using an R1  
10 retail cost of \$3.03 and thus the retail costs could be zeroed out and still provide the  
11 same dramatic demonstration of cost exceeding price for R1 service.

12  
13 **Q. Does this conclude your testimony?**

14 **A.** Yes.  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

1 BY MR. FONS:

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

4 A Yes. Good evening, Chairman. My direct testimony  
5 sponsored the total service long run incremental cost studies  
6 for Sprint of Florida for basic local telephone service broken  
7 down between single-line residential R1 service and single-line  
8 business B1 service. Additionally, I provided a TSLRIC study  
9 for intrastate switched access.

10 The approach I used in doing those studies was to  
11 start with the recently approved unbundled network element cost  
12 studies for Sprint-Florida. I matched the geography of  
13 R1 customers and B1 customers separately to compute the loop  
14 cost component of those two services, and I added retail cost  
15 back to arrive at a retail TSLRIC result. I did that to  
16 minimize the need to revisit hundreds of cost study inputs and  
17 annual charge factor issues that were decided recently in the  
18 UNE docket.

19 The rebuttal testimony that I filed in this docket  
20 responded to the OPC Witness Dr. Gabel. Dr. Gabel in his  
21 testimony claimed that all three ILECs, including Sprint, had  
22 filed cost studies which he claimed did not reflect properly  
23 TSLRIC results. Dr. Gabel argued that there were substantial  
24 portions of loop costs which should have been excluded in a  
25 TSLRIC cost study. Specifically, he mentioned and argued for



1 the exclusion of trenching conduit poles and digital loop  
2 carrier costs.

3 I responded that I believe that Dr. Gabel's claim is  
4 mistaken, and a couple of benchmarks that I've provided to  
5 demonstrate that, one of which was I ran the BCM2 model which  
6 Dr. Gabel had cited in his testimony as demonstrating a lower  
7 cost. I ran that using national defaults and produced a cost  
8 result of \$29.15 for R1 service, Sprint of Florida. And I  
9 pointed out that compared quite favorably with \$30.46 that I  
10 had filed in this docket.

11 Additionally, I pointed out that although Dr. Gabel  
12 had made this same argument in 1996 when he was attempting to  
13 influence the federal USF model, that the FCC had rejected that  
14 argument, and in fact, it included the entire cost of the loop  
15 in computing that cost estimate; and that if you run the  
16 federal USF model using the Commission-approved inputs from  
17 Sprint's UNE docket, it will produce a cost of \$34.72 for  
18 Sprint-Florida which again, I believe, provides a useful  
19 benchmark on the validity of my \$30.46 cost study result filed  
20 here.

21 I also pointed out that my work with USF at a state  
22 level in Texas, Kansas, and Wyoming provide additional examples  
23 where state commissions had properly treated the entire loop as  
24 a direct cost of R1 service. I pointed out that this  
25 Commission and quoted the fair and reasonable rate proceeding

1 order where this Commission had found the loop to be a direct  
2 cost. And so, in effect, I believe Dr. Gabel's argument is  
3 just subset second run at the age-old argument that loop is a  
4 common cost which has been rejected repeatedly.

5 I went on to say, even if you accepted Dr. Gabel's  
6 premise that these costs were shared, that his argument fails  
7 at a practical level. And the reason it fails at a practical  
8 level is in Sprint of Florida's territory, there are 1,048,000  
9 res customer locations which require plant to be served. There  
10 are 182,000 business customer locations. So even if one were  
11 in the camp that these costs were shared, you would have almost  
12 900,000 locations that you would have plant required to be  
13 constructed to them with no corresponding business location in  
14 proximity to it. So you clearly would have trenching conduit  
15 poles and DLCs entirely dedicated to residential service. So  
16 even his argument fails at that level.

17 Finally, Dr. Gabel had expressed concern that the  
18 \$3.03 retail costs that were added to the study to arrive at  
19 retail TSLRIC had been the same between R1 and B1, which was  
20 correct. I acknowledge that were one to take a more precise  
21 and laborious examination of that, that you would probably come  
22 up with some variation, but I expressed my opinion that I  
23 wouldn't expect that difference between material.

24 And I further pointed out that when Mr. Felz, the  
25 Sprint witness who will follow me, showed the gap between the

1 cost results that I sponsored here and the current rates, that  
2 gap is \$13.96. So quibbling over whether the \$3 retail  
3 add-back should have had some difference could in no way change  
4 the conclusion supported by Mr. Felz. That concludes my  
5 summary.

6 MR. FONS: Mr. Dickerson is available for  
7 cross-examination.

8 CHAIRMAN JABER: Companies. Okay. Mr. Beck,  
9 Mr. Mann. Mr. Shreve. Mr. Twomey.

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

11 CROSS EXAMINATION

12 BY MR. TWOMEY:

13 Q Good evening.

14 A Good evening, Mr. Twomey.

15 Q I want to try my cab thing on you again, okay, or on  
16 you. You heard my cab hypothetical earlier?

17 A Yes, sir.

18 Q Okay. I want to change it a little bit. Retired Ed  
19 Pasquale gets into the Tallahassee Airport, and he has reserved  
20 the last taxicab at the airport. The three telephone VPs get  
21 there a little bit later, and there are no cabs or no other  
22 transportation to make it to the Commission in time for the  
23 hearing.

24 CHAIRMAN JABER: It's no longer a hypothetical for  
25 Tallahassee.

1 Q They can't get there otherwise. Mr. Pasquale gives  
2 them a lift. There's no discussion of compensation being  
3 shared. When they get there and the cabbie says "20 bucks," is  
4 there a fairness argument for saying that the three telephone  
5 vice presidents should pay their share, given that they  
6 couldn't have made the hearing otherwise?

7 A I think that argument could be made. Of course,  
8 you're mixing several concepts there. You're mixing sort of a  
9 price setting mechanism with a cost causation, which is what my  
10 testimony dealt with.

11 Q It does, indeed, doesn't it? At Page 4 of your  
12 testimony, Line 6 --

13 A Mr. Twomey, are we in my direct or my rebuttal?

14 Q I'm sorry. Your direct. Pardon me. I think it's  
15 your direct. Hold on. Your rebuttal.

16 A Page 4 of my rebuttal.

17 Q Pardon me. It's getting late. You seem to hang your  
18 hat on the principle of cost causation, and you appear to do it  
19 on the basis of the Commission's February 1999 report; correct?

20 A Not exactly. Now, it's correct that I provide  
21 applicable quotes on Page 4 of the '99 report, but that  
22 certainly doesn't constitute by sole support for the -- my  
23 beliefs on cost causation. What I was really doing at this  
24 section of the testimony was pointing out that Dr. Gabel is, in  
25 effect, beating a dead horse, and that this Commission had

1 already found the direct cost of a loop to be solely related to  
2 basic local telephone service.

3 Q Well, is the horse dead? By that I mean, the  
4 Commission has flip-flopped on the cost causation issue before;  
5 isn't that correct?

6 MR. FONS: I'll object to the characterization of the  
7 Commission has flip-flopped.

8 CHAIRMAN JABER: Mr. Twomey, we didn't like that  
9 either, so why don't you reword the question.

10 MR. TWOMEY: I didn't mean it as offensive.

11 MR. FONS: How else do you take flip-flop?

12 CHAIRMAN JABER: You know, even I as a woman don't  
13 flip-flop. So go ahead.

14 MR. TWOMEY: Okay.

15 BY MR. TWOMEY:

16 Q Isn't it true that the Commission in an earlier, if  
17 you know, in an earlier litigated proceeding in which there  
18 were sworn witnesses and testimony and cross-examination  
19 entered an order finding that there was no subsidy to the local  
20 loop?

21 A Was this the order you handed out earlier?

22 Q Yes, sir.

23 A And that was, what, 1987; was that correct?

24 Q Yes.

25 A I saw the order, yes. And this is 1999. And then,

1 of course, we have all the support that I mentioned in my  
2 summary, the federal USF, numerous state USF programs that  
3 attribute 100 percent of the loop cost to basic local telephone  
4 service.

5 Q Yes, sir. But if you know, isn't it true that the  
6 1999 report was arrived at after a workshop proceeding that  
7 wasn't a litigated matter in the same extent that the previous  
8 case was?

9 A Well, I testified in it. It accepted sworn  
10 testimony. It had cost studies involved. So I don't know what  
11 lower level definition you're using for litigated. It was on  
12 the record and it had expert testimony. Staff reviewed my cost  
13 study and commented on it.

14 Q Okay. Well, let me ask you this. In terms of the  
15 dead horse reference, is there any basis for you knowing that  
16 the Commission couldn't change its mind again if it was  
17 persuaded to do so?

18 MR. FONS: Object to the form of the question, calls  
19 for speculation and a legal conclusion.

20 CHAIRMAN JABER: Mr. Twomey, it sounds like  
21 speculation.

22 MR. TWOMEY: Okay. I'll withdraw it.

23 CHAIRMAN JABER: Thank you.

24 BY MR. TWOMEY:

25 Q The last thing --

1 A Yes, sir.

2 Q Are you familiar with this, Exhibit 54?

3 A Yes.

4 MR. FONS: Are you identifying the dumbbell exhibit?

5 THE WITNESS: I've seen it, yes.

6 MR. TWOMEY: I'm not going to find that offensive.

7 MR. SHREVE: Commissioner Deason, I think you should  
8 take exception to that.

9 BY MR. TWOMEY:

10 Q Are there any of those services indicated that Sprint  
11 could provide on its own, not using wireless facilities, that  
12 would not require the use of the local loop?

13 A These services would traverse the local loop, yes,  
14 but I think that somewhat misses the point that it is the  
15 purchase of basic local telephone service that causes the loop  
16 to be deployed and is the prerequisite to the purchase of the  
17 subsequent services.

18 Q Do you think the competitive telephone companies  
19 that, for example, Mr. Leo referenced in his report that come  
20 in with facility-based lines do so with the expectation that  
21 they will only receive revenues from basic local service from  
22 those lines?

23 A If they bill facility-based on a broad basis, I think  
24 they have to be prepared for some portion of their customers  
25 would only purchase that service. That's certainly our

1 experience.

2 Q But wouldn't it be true that Sprint in today's  
3 environment when you were to deploy new facilities, say, in a  
4 large subdivision or wherever, wouldn't you have the  
5 expectation that you would be compensated for that capital  
6 expenditure, not just by basic local service, but by an  
7 expectation of a certain percentage of vertical services,  
8 access, directory assistance, and revenues of that sort?

9 A When we build facilities to new areas, yes. We hope  
10 to sell more than just the single service of basic local  
11 telephone service, but that would not at all negate the point  
12 that that is the service that is purchased that drove the loop  
13 deployment. It wouldn't affect the cost of that service  
14 either.

15 Q In fact, isn't it true that if you researched it, you  
16 could probably find that there would be a -- based upon  
17 near-term historical experience, you would have an expectation  
18 of a certain percentage or certain dollar amount per line of  
19 access revenue, a certain dollar amount on average of revenue  
20 from vertical services and the like; wouldn't that be true?

21 A On average. Those are services we sell, yes.

22 MR. TWOMEY: Thank you. That's all I have.

23 CHAIRMAN JABER: Staff.

24 MS. KEATING: No questions.

25 CHAIRMAN JABER: Commissioners.



1 Redirect.

2 MR. FONTS: No redirect.

3 CHAIRMAN JABER: Mr. Dickerson, thank you for your  
4 testimony, and you may be excused.

5 (Witness excused.)

6 CHAIRMAN JABER: And, Mr. Fons, you had three  
7 exhibits, 65, 66, and 67. And without objection, those  
8 exhibits are admitted into the record.

9 (Exhibits 65, 66, and 67 admitted into the record.)

10 CHAIRMAN JABER: Call your next witness.

11 MR. FONTS: Dr. Brian Staihr.

12 BRIAN K. STAIHR

13 was called as a witness on behalf of Sprint-Florida, Inc. and,  
14 having been duly sworn, testified as follows:

15 DIRECT EXAMINATION

16 BY MR. FONTS:

17 Q Would you state your full name, please.

18 A Yes. It's Brian K. Staihr.

19 Q And, Dr. Staihr, did you previously have prepared and  
20 filed with this Commission direct testimony consisting of 18  
21 pages of questions and answers dated August 27th, 2003?

22 A Yes, I did.

23 Q And do you have any corrections or changes to that  
24 direct testimony?

25 A No, I don't.

1 Q And, Dr. Staihr, if I were to ask you the same  
2 questions today that were posed to you in your prefiled direct  
3 testimony, would your answers be the same?

4 A Yes, they would.

5 MR. FONS: Madam Chairman, I would request that  
6 Dr. Staihr's testimony be inserted in the record as though  
7 read.

8 CHAIRMAN JABER: The prefiled direct testimony of  
9 Dr. Brian Staihr will be inserted into the record as though  
10 read.

11 BY MR. FONS:

12 Q Dr. Staihr, did you have attached to your direct  
13 testimony two exhibits, BKS-1 and BKS-2?

14 A Yes, I did.

15 Q Were those two exhibits prepared by you or under your  
16 direction and supervision?

17 A Yes, they were.

18 Q Do you have any corrections or changes to those  
19 exhibits?

20 A No, I don't.

21 MR. FONS: Madam Chairman, I would ask that those  
22 exhibits be provided exhibit numbers, or a composite will be  
23 fine.

24 CHAIRMAN JABER: Sure. BKS-1 and BKS-2 will be  
25 identified as composite Exhibit 68.

1 (Exhibit 68 marked for identification.)

2 BY MR. FONS:

3 Q And, Dr. Felz, did you -- I'm sorry, Dr. Staihr, did  
4 you also have prepared and filed with this Commission rebuttal  
5 testimony consisting of eight pages of questions and answers  
6 dated November 19th, 2003?

7 A Yes, I did.

8 Q Do you have any corrections or changes to that  
9 rebuttal testimony?

10 A No, I don't.

11 Q If I were to ask you the same questions today that  
12 were posed to you in your prefiled rebuttal testimony, would  
13 your answers be the same today?

14 A Yes, they would.

15 MR. FONS: And I would ask, Chairman Jaber, that  
16 Dr. Staihr's rebuttal testimony be inserted in the record as  
17 though read.

18 CHAIRMAN JABER: The prefiled rebuttal testimony of  
19 Dr. Staihr will be inserted into the record as though read.

20 BY MR. FONS:

21 Q And did you have any exhibits to your rebuttal  
22 testimony, Dr. Staihr?

23 A No, sir, I didn't.

24

25

**SPRINT-FLORIDA, INC.  
PETITION TO REDUCE ACCESS RATES  
FILED: AUGUST 27, 2003**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**DIRECT TESTIMONY**

**OF**

**DR. BRIAN K. STAIHR**

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**I. BACKGROUND/PURPOSE**

**Q. Please state your name, title, and business address.**

**A.** My name is Brian K. Staihr. I am employed by Sprint Corporation as Senior Regulatory Economist in the Department of Law and External Affairs. My business address is 6450 Sprint Parkway, Overland Park, Kansas 66251.

**Q. Please briefly describe your educational background and work experience.**

**A.** I hold a B.A. in Economics from the University of Missouri-Kansas City, and an M.A. and Ph.D. in Economics from Washington University in St. Louis. My field of specialization is Industrial Organization, including Regulation.

I began working with Sprint's Regulatory Policy Group in 1996. In my current position I am responsible for the development of state and federal regulatory and legislative policy for all divisions of Sprint Corporation. I am also responsible for the coordination of policy across business units. My particular responsibilities include 1) ensuring that Sprint's policies are based on sound economic reasoning, 2) undertaking or directing economic/quantitative analysis to provide support for Sprint's policies, and 3) conducting original research. The specific policy issues that I address include universal service, pricing, costing (including cost of capital), access reform, reciprocal

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1 compensation and interconnection, local competition, and more.

2

3 In my position I have appeared before the Florida Public Service Commission, the  
4 Kansas Corporation Commission, the New Jersey Board of Public Utilities, the  
5 Pennsylvania Public Utility Commission, the North Carolina Utilities Commission, the  
6 Public Service Commission of South Carolina, the Public Service Commission of  
7 Nevada, the Texas Public Utilities Commission, the Illinois Public Service Commission,  
8 the Oregon Public Utility Commission, and the Missouri Public Service Commission. I  
9 have also worked extensively with the Federal Communication Commission's staff and  
10 presented original research to the FCC. My research has also been used in  
11 congressional oversight hearings.

12

13 In January 2000 I left Sprint temporarily to serve as Senior Economist for the Federal  
14 Reserve Bank of Kansas City. There I was an active participant in the Federal Open  
15 Market Committee process, the process by which the Federal Reserve sets interest rates.  
16 In addition, I conducted original research on telecommunication issues and the effects of  
17 deregulation. I returned to Sprint in December 2000.

18

19 For the past eight years I have also served as Adjunct Professor of Economics at Avila  
20 University in Kansas City, Missouri. There I teach both graduate and undergraduate  
21 level courses.

22

23 Prior to my work in Sprint's Regulatory Policy Group I served as Manager-Consumer  
24 Demand Forecasting in the marketing department of Sprint's Local Telecom Division.  
25 There I was responsible for forecasting the demand for services in the local market,

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1 including basic local service, and producing elasticity studies and economic and  
2 quantitative analysis for business cases and opportunity analyses.

3

4 **Q. What is the purpose of your testimony?**

5 **A.** The purpose of my testimony is to discuss how the removal of implicit subsidies is  
6 consistent with—and necessary for—the development of a healthy and sustainable  
7 competitive market for basic local telecom services throughout the state of Florida, a  
8 competitive market that will simultaneously 1) provide benefits and choices to the  
9 largest number of Florida's residents possible, and 2) operate on a level playing field for  
10 all competitors. Sprint-Florida, Inc. (Sprint) is also co-sponsoring (with BellSouth and  
11 Verizon) the testimony of Dr. Kenneth Gordon, who addresses these same issues in a  
12 general sense, and from a state-wide and nation-wide perspective. My testimony  
13 addresses why the removal of implicit subsidies will have an even greater impact, and is  
14 even more critically needed, in the portions of Florida served by Sprint.

15

16 **II. IMPLICIT SUBSIDIES AND COMPETITION**

17

18 **Q. Why is the removal of implicit subsidies, such as those found in access charges,**  
19 **necessary for the development of a healthy competitive market for basic telecom**  
20 **services in Florida?**

21 **A.** The relationship between implicit subsidies and competition is something of a double-  
22 edged sword: On one hand, competition erodes the ability to maintain artificially  
23 imposed implicit subsidies. On the other hand, the existence of implicit subsidies  
24 inhibits full and fair competition for all customers. Both of these effects are  
25 economically undesirable, and unfortunately we see evidence of both of these effects in

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1 Florida today.

2

3 With regard to the first point—competition eroding the ability to maintain implicit  
4 subsidies—the only way that any firm can successfully maintain a pricing structure  
5 based on implicit subsidies is if the firm is able to control two things: the *source* of the  
6 subsidy and the *target* of the subsidy. In a regulated monopoly environment this is  
7 possible. In a competitive environment it is not, because the source of the subsidy is (by  
8 definition) some customer paying a price that exceeds cost. And in a competitive  
9 environment prices that exceed cost attract entry. For the entrant, the difference  
10 between price and cost is not a *subsidy* but simply a *margin* (unless the entrant is  
11 somehow required to serve both the customer providing the subsidy and the customer  
12 receiving the subsidy). If the entrant prices the service at a slightly lower margin (but  
13 still above cost), and underbids the incumbent firm, the entrant succeeds in capturing  
14 that margin and therefore eroding the incumbent' s needed subsidy.

15

16 With regard to the second point—implicit subsidies inhibiting full and fair competition  
17 for all customers—a pricing structure based on implicit subsidies divides the universe of  
18 potential customers into two distinct subsets: the attractive customers who are providing  
19 the subsidy (margin) and the unattractive customers who require the subsidy and are,  
20 therefore, unprofitable to serve on an individual basis at current prices.

21

22 **Q. Do the implicit subsidies contained in access charges inhibit the development of**  
23 **local competition?**

24 **A.** Absolutely. Since the passage of the 1996 Telecom Act the FCC has indicated that  
25 access charges represent implicit subsidies and that implicit subsidies are antithetical to

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1 effective and healthy competition. In its very first Access Reform Order (*First Report*  
2 *and Order* in CC Docket 96-262 released May 16, 1997) the FCC stated that “implicit  
3 subsidies also have a disruptive effect on competition, impeding the efficient  
4 development of competition in both the local and long-distance market” (*Id.* at ¶ 30).  
5 More recently, the FCC, with the adoption of its CALLS Order in May 2000, (*Sixth*  
6 *Report and Order* in CC Docket Nos. 96-262 and 94-01, *Report and Order* in CC  
7 Docket No. 99-249, *Eleventh Report and Order* in CC Docket 96-45, released May 31,  
8 2000 (“CALLS Order”)) undertook exactly the same type of reform that we are  
9 discussing here today: converting implicit subsidies generated on a per-minute-of-use  
10 basis to flat-rate charges directly recovered from the cost-causer (the end-user).  
11 Although that Order obviously addressed interstate access rates, rather than intrastate  
12 rates, the issue is identical. The CALLS Order states,

13 “Where existing rules require an incumbent LEC to set access charges above  
14 cost for a high-volume user, a competing provider of local service can lease  
15 unbundled network elements at cost, or construct new facilities, thereby  
16 undercutting the incumbent’s access charges”

17 which has the effect of...

18 “jeopardizing the source of revenue that, in the past, has permitted the  
19 incumbent LEC to offer service to other customers, particularly those in high-  
20 cost areas, at below-cost prices.” (CALLS Order at ¶ 24)

21  
22 Notice that this quote from the CALLS Order addresses both of the points discussed  
23 above. It clearly illustrates how competition erodes implicit subsidies. But it also  
24 makes specific reference to a “high-volume user.” Obviously any access charge that  
25 would be above cost for a high-volume user would also be above cost for a low-volume



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1 user, and theoretically a competitor could enter a market and capture either user. But  
2 the implication is that low-volume users are not the customers that would motivate the  
3 competitive entry. They are, as I described above, the competitively-unattractive  
4 customers. This phenomenon is particularly visible when we examine various UNE-P  
5 based offerings currently available from competitive local providers. For example,  
6 MCI's "The Neighborhood" Offering, which starts at a price of \$49.99 in many states,  
7 offers virtually no price benefit to a very low-volume toll user; the offer is priced so as  
8 to attract high-volume toll users. So while an offer such as "The Neighborhood" does  
9 provide certain customers with an alternative provider for basic local service, it is not  
10 really a viable alternative for many other customers. Rebalancing rates for basic local  
11 service will create a situation where competitors will find that, on average, a larger  
12 percentage of the residential market is financially attractive to serve.

13

14 Clearly the *degree* or the *magnitude* of the implicit subsidy plays a significant role in the  
15 disruption of healthy competition. All else held equal, the larger the amount of implicit  
16 subsidy that a customer is *providing*, the more attractive that customer is to a  
17 competitor. But the larger the amount of implicit subsidy that is *required* to cover the  
18 cost of serving any customer, the less likely a competitor will find that customer  
19 attractive. When customers living in high-cost areas pay the same retail rates for service  
20 as customers living in lower cost areas (or in some cases pay even *lower* retail rates than  
21 low-cost customers) the magnitude of the implicit subsidy associated with the high-cost  
22 customers effectively serves to discourage would-be competitors. The task at hand in  
23 this proceeding, which is to reduce the magnitude of the implicit subsidy and allow  
24 retail rates to approach costs, is exactly the mechanism needed to encourage, rather than  
25 discourage, competitive entry. As the FCC states in another CALLS-related order,

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1           ‘Competitors are more likely to enter high-cost areas if the  
2           incumbent LECs’ rates are closer to cost...’ *Cost Review*  
3           *Proceeding for Residential and Single-Line Business Subscriber*  
4           *Line Charge (SLC) Caps, Access Charge Reform, Price Cap*  
5           *Performance Review for Local Exchange Carriers, Order, 17*  
6           FCC Rcd. 10868.

7

8   **Q. Why would Sprint, as an incumbent local telephone company in Florida, want to**  
9   **encourage competition?**

10   **A.** Competition is a fact, and it is here in Florida today. But in many cases, the type of  
11   competition that exists is not particularly healthy or sustainable, nor is it taking place on  
12   a level playing field. First, cream-skimming and arbitrage opportunities account for  
13   much of the competitive activity we see. This leaves the incumbent carrier, with its  
14   carrier-of-last-resort status, in the unenviable position of losing the customers whose  
15   revenues cover the costs of serving them, and retaining the customers whose revenues  
16   do not cover the costs of serving them. Second, incorrect signals are sent to potential  
17   competitors. Competitors that might actually be less efficient than the incumbent can  
18   enter a market in pursuit of the margin (subsidy) that the customers provide. Third,  
19   advances in technology are quickly blurring the competitive lines across different  
20   service offerings as inter-modal competition grows at a rapid pace. Competition from  
21   standard telephony providers is matched by competition from wireless companies, cable  
22   television companies, and even electric power companies. Not only do these forms of  
23   competition also erode the much-needed implicit subsidies—particularly in the case of  
24   wireless calling replacing wire-line long distance, and the associated loss of access  
25   revenue—but they exacerbate the problem created by the incumbent’s carrier-of-last-

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1 resort status. For example, when a customer “cuts the cord” and replaces his or her  
2 wireline phone with a wireless phone, the revenues associated with that customer go  
3 away, but some of the costs of serving that customer do not; the company is still  
4 obligated to maintain the network to the customer’s premises.

5  
6 By allowing local rates to approach costs for more and more customers, a true win-win  
7 situation is created in the competitive market: A larger number of basic local service  
8 customers become attractive to competitors (which means more customers will be  
9 offered choices). And competitive entry will occur when it is efficient and sustainable,  
10 not when it is inefficient. With rate rebalancing, incumbents will still incur competitive  
11 losses. But when the incumbent loses a customer it will only lose that customer’s  
12 revenues, not the revenues needed to cover the costs of serving that customer plus  
13 another (subsidized) customer. The incumbent will still be affected negatively, because  
14 it will have to continue to incur some costs for customers from whom it receives no  
15 revenues. But every loss will not be a “double-hit” to much-needed revenues.

16  
17 One additional point is worth making with regard to competition. Because the  
18 telecommunications industry is witnessing such significant growth in inter-modal  
19 competition, the absence of a level playing field increases the potential for competitive  
20 distortion. As cable companies, wireless companies and even electric power companies  
21 compete with ILECs for customers, the maintaining of implicit subsidies (which the  
22 ILEC has but which these other firms are not obligated to have) combined with a lack of  
23 pricing freedom (which the other firms *do* have but ILECs do not) create an even greater  
24 hurdle that ILECs must overcome in order to remain financially viable in an  
25 increasingly competitive marketplace.

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The cable television industry is quickly moving into the voice market and conducting telephony trials across the nation, including the state of Florida. Many of these trials utilize voice over Internet protocol (VOIP) technology, which raises important questions regarding the long-term sustainability of the implicit subsidies found in access charges. And because of the extensive penetration of cable television networks, it is highly likely that many residential customers in less-urban areas will, if cable companies are given the right incentives to enter, be able to choose between telephone companies and cable companies for their telephony services. Removing the implicit subsidies that currently exist in prices will help competition to develop in two ways: it will level the playing field between inter-modal competitors, and it will not force other technologies such as cable telephony to compete head-to-head against *subsidized* prices for basic local service.

Another potential competitor, with a network even more ubiquitous than that of the cable industry, is the electric power industry. The FCC is currently examining the state of broadband offerings over power lines (BPL) (FCC Docket No. ET 03-104), and BPL technology is capable of providing voice telephony service. As with the case of the cable industry, the electric power industry is in a position to provide alternatives to customers in less-urban areas if the proper pricing incentives exist in the market and therefore, as stated above, competition is better served when alternate providers are not forced to compete with artificially subsidized prices.

Last, but perhaps most importantly, in purely economic terms it is the wireless industry that is, in many ways, best suited to offer an alternative to wireline basic local service in

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1 all areas of Florida, including the less urban regions. If wireless companies are faced  
2 with the correct economic incentives—again, such as not needing to compete against  
3 artificially subsidized prices for basic local service—they will find it financially feasible  
4 to offer Florida’s residents even more alternatives for basic local service.

5  
6 **Q. Will rate re-balancing have a different competitive impact for customers who only**  
7 **purchase basic local service on (essentially) a stand-alone basis, compared to**  
8 **customers who purchase additional services or large amounts of toll?**

9 **A.** In many cases, such as the UNE-P based offerings discussed above, it is the customers  
10 who purchase only basic local service that are currently least attractive to competitors.  
11 Rate rebalancing will make them relatively more attractive since it will be more  
12 profitable for competitors to serve them when their rates cover—or come closer to  
13 covering—the costs of providing service.

14  
15  
16 **III. IMPLICIT SUBSIDIES IN THE AREAS SERVED BY SPRINT-FLORIDA**

17  
18 **Q. How does the magnitude of implicit subsidies found in Sprint’s serving territory**  
19 **compare with the areas served by BellSouth and Verizon?**

20 **A.** As Sprint witness John Felz discusses in his testimony, Sprint’s basic local service rates  
21 are lower, on average, than both BellSouth’s and Verizon’s basic local service rates. If  
22 Sprint’s costs were also lower than BellSouth’s and Verizon’s then the magnitude of  
23 implicit subsidy might be roughly the same. However, evidence supports the conclusion  
24 that the costs that a competitor would incur in Sprint’s territory are, on average, higher  
25 than the costs a competitor would incur in BellSouth’s or Verizon’s territories. This

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1 fact, combined with Sprint's lower rates, translates to a larger degree of implicit  
2 subsidization and a greater hurdle for would-be competitors to overcome in Sprint's  
3 service areas.

4

5 **Q. What evidence supports the conclusion that the cost a competitor would incur in**  
6 **Sprint's territory are, on average, higher than the costs a competitor would incur**  
7 **in BellSouth's and Verizon's territory?**

8 **A.** All else held equal, the cost of providing basic local service is dominated by the cost of  
9 the local loop. On average, throughout Sprint's local serving territory the cost of the  
10 loop accounts for over 90% of the cost of providing basic local service. And average  
11 loop costs (as well as the overall costs of service) increase as density and concentration  
12 of customers decrease. This is simply a function of the economies of networks,  
13 combined with the presence of a certain fixed costs. For example, the FCC, in its  
14 universal service cost model proceeding, indicated that "the most significant portions of  
15 network costs" were affected by "the location of customers relative to the wire center."  
16 *Fifth Report and Order* in CC Docket Nos. 96-45 and 97-160, released October 28,  
17 1998, ¶ 27.

18

19 If we compare density and concentration characteristics among Sprint, BellSouth, and  
20 Verizon in Florida we find dramatic differences. As Exhibit BKS-1 shows, BellSouth  
21 and Verizon serve regions that are, respectively, three and four times more concentrated  
22 than Sprint's serving territory. For a new competitor this difference would translate to a  
23 measurable cost difference, whether the competitor was overbuilding or simply  
24 purchasing unbundled elements.

25

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1   **Q. If implicit subsidies really represent a hurdle to competitive entry, then shouldn't**  
2       **we see less competitive entry in Sprint's serving territory?**

3   **A.** Yes, we should see less competitive entry and we do see less competitive entry in  
4       Sprint' s territory. According to the FCC's Local Competition Report released June  
5       2003, in the state of Florida CLEC lines accounted for 13% of all end-user switched  
6       access lines at the end of 2002. (These figures do not reflect the competitive situation in  
7       regions served by companies with less than 10,000 lines.) Another data source, the  
8       Florida Commission's own Annual Report on Competition (released in December 2002)  
9       indicates that CLEC lines in Florida accounted for 13% of all end-user lines as of June  
10      30, 2002. These two sources, although they reflect slightly different timeframes, are  
11      consistent enough to give us a 'bound of reasonableness' regarding the overall level of  
12      competitive activity throughout the state of Florida. According to the FCC data, Florida  
13      at year-end 2002 was roughly in line with the nationwide average for competitive  
14      activity, which was also 13% of end-user switched access lines. (However, Florida's  
15      competitive activity was more heavily weighted toward business customers than the  
16      national average. This is discussed in the testimony of Dr. Ken Gordon.)

17

18      By comparison, the level of competitive activity in Sprint's serving territory at year-end  
19      2002 was significantly below this statewide average of 13%. Using forms filed with the  
20      FCC, it is possible to estimate the percent of end-user switched access lines served by  
21      competitors in Sprint's Florida serving territory on December 31, 2002 to be  
22      approximately 3.4%. In all likelihood, this figure of 3.4% actually overstates the level  
23      of competitive activity in Sprint's territory (see Exhibit BKS-2).

24

25      Furthermore, the largest portion of this 3.4% is actually made up of resold lines, rather

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1 than some form of facilities-based competition. This is a dramatic departure from the  
2 type of competition seen in the remainder of the state. According to the Florida  
3 Commission's Annual Report on Competition, resold lines accounted for approximately  
4 14% of competitive activity statewide (as measured by CLEC lines) in 2002. By  
5 comparison, resold lines account for over 56% of the competitive activity in Sprint's  
6 Florida service territory. The reason that this fact is notable is that high network costs  
7 (and the need for implicit subsidies to cover them) do not inhibit competitive entry when  
8 the competitor is a reseller, because the reseller does not undertake network investments,  
9 nor does the reseller incur network costs in the form of cost-based UNEs. The fact that  
10 reselling accounts for such a significantly larger percentage of the competitive activity  
11 in Sprint's Florida service territory underscores the fact that the higher costs of serving  
12 Sprint's customers have effectively discouraged other forms of competition in many  
13 areas.

14  
15 **Q. How can we be sure that Sprint's dramatically lower levels of competitive activity**  
16 **are not attributable to some factor other than the presence of implicit subsidies?**

17 **A.** The characteristics of Sprint's serving territory speak for themselves. The low density  
18 and high-dispersion of Sprint's customers affect many aspects of a potential business  
19 case, from network-related expenses (higher costs by necessity translate to higher UNE  
20 rates) to marketing expenses. Any competitor entering Sprint's territory is faced with,  
21 on average, lower rates to compete against and higher costs to incur. If Sprint's  
22 customers are unattractive to competitors for some additional reason (for example,  
23 perhaps on average they might generate lower vertical feature revenue or lower access  
24 revenue) this simply adds further support for the removal of high implicit subsidies  
25 since doing so will help to make Sprint's customers more attractive to competitors.



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Because Sprint's residential local service rates are lower and its costs are higher, the current implicit subsidy system is an even greater barrier to competition in Sprint's territory than in other portions of Florida. Therefore, as Sprint witness John Felz states in his testimony, it will be necessary to allow greater movements in Sprint's residential local service rates to bring about a comparable level of competitive inducement seen in other regions of the state.

**Q. But doesn't that mean that residential local service rates would possibly increase more in Sprint's territory than in other regions?**

**A.** Yes, but there are counter-balancing factors that must be considered. First, it is important to keep in mind that inter-exchange carriers (IXCs) are required to flow through the access charge reductions that accompany the rate rebalancing. This includes elimination of the "in state connection fee." As a result, toll customers currently paying such a fee to an IXC—regardless of their level of usage—will benefit as this charge is eliminated. Also, because per-minute access charges will be reduced, many customers' total bills (for all telecom services) will, on average, decline as well. So although basic rates will rise, toll rates will fall and in many cases the effects will offset each other

Second, if the status quo were to continue, the persistent erosion of subsidy by competitors (who naturally target higher-margin customers) would force incumbent carriers to either scale back investment in their networks or seek increases in residential rates or both. Residential customers are not well served when carriers cannot afford to invest in improving their networks. But they benefit greatly when technological advances and the new services that accompany them, are made available to as many

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1 residents as possible. Sprint is currently investigating several different technological  
2 advances in its local serving areas in all of its states, including Florida, as part of its  
3 overall network-upgrading plans. These include the migration of circuit-to-packet  
4 switching, fiber-to-the-home solutions, voice over DSL offerings, and more. The ability  
5 to undertake capital investment to upgrade the network, which will allow Sprint (and all  
6 carriers) to offer new and enhanced services to customers, depends on the company  
7 being able to cover the costs of serving its customers. In a competitive market, all  
8 telecom carriers must perform something of a balancing act; they must undertake the  
9 capital investment needed to stay competitive and offer innovative products, but they  
10 must do so while managing their profitability and maintaining sufficient revenue flow  
11 from their current products in a world of decreasing revenues and increasingly tight  
12 investor capital. Currently, the ability of carriers to pull off this balancing act is  
13 hindered by an implicit-subsidy-based pricing regime that creates an entire subset of the  
14 population that must be served but is unprofitable to serve at current prices.

15  
16 **Q. But how can raising residential rates benefit Sprint's residential customers?**

17 A. The benefit to Sprint's residential customers will come through increased choices  
18 brought about by competition, and enhanced service offerings and innovation that are  
19 stimulated by competition. When alternative technologies are forced to compete with  
20 subsidized prices—as they are currently—technologies that have genuine efficiency  
21 advantages can be kept out of the market. If prices move closer toward actually  
22 reflecting costs, all customers will be better served because firms will be able to  
23 compete for their business with prices that reflect legitimate differences in costs, not  
24 simply differences in cross-subsidization.

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1           It is true that many residential consumers currently enjoy paying below-cost rates for  
2           their telecom services. Most consumers would enjoy paying below-cost based rates for  
3           *any* good or service. But these artificially low prices are unsustainable in the face of  
4           competition, and they come at a cost: fewer options among services, less innovation,  
5           and—in large portions of Sprint’s serving territory —no competitive choices.

6

7           **IV.    EFFECTS ON SUBSCRIBERSHIP AND UNIVERSAL SERVICE**

8

9           **Q.    In his testimony Sprint witness John Felz concludes that the rebalancing will not**  
10           **adversely affect universal service in Florida. As an economist do you agree with**  
11           **that conclusion?**

12          A.    Yes. Economic evidence supports Mr. Felz’ conclusion: The proposed rate re-  
13           balancing will not have a negative effect on universal service. Economists who have  
14           studied the demand for basic telephone service know that econometric studies have  
15           demonstrated that it is income, rather than price, that plays the largest role in a  
16           customer’s choice of whether or not to subscribe to basic telephone service. As  
17           economist Lester Taylor cited in his seminal 1994 text, “Actually, when all is said and  
18           done, the primary factor [affecting access to the public switched network] is really  
19           income, or rather its absence.” (Lester Taylor, *Telecommunications Demand in*  
20           *Theory and Practice*, Kluwer Academic Publishers, 1994.) Given this fact, the most  
21           efficient and effective way to address any potential non-subscription to basic service is  
22           through explicit subsidization in cases of low income, such as the state and Federal  
23           Lifeline and Link-Up programs, not by artificially suppressing prices for everyone.  
24           As Mr. Felz notes, the rates for low-income/Lifeline customers will not increase as a  
25           result of the proposed rate rebalancing. Therefore, the select set of customers for

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1           whom a rate increase *might* have an effect on their decision of whether or not to  
2           subscribe to the network will be the very customers who will not see an increase.

3  
4           One additional point is worth mentioning with regard to universal service. With the  
5           amazing growth of wireless service and other technological alternatives, customers  
6           now have choices as to *how* they access the public switched network. The Associated  
7           Press recently reported that, nationwide, 7.5 million residents have “cut the cord” and  
8           now access the public switched network only through their mobile phone.  
9           (See [www.cnn.com/2003/TECH/08/04](http://www.cnn.com/2003/TECH/08/04)). In any market that contains services that act  
10          as substitutes for one another, a change in the price of one service will affect the  
11          demand for the other. This will be the situation in Florida as well. As the prices of  
12          basic wire-line service move closer to their true economic costs, it is possible that  
13          some customers will evaluate their need for both a wire-line and wireless phone. In  
14          some cases these customers may opt to forgo wire-line access to the public switched  
15          network, as millions have already done. It is important that the Commission recognize  
16          two facts: First, customers making this choice do not represent any type of universal  
17          service concern; these customers remain connected to public switched network, the  
18          have simply chosen to utilize a different mechanism. Second, this phenomenon is  
19          actually beneficial because markets operate efficiently when consumers make choices  
20          based on prices that reflect the underlying costs of services. Markets do not operate  
21          efficiently when customers make choices based on prices that misrepresent the  
22          underlying costs.

23

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1     **Q.**   Is there any concern that, even if the rebalancing has no universal service  
2           impacts, that customers might experience some level of “rate shock” when they  
3           are faced with rates that come closer to costs?

4     A.   Not really. First, as Sprint witness John Felz discusses, Sprint has had experience  
5           with rate rebalancing in other states and “rate shock” has not been a problem. Nor is  
6           there any evidence that “rate shock” was a concern when the federal subscriber line  
7           charge (SLC) increased as a result of the FCC’s CALLS Order. But more importantly,  
8           Sprint is like every other company that seeks to earn a reasonable profit in that it is a  
9           company that wants to hold on to its customers, and would not engage in pricing plans  
10          that had the opposite effect.

11

12    **Q.**   Does this conclude your testimony?

13    A.   Yes it does.

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**BEFORE THE PUBLIC SERVICE COMMISSION**  
**REBUTTAL TESTIMONY**  
**OF**  
**BRIAN K. STAIHR**

**I. INTRODUCTION**

**Q. Please state your name, title and business address.**

**A.** My name is Brian K. Staihr. I am employed by Sprint as Senior Regulatory Economist. My business address is 6450 Sprint Parkway, Overland Park, Kansas 66251.

**Q. Are you the same Brian K. Staihr who filed direct testimony in this proceeding on August 27, 2003?**

**A.** Yes I am.

**Q. What is the purpose of your rebuttal testimony?**

**A.** In my rebuttal testimony I address one issue raised in the testimony of Mr. Gregory L. Shafer, testifying on behalf of the Commission staff. I also respond to one issue raised in the testimony of Dr. David Gabel, testifying on behalf of the Office of Public Counsel.

**II. MR. GREGORY L. SHAFER**

**Q. In general, does Sprint agree with the arguments contained in Mr. Shafer's testimony?**

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1    **A.**    Sprint agrees with many of Mr. Shafer's points. For example, on page 9 of his  
2            testimony he states that "the improvement in the cost/price relationship for basic local  
3            exchange service as reflected in the companies petitions will be a signal to competitors  
4            that the potential for profitability is improved" and Sprint agrees with this statement.

5  
6            But Sprint disagrees with Mr. Shafer's suggestion that the adjustments to the price for  
7            basic local service that have been proposed by Sprint should be implemented over a  
8            different timeframe than the adjustments proposed by BellSouth and by Verizon. Mr.  
9            Shafer suggests that Sprint should adjust its prices in four steps, rather than three steps  
10           (a process that has been proposed by all three companies). And he proposes that these  
11           four steps take place over a longer period of time than the period over which  
12           BellSouth and Verizon would make their adjustments.

13

14    **Q.**    **What reason does Mr. Shafer provide as to why the adjustments proposed by**  
15            **Sprint should take place over a longer period of time?**

16    **A.**    On page 5 of his testimony he claims that this adjustment will "put Sprint's residential  
17            customers more on par with those of BellSouth and Verizon in terms of the amount of  
18            the increase they receive at any one time." It appears that Mr. Shafer is concerned  
19            with the fact that the magnitude of Sprint's adjustments—while extremely small from  
20            the point of view of an average consumer's disposable income—is larger than that of  
21            adjustments made by the other companies.

22

23    **Q.**    **Is there an obvious reason why the amount of the adjustment proposed by Sprint**  
24            **should be larger?**

25    **A.**    Yes. As Mr. Shafer himself states on page 4 of his testimony, Sprint's intrastate

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1 access charges are higher than those of BellSouth. Therefore, re-balancing what is a  
2 relatively higher rate (the access rate) requires a relatively larger adjustment on the  
3 other side (the basic local side).

4

5 I believe that Mr. Shafer's suggestion is fueled by an understandable, but - in the  
6 context of this legislatively specified process - misplaced concern regarding the  
7 concept of "rate shock" on the part of Sprint's customers, because in his testimony he  
8 follows his description of the suggested revision to Sprint's proposed adjustments with  
9 a discussion of rate shock (Shafer testimony, page 6). While he does not explicitly  
10 state in his testimony that he believes the adjustment proposed by Sprint will cause a  
11 problem stemming from rate shock, he argues that the Legislature had a desire to  
12 "temper rate impacts on consumers." What Mr. Shafer overlooks is that Sprint's  
13 proposal already includes a factor that will "temper rate impacts on customers" in the  
14 sense that Sprint is including an additional customer benefit of approximately \$1.00 to  
15 \$1.25 for customers by including in its proposal a "five free call allowance" on  
16 extended calling services (ECS). This additional customer savings has the effect of  
17 helping to mitigate any perceived differential between Sprint's proposal and  
18 BellSouth's and Verizons' proposals in terms of customer impact.

19

20 **Q. Does Mr. Shafer provide any evidence, analysis, data, or studies to suggest that**  
21 **Sprint's proposed adjustments will have a different impact on customers than**  
22 **BellSouth's proposed adjustments or Verizon's proposed adjustments?**

23 **A. No.**

24

25



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1 Q. Does Mr. Shafer make any reference to any other known example of problems  
2 stemming from “rate shock” to use as a benchmark against which to measure  
3 Sprint’s proposed adjustment?

4 A. No.

5

6 Q. Are his concerns regarding the possibility of problems stemming from “rate  
7 shock” valid?

8 A. Not really. As discussed in my direct testimony and the testimony of Sprint witness  
9 John Felz, Sprint has engaged in rate rebalancing in other states and it is our  
10 experience that horror stories regarding the effects of “rate shock” are massively  
11 exaggerated. We simply have not seen negative effects of re-balancing rates; we have  
12 not seen large numbers of customers opting to discontinue service; we have not seen  
13 material volumes of complaints filed with state commissions; and we have not seen  
14 any evidence to suggest that any customer’s overall quality of life was negatively  
15 affected by rate rebalancing.

16

17 Also, it is useful to clarify exactly what we mean by “rate shock.” The fact that a  
18 consumer might be faced with a price adjustment that he or she finds disagreeable  
19 does not constitute “rate shock.” Obviously all consumers would be happy to never  
20 see price increases on the goods and services they buy. And obviously all consumers  
21 would love to pay prices that are below cost—as in the case of basic local telephone  
22 service in Sprint’s Florida serving territory—for everything they buy. But price  
23 adjustments occur throughout any market economy, and prices tend toward cost in a  
24 market economy, and the fact that many local service customers have grown  
25 accustomed to reaping the benefits of cross-subsidization for years is no reason to

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1 attempt to maintain an inefficient, unsustainable pricing mechanism any longer than  
2 necessary.

3

4 Finally, when examined in the context of personal income per capita for the state of  
5 Florida, the magnitude of the difference between Sprint's proposed adjustment and  
6 Verizon's (or BellSouth's) proposed adjustment is simply too miniscule to suggest  
7 that Sprint's adjustment would have some effect on consumers that the other firms'  
8 adjustments would not have. Using data contained in the direct testimony of Sprint  
9 witness John Felz, I find that the difference between Sprint's proposed adjustment and  
10 Verizon's proposed adjustment amounts to a difference of 6/100ths of one percent of  
11 monthly personal income per capita in Florida. Mr. Shafer offers no explanation or  
12 analysis as to why he believes such a miniscule difference makes Sprint's proposed  
13 adjustment problematic (in his view).

14

15 **Q. Aside from the fact that Mr. Shafer's concerns are not justified, are there**  
16 **additional reasons to reject his proposed change to Sprint's timeline?**

17 **A.** Yes, there are two additional reasons.

18

19 First, as discussed in the direct testimony of Dr. Ken Gordon, one of the key  
20 advantages of all three companies acting together is that IXCs will be able to  
21 aggregate and coordinate their access cost reductions (Gordon Direct page 16). By  
22 placing Sprint on a different timeline than BellSouth and Verizon, the Commission  
23 forces the IXCs to adjust the implementation of the reductions unnecessarily.

24

25 But more importantly, also as discussed in Dr. Gordon's testimony, it is important to

1 avoid unnecessary marketplace distortions that could affect the purchase decisions of  
2 end-users (Gordon Direct page 15). Mr. Shafer, in suggesting that Sprint extend its  
3 timeframe beyond that of BellSouth and Verizon, introduces exactly such a distortion.  
4 The result of Mr. Shafer's suggestion would be that Sprint could be perceived as  
5 continuing to raise rates long after the other incumbent companies have stopped  
6 raising theirs. As Dr. Gordon discusses, the result would be that regulatory  
7 scheduling, rather than the relative costs and benefits, could become the driving force  
8 behind customer purchase decisions to opt for one provider or another.

9  
10 **III. DR. DAVID GABEL**

11  
12 **Q. In his testimony Dr. Gabel suggests that the Companies' petitions should not be**  
13 **approved because they "have not made a showing that BLTS (basic local**  
14 **telephone service) is supported and therefore there is no record to support the**  
15 **proposed rebalancing." In your experience has Dr. Gabel taken this position**  
16 **before?**

17 **A.** Yes. In fact, Dr. Gabel has espoused this position for years. More than a decade ago  
18 Dr. Gabel's position was that the loop is not a direct cost of basic service but rather is  
19 a common cost to be allocated across multiple services such as basic service and toll.<sup>1</sup>  
20 The result of such a claim, of course, is that only a portion of loop costs would be  
21 attributed to the provision of local service, therefore one could claim that the prices  
22 charged for local service (purportedly) already covered the cost, and that local service  
23 is not supported.

---

<sup>1</sup> See "Pricing of Telecommunications Services" by David Gable and Mark Kennet, *Review of Industrial Organization*, 1993.

1 Many other economists working in telecommunications today disagree with Dr.  
2 Gabel's point of view on that subject. Because this issue has been argued extensively  
3 for many years, and because innumerable pages of testimony have been filed on this  
4 issue with the Florida Commission, the FCC, and undoubtedly every other state  
5 commission or board across the country, in the name of efficiency I will not repeat all  
6 of arguments here. Instead, I include below a quote from Dr. Alfred Kahn, testifying  
7 on this subject before the Pennsylvania Public Utility Commission:

8 "The arguments proffered by these witnesses [that the loop is a shared cost] are  
9 the most persistent weeds in the regulatory garden. Other mainstream economists and  
10 I have dealt with and debunked these claims for years—and I suppose this will remain  
11 our task for as long as parties to proceeding such as this insist on conflating the  
12 politics of setting prices with the economics of determining costs."<sup>2</sup>

13  
14 **Q. Is Dr. Gabel making the same argument—that the loop is a shared cost—in his**  
15 **testimony in this proceeding?**

16 A. It is a variation on that theme. In this proceeding Dr. Gabel does not argue for  
17 allocating loop costs to services such as toll. Rather, he suggests that there are other  
18 services that fall within the category of basic local telephone service and certain costs  
19 associated with the loop should be considered shared costs among these services when  
20 calculating TSLRIC (Gabel page 29.) Sprint witness Kent Dickerson responds to Dr.  
21 Gabel's arguments in his rebuttal testimony and explains that, using Dr. Gabel's own  
22 approach to TSLRIC (as put forth in a 1996 white paper) it is still a fact that basic  
23 local service is supported.

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<sup>2</sup> Rebuttal testimony of Dr. Alfred Kahn before the Pennsylvania Public Utility Commission, Docket No. I-940035, February 15, 1996.

1 **Q. Is Dr. Gabel's contention—that basic local service is not supported—consistent**  
2 **with the FCC's views on the subject?**

3 **A.** Not at all. As Mr. Dickerson correctly points out, when the FCC calculates the cost of  
4 basic local service for purposes of universal service support it includes the cost of the  
5 entire loop in its cost calculation (Dickerson page 10). And the FCC has explicitly  
6 stated that access charges contain implicit subsidies that have permitted carriers to  
7 charge below-cost prices, particularly in high-cost areas (CALLS Order paragraph 24).  
8 Of course, as I indicated in my direct testimony (and as Dr. Gabel cites) the loops  
9 accounts for the majority of the costs of basic local service in high-cost areas. So the  
10 cost of the loop is the thing that, in essence, determines that a high-cost area is in fact  
11 a high-cost area. And according to the FCC, access charges are the things that have  
12 kept prices below cost in those areas. So clearly, according to the FCC, basic local  
13 service is being supported and access charges are the thing doing the supporting.

14

15 **Q. Does this conclude your testimony?**

16 **A.** Yes, it does.

17

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25

1 BY MR. FONS:

2 Q Would you please summarize your testimony.

3 A Yes, I will, and I'll be brief. The purpose of my  
4 testimony is to discuss, as several other economists have  
5 already discussed, the simple economic fact that rebalancing  
6 rates for basic local service will create incentives for  
7 competitive entry in Florida. It's a fact that the FCC has  
8 recognized. In fact, it's a fact that has guided the FCC to  
9 undertake exactly the type of thing that we're doing here  
10 today.

11 Competitors enter markets when the prices they can  
12 charge cover the costs that they will incur. We've seen that  
13 take place. We've seen it take place in Florida in certain  
14 areas and for certain customers. Rebalancing the rates for  
15 basic local service will create an environment in which that  
16 can happen more often in more places for more customers.

17 Sprint's serving territory represents, on average,  
18 the type of areas that competitors don't enter. This is  
19 illustrated by the fact that in Sprint's territory competitors  
20 serve less than 4 percent of access lines, whereas statewide  
21 they serve over 13 percent of access lines. What this means is  
22 Sprint has farther to go, more area to catch up in terms of  
23 rebalancing rates to bring about competitive choices for its  
24 customers, but this rebalancing shouldn't cause a concern with  
25 regard to universal service issues or the potential for people

1 leaving the network because experience and economic theory tell  
2 us that these things will not happen.

3 In summary, rebalancing the rates is the right thing  
4 to do economically to promote a more robust competitive  
5 environment for basic local service in this state.

6 Q Does that conclude your summary?

7 A Yes, sir.

8 MR. FONS: Dr. Staihr is available for  
9 cross-examination.

10 CHAIRMAN JABER: Companies. Mr. Mann.

11 MR. MANN: We have no questions.

12 CHAIRMAN JABER: Mr. Shreve.

13 MR. SHREVE: No questions.

14 CHAIRMAN JABER: Mr. Twomey.

15 MR. TWOMEY: Yes, ma'am, briefly.

16 CROSS EXAMINATION

17 BY MR. TWOMEY:

18 Q Good evening, sir.

19 A Good evening, sir.

20 Q In your rebuttal testimony, you take issue with Staff  
21 Witness Shafer's suggestion that perhaps the number of steps in  
22 your implementation plan are too short; is that correct?

23 A I take issue with the fact that he would like us to  
24 do one more step than the other companies, yes, sir.

25 Q If you did as he's suggesting and had one more step,

1 how many years would your rate of implementation take place  
2 over?

3 A Well, it would add one year based on what he's  
4 suggested. So it would technically be, like, three years and a  
5 day or something like that.

6 Q Okay. And would you agree with me that that's still  
7 a year less than the four years that your representatives told  
8 members of the Legislature that they would impose the increases  
9 over?

10 MR. FONTS: I'll object to the form of the question,  
11 no foundation.

12 BY MR. TWOMEY:

13 Q Your position, sir, is -- you're a senior regulatory  
14 economist in the department of law and external affairs in  
15 Kansas; right?

16 A Yes, sir.

17 Q Did you at all follow the course of this Florida  
18 legislation this year and last?

19 A I can't say I followed the course. I'm aware of the  
20 outcome.

21 Q Let me ask you this. In fairness to Mr. Fons's  
22 objection, did you have any knowledge at all on how many years  
23 the company -- your company told members of the Florida  
24 Legislature that they would transition these rates if the  
25 legislation was approved?



1           A    No. I have no direct knowledge of a time period that  
2 we specifically mentioned.

3           Q    Okay. Fair enough. Thank you. Page 3 of your  
4 testimony, your rebuttal testimony --

5           A    Yes, sir.

6           Q    -- you apparently accuse or suggest at Line 12 that  
7 Mr. Shafer overlooks the tempering impact of the five free call  
8 allowance; correct?

9           A    Yes, sir.

10          Q    Okay. I'm a longtime Sprint customer here in  
11 Tallahassee, but I don't have ECS. If that is the case,  
12 wouldn't it be true that I can't be advantaged by that  
13 provision?

14          A    If you do not have ECS, sir, yes, that's true.

15          Q    Then it means nothing for me; right?

16          A    That means that that will have no impact on you, yes,  
17 sir.

18          Q    What percentage, if you know, of Sprint's customers  
19 throughout the state of Florida have ECS service that will  
20 allow them to take advantage of this five free call allowance?

21          A    I don't have that information, but Mr. Felz, who  
22 follows me, may very well have it. So you might want to ask  
23 him.

24                   MR. TWOMEY: That's all, Madam Chair. Thank you.

25                   CHAIRMAN JABER: Staff.

1 MR. FORDHAM: Just a few, Madam Chairman.

2 CROSS EXAMINATION

3 BY MR. FORDHAM:

4 Q Dr. Staihr, my name is Lee Fordham, and I have just a  
5 couple of questions for you, sir. First of all, in your  
6 rebuttal testimony on Page 5, Lines 4 through 13, you argue  
7 that the difference between Sprint's proposed adjustment and  
8 Verizon's proposed adjustment is approximately 6/100ths of  
9 1 percent of the average per capita personal income in Florida;  
10 is that correct, sir?

11 A Yes. And I used the information that was contained  
12 in the testimony of Mr. Felz to arrive at that.

13 Q Was that his Exhibit JMF-16 that you're referring to?

14 A May I check?

15 Q That's okay, sir. But it was based on Mr. Felz'  
16 exhibit anyway?

17 A Yes, sir.

18 Q By the very nature of a per capita figure, is it not  
19 correct, sir, that there are a significant number of people  
20 that are below that per capita figure?

21 A Yes, sir.

22 Q And would it be fair to say, sir, that many of those  
23 are far below the per capita figure?

24 A It would be fair to say that. Of course those are  
25 the people who would be most likely to be receiving Lifeline

1 assistance and therefore wouldn't see these increases anyway.

2 Q There would be a significant number though, would  
3 there not, in between the threshold for Lifeline and the per  
4 capita figure?

5 A There would be some. I don't know if significant is  
6 the right word, but, yes, sir, there would be some.

7 Q Okay, sir. Going to Page 14, Lines 20 through 23 of  
8 your direct -- I'll wait until you get there, sir.

9 A Yes, sir.

10 Q Okay. You seem to be testifying there that if the  
11 access subsidies are not reduced, it's likely that residential  
12 rates eventually would have to be raised anyway; is that  
13 correct, sir?

14 A I think I say here it would force incumbents to  
15 either scale back investment or seek increases or both.

16 Q And would that be because competitors are steadily  
17 eroding the subsidy paying customers?

18 A Yes, because the nature of implicit subsidies is that  
19 when you lose the customer that's providing it, you can't  
20 recover it from the customer who needs it, and so therefore  
21 you're left with a need for a revenue that you have no source  
22 of.

23 Q As has been said earlier in this proceeding, they  
24 would seek only the profitable segments of the business?

25 A Generally speaking, yes. That is the type of

1 competition we tend to see more often, yes, sir.

2 Q And of course, as you just clarified, your  
3 observation was that they would either have to raise rates or  
4 reduce services or scale back on technological upgrades that  
5 may be being considered for Florida. Can you tell us, sir,  
6 what some of those technological upgrades being considered for  
7 Florida might be?

8 A Just one example would be the conversion of circuit  
9 to packet switching, which is, you know, obviously capital  
10 intensive. And to the extent that a company isn't able to  
11 maintain needed revenues or is representing themselves in a  
12 somewhat risky environment because they are having needed  
13 revenues eroded, it would be more difficult to obtain the  
14 capital necessary to undertake that type of a migration.

15 Q And is that still your view here tonight that if  
16 these petitions are not granted, that we're faced with either a  
17 raise in prices or scale back on advances in the future?

18 A I need to be clear. It does say that we would seek  
19 to increase prices. It's not a foregone conclusion. But if  
20 you need revenue and it's needed to cover costs and you can't  
21 cover those costs, something is going to give. And you would  
22 either need to find a new source for it, find a way to not  
23 incur those costs anymore, which isn't an option, or scale back  
24 on the things that require the revenue.

25 MR. FORDHAM: Thank you, sir, staff has no further

1 questions.

2 CHAIRMAN JABER: Dr. Staihr, I only have questions on  
3 one topic and it goes -- the foundation for my questions are  
4 recognition that the legislation in your proposals purport to  
5 establish a goal to establish the appropriate pricing signals  
6 by removing subsidies in local rates and by moving price closer  
7 to cost. And in that regard my question is simply, if the ILEC  
8 proposals are granted in some form or fashion so that the  
9 market is not distorted, isn't it correct that it would be time  
10 to eliminate ECS and EAS rates?

11 THE WITNESS: To the extent that you could adjust  
12 prices to eliminate all implicit subsidies, then it might be  
13 worth investigating that. That's a big step. And to the  
14 extent that you're moving toward that, I don't know that you're  
15 there yet. The type of rebalancing that Sprint is talking  
16 about takes steps in the right direction, absolutely, but  
17 there's still a lot of subsidy left there. So until you can  
18 get rid of all of it, then I think you have to leave it in  
19 place or work with it.

20 CHAIRMAN JABER: Are you saying that your proposal  
21 was offset -- the level of increases on local rates was somehow  
22 offset by what you were collecting in EAS in some parts of  
23 Florida?

24 THE WITNESS: Well, not necessarily, because the  
25 corresponding reduction in access charges which will flow

1 through for toll rates makes toll calling and paying for toll  
2 calling less onerous. So EAS is the type of thing that you  
3 gave people because they did incur toll charges. If those are  
4 now less onerous, then you have a new situation.

5 CHAIRMAN JABER: In investigating that further and  
6 reviewing whether it's appropriate to now eliminate those type  
7 rates throughout the state of Florida, what might I consider as  
8 it relates to your proposal?

9 THE WITNESS: I'm not -- I'm thinking. Probably the  
10 extent to which -- I really don't have a good answer for you at  
11 this time. I'm sorry.

12 CHAIRMAN JABER: Well, hopefully other Commissioners  
13 will have questions for you, and it will give you more time to  
14 think about it. But I ask that question because that issue  
15 came up time and time again at the public service hearings, and  
16 it struck me that in a truly competitive telecommunications  
17 market, which the Florida law has always tried to achieve and  
18 the new changes to the law try to further, it seems that that  
19 kind of cost recovery mechanism is no longer appropriate. And  
20 while major changes might be occurring as a result of these  
21 proposals if the Commission takes action on them, isn't it true  
22 that customers would less likely be confused if we went ahead  
23 and addressed ECS and EAS rates in this proceeding?

24 THE WITNESS: I think that's a good possibility. I  
25 really can't speak to customer perceptions. I haven't done any

1 surveys. I haven't talked to any. I think it's possible.

2 CHAIRMAN JABER: Do you know how much of Sprint's  
3 territory still includes those kinds of toll charges, EAS, ECS?

4 THE WITNESS: A percentage I don't, but we can find  
5 out or maybe Mr. Felz could tell you. We can get a percentage.

6 CHAIRMAN JABER: Commissioners, do you have any  
7 questions? Commissioner Davidson.

8 COMMISSIONER DAVIDSON: I've got two questions, sir,  
9 and perhaps that will give you some additional time to answer  
10 the Chair's question. You state at Page 11 of your direct  
11 testimony that, on average, throughout Sprint's local serving  
12 territory, the cost of the loop accounts for over 90 percent of  
13 the cost of providing basic local service. Controlling for  
14 density and concentration of customers referenced in  
15 Lines 11 and 12, is the cost of the local loop increasing or  
16 decreasing over time, again controlling for density and  
17 concentration variables?

18 THE WITNESS: I apologize for asking for a  
19 clarification. Over time, is your question, is technology  
20 moving in such a direction that it's cheaper to put in a local  
21 loop now than it was five years ago?

22 COMMISSIONER DAVIDSON: Yes. If, for example, you  
23 were comparing putting in a loop in December 2003 to putting in  
24 the loop in January 2003, is the cost of whatever is required  
25 to do that declining or increasing?

1 THE WITNESS: It's generally declining because of  
2 issues in terms of maintenance with regard to fiber requiring  
3 less maintenance.

4 COMMISSIONER DAVIDSON: My second question is, if,  
5 and this is a hypothetical, but if the choice put to Sprint was  
6 to either adjust its prices in four steps rather than three or  
7 have its petition denied, what would be Sprint's choice?

8 THE WITNESS: It's the easiest question I'll have all  
9 night. It would be Sprint's choice to have its prices adjusted  
10 closer to cost in four steps.

11 COMMISSIONER DAVIDSON: Thank you.

12 CHAIRMAN JABER: Mr. Fons, rather than come back to  
13 this witness, because Dr. Staihr has already said he'd have to  
14 think about the ECS question, if you could think about it as  
15 well and either through a witness or through your closing  
16 argument address that for me. I think a couple of us raised it  
17 at several of the service hearings, so it shouldn't come as a  
18 surprise to your company. But my question goes directly to  
19 some of the customers expressing confusion on why those charges  
20 were still appropriate, why they weren't being addressed in the  
21 company's petitions. And those are charges that maybe are  
22 applicable to other companies too. I just recall that it  
23 seemed to come up more in the Sprint territory than in others.

24 MR. FONS: Madam Chairman, we will address it. We  
25 think that we have taken the first step in our proposal by



1 giving five free calls, and certainly that is a step to  
2 recognize that the consumers do have concerns about the ECS.  
3 But as to the total elimination, that's quite a different  
4 question, but we will explore it, and we'll be prepared to  
5 address it.

6 CHAIRMAN JABER: My question that probably lends  
7 itself to a witness is, from an economic standpoint, if the  
8 argument is you want to eliminate all possible price or cost  
9 considerations that distort the development of a market, then  
10 at some point I think those kinds of rates, the EAS rates,  
11 should be eliminated, and isn't that point now?

12 MR. FONS: I think that's a valid point, and I would  
13 think that as competition comes in that there will be  
14 additional pressure for the elimination of those ECS prices,  
15 but at this point in time, there is a financial trade-off. And  
16 that's the big issue as to how much revenue Sprint is currently  
17 receiving from ECS as a -- if you'll remember, ECS is designed  
18 to expand the local calling area so the customers have the  
19 ability to reach nearby communities as if they were just simply  
20 making a phone call. There was a design there to replace the  
21 revenues that otherwise would have been achieved in toll. So  
22 this is a toll substitute.

23 CHAIRMAN JABER: And perhaps a witness coming up  
24 though could speak more to what those revenues are in today's  
25 environment and whether the competition derived in the long

1 distance market kind of addresses that now.

2 MR. FONS: We would expect that it would be not only  
3 the long distance but it would be the competitors that are  
4 offering local calling areas that transcend the traditional  
5 local calling areas that are provided by the incumbent local  
6 exchange companies.

7 CHAIRMAN JABER: Well, I'll tell you what will go a  
8 long way is if we could see some sort of proposal that  
9 advocates for what exactly that transition period should be for  
10 the complete elimination of EAS and ECs. And if it's your  
11 testimony that that's not doable, I want to hear that too, but  
12 we don't have it and I know it came up at many service  
13 hearings.

14 MR. FONS: We will endeavor to provide that. Thank  
15 you.

16 CHAIRMAN JABER: Thank you. Redirect.

17 MR. FONS: No redirect.

18 CHAIRMAN JABER: You have Exhibit 68.

19 MR. FONS: Correct.

20 CHAIRMAN JABER: Without objection, Exhibit 68 is  
21 admitted into the record.

22 (Exhibit 68 admitted into the record.)

23 MR. FONS: And may the witness be excused?

24 CHAIRMAN JABER: Yes.

25 MR. FONS: Thank you.

1 (Witness excused.)

2 MR. FONS: Sprint's next witness is John Felz.

3 CHAIRMAN JABER: Go ahead, Mr. Fons.

4 JOHN M. FELZ

5 was called as a witness on behalf of Sprint-Florida, Inc. and,  
6 having been duly sworn, testified as follows:

7 DIRECT EXAMINATION

8 BY MR. FONS:

9 Q Would you state your full name, please.

10 A My name is John Felz.

11 Q And, Mr. Felz, did you previously have prepared and  
12 filed in this proceeding amended direct testimony of 32 pages  
13 of questions and answers dated October 1, 2003?

14 A Yes, I did.

15 Q And do you have any changes or corrections to that  
16 amended direct testimony?

17 A No, I do not.

18 Q And if I were to ask you the same questions today  
19 that were posed to you in your prefiled amended direct  
20 testimony, would your answers be the same today?

21 A Yes, they would.

22 MR. FONS: Madam Chairman, I would ask that Mr. Felz'  
23 amended direct testimony be inserted into the record as though  
24 read.

25 CHAIRMAN JABER: The prefiled direct testimony of

1 John M. Felz shall be inserted into the record as though read.

2 MR. FONS: I would observe that Page 9 of Mr. Felz'  
3 direct testimony contains one confidential number.

4 BY MR. FONS:

5 Q Mr. Felz, did you have attachments in the form of  
6 exhibits to your amended direct testimony?

7 A Yes, I did.

8 Q And are those numbered JMF-1 through 18?

9 A Yes, sir.

10 Q And were these exhibits prepared by you or under your  
11 direction and supervision?

12 A Yes, they were.

13 Q And is one of those exhibits, JMF-4, does that  
14 contain confidential information? It's a one-page document.

15 A Yes, it does.

16 MR. FONS: Madam Chairman, I would ask that Exhibits  
17 JMF-1 through 18 except for JMF-4 be given the next exhibit  
18 number, please.

19 CHAIRMAN JABER: Composite Exhibit 69 will be  
20 assigned to JMF-1 through 3 and JMF-5 through 18. And  
21 Exhibit 70 will be given to JMF-4, which is a confidential  
22 exhibit.

23 (Exhibits 69 and 70 marked for identification.)

24

25

**SPRINT-FLORIDA, INC.  
AMENDED PETITION TO REDUCE ACCESS RATES  
FILED: OCTOBER 1, 2003**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**AMENDED DIRECT TESTIMONY**

**OF**

**JOHN M. FELZ**

**I. INTRODUCTION**

**Q. Please state your name, occupation and business address.**

**A.** My name is John M. Felz. I am employed as Director - State Regulatory for Sprint Corporation. My business address is 6450 Sprint Parkway, Overland Park, Kansas 66251.

**Q. Please describe your educational background and business experience.**

**A.** I received my Bachelor's degree in Accounting from Rockhurst University in Kansas City, Missouri in 1979. In 1989, I earned a Master's Degree in Business Administration with an emphasis in Finance from Rockhurst University. I began my career with Sprint as an internal auditor in 1979 and assumed increasing levels of responsibility in that department, including positions as Senior Auditor, Audit Manager and Assistant Director. From 1986 to 1988, I was Revenue Accounting Manager for Sprint's Midwest Group of local telephone companies with responsibility for billing approximately 500,000 customers in six states. In 1988, I was named to the position of Financial Budget Manager and had responsibility for preparing and managing the budget for Sprint's Midwest Group of local telephone companies. From 1991 to 1996, in the position of Revenue Planning Manager, I was responsible for regulatory and tariff issues for Sprint's local telephone operations in Kansas. From 1996 to 1998, I held the position of Senior Manager - Wholesale Markets with

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1 responsibility for negotiating and implementing interconnection agreements with  
2 competitive local exchange carriers and wireless providers. I was named to my  
3 current position as Director - State Regulatory in January 1998 and have responsibility  
4 for development and implementation of regulatory policies for Sprint's operations in a  
5 number of states, including Florida.

6  
7 **Q. What is the purpose of your testimony?**

8 **A.** The purpose of my testimony is to explain Sprint-Florida, Incorporated's (Sprint's)  
9 revised plan for reducing its intrastate switched network access rates in a revenue  
10 neutral manner as authorized in Section 364.164(1), Florida Statutes 2003. As a  
11 matter of introduction, I describe Sprint's service territory in Florida and its  
12 differences from BellSouth's and Verizon's territories in the state. I also provide a  
13 brief history of intrastate switched network access rates in Florida and how they were  
14 developed and modified over the years. In my testimony, I also explain and provide  
15 support for Sprint's revised plan for reducing intrastate access rates to parity with its  
16 January 1, 2003 interstate access rates on a revenue neutral basis. Finally, I describe  
17 the consumer benefits associated with Sprint's revised plan.

18  
19 **Q. Are there other witnesses who support Sprint's revised plan for reducing**  
20 **intrastate switched access rates to interstate levels in a revenue neutral manner?**

21 **A.** Yes. Sprint is co-sponsoring (with BellSouth and Verizon) the testimony of Dr.  
22 Kenneth Gordon who addresses how the removal of implicit subsidies is consistent  
23 with the development of a healthy competitive market for basic local  
24 telecommunications services throughout the state of Florida. Sprint witness Dr. Brian  
25 Staihr demonstrates how Sprint's revised plan will remove current support for basic

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1 local telecommunications services and create a more competitive local exchange  
2 market in Sprint's service area for the benefit of residential customers. Dr. Staihr will  
3 also describe how Sprint's revised plan for revenue neutral access rate reductions will  
4 induce enhanced market entry and create a more attractive residential competitive  
5 market. Sprint witness Kent Dickerson provides cost study results which demonstrate  
6 that Sprint's current intrastate switched network access rates are priced well above  
7 their costs and that Sprint's current residential basic local service rates are priced well  
8 below their costs. Through the testimony and supporting information of Sprint's  
9 witnesses, the evidence demonstrates that Sprint's revised plan for revenue neutral  
10 access rate reductions meets the criteria of section 364.164(1) and should therefore be  
11 approved by the Commission.

12  
13 **II. BACKGROUND**

14  
15 **Q. Please describe Sprint's certificated local service market areas?**

16 **A.** Sprint serves approximately 40 percent of the State's geographical area with 104  
17 exchanges, but only 19.6 percent of the State's access lines, serving approximately 2.2  
18 million total access lines out of a total of 11.2 million access lines.

19  
20 Just over 70 percent of Sprint's access lines are residential. The exchanges vary in  
21 number of access lines from Tallahassee, the largest exchange, with 218,638 access  
22 lines, to Kingsley Lake, the smallest exchange, with only 332 access lines. Seventy-  
23 nine percent of Kingsley Lake's access lines are residential as compared to fifty  
24 percent for Tallahassee. Sprint has only five exchanges with more than 100,000  
25 access lines, which are: Ocala with 108,052 access lines; Naples with 138,878 access

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1 lines; Fort Myers with 167,238 access lines; Winter Park with 208,268 access lines;  
2 and Tallahassee with 218,638 access lines. Eighty-two (82) of Sprint's 104 exchanges  
3 have less than 25,000 access lines and 60 exchanges have less than 12,000 access  
4 lines.

5  
6 **Q. How does Sprint's service area compare with the areas served by BellSouth and**  
7 **Verizon in Florida?**

8 **A.** As just noted, Sprint, with the exception of a few urban-type exchanges, has a less  
9 urban market area. In contrast, BellSouth and Verizon, which serve approximately 78  
10 percent of the state's access lines, serve more urban and suburban areas and have a  
11 combined total of approximately 9 million access lines. When measured on the basis  
12 of access lines per square mile, Sprint's service territory exhibits significantly less  
13 customer density than that of either BellSouth or Verizon. Sprint's service territory  
14 encompasses over 22,000 square miles and exhibits a customer density of 94 lines per  
15 square mile. This is in stark contrast to BellSouth's density of 341 lines per square  
16 mile and Verizon's density of 465 lines per square mile. I have included Exhibit JMF-  
17 1 as an attachment to my testimony which provides a visual representation of the  
18 differences in customer density between Sprint and BellSouth and Verizon. In Docket  
19 Nos. 990649A & B – TP this Commission recognized the more diverse geographic  
20 Sprint service area and established four (4) UNE loop rate bands for Sprint as  
21 compared to three (3) rate bands each for the more urban BellSouth and Verizon  
22 service areas. Additionally, Sprint's basic local telecommunications service rates are  
23 lower on average than both BellSouth's and Verizon's.

24  
25 **Q. Why are the differences between the serving areas of Sprint, Verizon and**



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1           **BellSouth important in the context of this proceeding?**

2    A.    The differences in the geographic density and customer mix are important factors that  
3           influence the magnitude of the revenue-neutral price changes that Sprint is requesting  
4           in its Petition. The unique characteristics of Sprint's service territory and customer  
5           mix, when compared to those of Verizon and BellSouth, means that Sprint's rate  
6           structure reflects a greater subsidy from intrastate switched network access charges  
7           than being experienced by the other companies. Hence, a greater increase in basic  
8           local service rates will be necessary for Sprint to achieve the interstate parity and  
9           revenue-neutral provisions of the legislation.

10

11    **Q.    Please explain how rates were established historically in a monopoly**  
12           **environment?**

13    A.    Under historical rate base, rate-of-return regulation, a total company revenue  
14           requirement was determined based on the company's total expenses, plus a return on  
15           its investments. After the overall revenue requirement was established, prices were set  
16           to optimize revenues from discretionary and non-basic services. To the extent the  
17           firm's revenue requirement could not be recovered from raising non-basic service  
18           rates, the residual amount would be recovered from access charges and residential and  
19           business local access line services. Because residential basic local service rates were  
20           set based on universal service and other objectives (well below cost), access charges  
21           and business services became the "plug" to provide the revenue to meet the revenue  
22           requirement. The principle underlying this "residual" pricing concept was the idea of  
23           maintaining the universal service objective of making residential basic local service  
24           widely available at "affordable" rates, regardless of cost/revenue relationships. The  
25           net effect was to set prices for non-basic and discretionary services above their costs to

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1 support lower-priced, below-cost residential basic local service rates.

2

3 Historically, the largest contribution to the support for residential basic local service  
4 was long distance calling, which was viewed in a monopoly environment as a highly  
5 desirable, premium, discretionary service with a predictable, stable revenue stream.  
6 The significant contributions from both interstate and intrastate long distance toll were  
7 used to support below-cost residential basic local service rates through end user rate-  
8 setting proceedings including a division of revenue/settlements process overseen by  
9 the federal and state regulators. In the now intensively competitive long distance  
10 market, the regulator's maintenance of the historic contribution levels from long  
11 distance toll to subsidize below-cost residential basic local service is provided from  
12 access charges paid to the local exchange companies by the long distance carriers.

13

14 **Q. What are Sprint's current intrastate switched access rates and what regulatory**  
15 **proceedings influenced the current rate levels?**

16 **A.** Sprint's current intrastate switched network access rates are the product of several  
17 decisions and now average approximately \$.104 per minute (originating and  
18 terminating). The current rates reflect a significant change from the structure and rates  
19 originally established by the Commission in 1983.

20

21 Rates were originally established in Docket 820537-TP which was initiated by Order  
22 No. 11551, issued January 26, 1983, on the eve of the impending AT&T divestiture.  
23 The purpose of the proceeding was to implement an intrastate access charge structure  
24 in Florida that would compensate local exchange companies for the use of their local  
25 facilities to originate and terminate long distance traffic by interexchange carriers. As

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1           stated in Commission Order No. 12765, issued December 9, 1983, the primary goal “  
2           . . . was to set access charges that would adequately compensate the LECs for use of  
3           their local facilities for originating and terminating toll traffic and to provide  
4           incentives for competition, while maintaining universal telephone service.” This  
5           policy goal resulted in the Commission setting intrastate switched network access  
6           charges for Sprint (then United Telephone) in the neighborhood of \$0.25 per minute.

7  
8           Thereafter, Docket No. 8609874-TL was initiated in mid-1986 to re-address the level  
9           of, and the mechanism for, recovering non-traffic sensitive costs associated with the  
10          local loop. The outcome of that docket was essentially a continuation of the historical  
11          regulatory policies of maintaining low basic local service rates through the support of  
12          revenues from other services, principally intrastate switched network access charges.

13  
14          In 1989, in Docket No. 891239-TL, and again in 1991, in Docket No. 910980-TL,  
15          Sprint (United Telephone at the time) filed petitions that proposed increases in  
16          residential basic local service rates and reductions in switched network access charges.  
17          The \$16 million access charge reduction and local service rate increase requested in  
18          the 1989 case was approved, however, the \$8 million access reduction requested in the  
19          1991 case was rejected since it would have increased residential basic local service  
20          rates. Specifically, the Commission stated:

21                 “We increased local rates by \$15.9 million in United’s last rate case and  
22                 lowered the BHMOC [an intrastate access charge component]. But, we  
23                 do not believe that local rates should again be raised in this proceeding  
24                 in order to have a greater BHMOC reduction. Accordingly, we shall  
25                 deny United’s request.” (Order No. PSC-92-0708-FOF-TL, Docket Nos.

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1           910980-TL, 910529-TL.)

2

3           In 1995, the Florida Legislature passed the Florida Telecommunications Act (“1995  
4           Act”) which opened the local exchange carriers’ local markets to competition and  
5           mandated reductions in access charges for any LEC who chose to become regulated  
6           under a price regulation plan and whose intrastate switched network access charges  
7           were not then at parity with its interstate switched network access charges. The 1995  
8           Act established a target for intrastate switched access rates as the December 31, 1994  
9           interstate switched network access rate levels and provided for a 5 percent annual  
10          reduction in access charges as the mechanism for achieving parity with a LEC's  
11          interstate switched network access rates. Sprint fulfilled the annual reductions  
12          mandated under this legislation in 1996 and 1997. In 1998, the Florida Legislature  
13          modified the provisions related to access charge reductions and required a 15 percent  
14          reduction to be made in 1998, while at the same time removing the 1994 interstate rate  
15          as the target. Since Sprint's 1998 access rate reductions of 5 percent (\$9.3 million) in  
16          July and 10 percent (\$17.6 million) in October, there have been no further changes to  
17          Sprint's intrastate switched network access rates.

18

19       **Q.    You have discussed generally how access charges have historically been set above**  
20       **cost and identified Sprint’s current access rates and how they arrived at their**  
21       **current level. Does the cost study information supplied by Sprint witness**  
22       **Dickerson confirm that Sprint’s current intrastate switched access rates reflect a**  
23       **substantial contribution?**

24       **A.    Yes.    Sprint’s current intrastate access rates provide a substantial contribution when**  
25       **compared with the forward-looking cost of switched access services. I have prepared**

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1 exhibit JMF-2 to illustrate the current relationship between intrastate access rates and  
2 cost. The analysis demonstrates that Sprint's current average intrastate switched  
3 access rate of \$.050392 per minute of use (per end) exceeds the cost for the service of  
4 \$.004475, thereby providing a significant contribution of \$.045917 per minute of use.  
5 It should be noted that this analysis of current intrastate access rates and costs is  
6 presented solely to demonstrate the existing subsidy to residential local service  
7 provided by intrastate access charges.

8  
9 **Q. Is cost the target for the intrastate access reductions?**

10 A. No. The 2003 Act established parity with the January 2003 interstate access rates as  
11 the appropriate target for reducing intrastate access rates.

12  
13 **Q. What evidence do you have that the contributions from intrastate switched  
14 network access charges are subsidizing residential basic local service?**

15 A. Exhibit JMF-3 to my testimony demonstrates the significant subsidy being provided to  
16 residential basic local service rates. The cost studies presented by Sprint witness  
17 Dickerson identify the forward-looking cost of residential basic local service as \$30.46  
18 and business basic local service as \$XX.XX. A comparison of these costs to the  
19 current associated rates (including the subscriber line charge) for basic local service  
20 reveals that residential basic local service is currently priced well below its associated  
21 costs. The exhibit clearly demonstrates that the rates for residential basic local service  
22 are not recovering the associated costs of providing the service. Coupled with the  
23 previous analysis of intrastate access rates and its associated costs, it is clear that  
24 intrastate access charges are providing a subsidy to residential basic local service rates.  
25 Exhibit JMF-4 provides a comparison of the rates and costs for single-line business

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1 service.

2

3 **Q. How do intrastate switched access rate levels in Florida compare to those in other**  
4 **states?**

5 **A.** Exhibit JMF-5 demonstrates the disproportionate contribution made by Sprint's  
6 intrastate switched network access charges to support residential basic local service  
7 rates in Florida, relative to seven other southeastern states. I have shown the access  
8 rates of BellSouth, the largest ILEC in each of these other states. Sprint's intrastate  
9 access charge rate is more than twice the intrastate access charge rate of the next  
10 highest rate and more than ten (10) times higher than four (4) of the other states' rates.

11

12 **Q. How do Sprint's basic local service rates in Florida compare to the rates in other**  
13 **states?**

14 **A.** Sprint's average monthly rate for residential basic local service, including TouchTone,  
15 is \$9.98 in Florida, compared to a national average rate of \$14.55, a difference of  
16 \$4.57. The national average rate is from the FCC's 2003 Reference Book of Rates,  
17 Price Indices and Household Expenditures for Telephone Service, Table 1.1. Exhibit  
18 JMF-6 is a comparison of Sprint's rates with those of BellSouth's rates in other states  
19 in the southeast. BellSouth's rates were used for comparison as they are the largest  
20 ILEC in the subject states.

21

22 As can be seen from Exhibit JMF-6, Sprint's residential basic local rates are  
23 significantly lower than the comparable rates in its seven neighboring southeastern  
24 states. Sprint's rates in its lowest rate group are on average \$4.47 per month lower  
25 than the comparable rates in the other states. In the highest rate group, Sprint's

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1 Florida residential rates are on average \$3.86 per month lower than the comparable  
2 rates in the other states.

3

4 Exhibit JMF-7 shows that Sprint's single-line business rates are also significantly  
5 below the rates for business lines in these neighboring states. Sprint's single-line  
6 business average rate of \$21.18 is also well below the national average of \$33.34  
7 (FCC's 2003 Reference Book of Rates, Price Indices and Household Expenditures for  
8 Telephone Service, Table 1.8).

9

10 **Q. Has Sprint's Local Telephone Division had experience in other states in**  
11 **transitioning subsidies from access charges to end user rates?**

12 **A.** Yes. Sprint's experiences in Ohio and Pennsylvania with rate rebalancing between  
13 access charges and end user rates provides information which is insightful in  
14 evaluating a similar initiative here in Florida.

15

16 **Q. Could you describe Sprint's access rebalancing experience in Ohio?**

17 **A.** In June 2001, the Public Utilities Commission of Ohio approved Sprint's proposed  
18 plan to reduce intrastate switched access charges to interstate levels and increase  
19 certain end user rates to offset the access revenue reduction (Commission Opinion and  
20 Order in Case No. 00-127-TP-COI and Case No. 01-1266-TP-UNC, Issued June 28,  
21 2001). The plan provided for a reduction of intrastate switched access rates to parity  
22 with the interstate switched access rates that resulted from the FCC's Coalition for  
23 Affordable Local and Long Distance Service ("CALLS") proceeding. To offset the  
24 access reduction, Sprint established an end user charge (called an "intrastate access  
25 fee") of \$4.10 for residential customers, \$6 for single-line business customers and

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1           \$8.90 for multi-line customers. These local rate increases were implemented on a  
2           flash-cut basis.

3

4   **Q.   What has been Sprint's experience with switched network access rate**  
5           **rebalancing in Pennsylvania?**

6   A.   The Public Utility Commission of Pennsylvania has allowed residential basic local  
7           service rates to periodically increase up to a weighted average cap of \$16 per month to  
8           offset decreases in intrastate switched access rates. Rates for business local service  
9           were also allowed to increase, but by a smaller amount than residential rates.  
10          Intrastate traffic sensitive access charges were to be reduced to the July 1998 interstate  
11          rate levels. The carrier common line charge was restructured from a minute-based  
12          charge to a flat-rate carrier charge. Under this plan, Sprint has increased its residential  
13          basic local service rates by approximately \$4.41 to an average of \$15.88 and has offset  
14          these local rate increases with corresponding reductions to its traffic sensitive  
15          intrastate switched network access rates and the carrier charge.

16

17   **Q.   Have there been recent developments in Pennsylvania which will further reform**  
18           **the intrastate access rate structure for Sprint in Pennsylvania?**

19   A.   Yes. On July 10, 2003, the Pennsylvania Commission approved a joint proposal of  
20          Sprint, the Rural Telephone Company Coalition, the Office of Consumer Advocate,  
21          Office of Trial Staff and Office of Small Business Advocate that provides for further  
22          access charge reductions on a revenue-neutral basis. The approved plan allows Sprint  
23          to increase its residential basic local service rates to achieve a maximum weighted  
24          average of \$18 and to offset these increases with corresponding reductions to its traffic  
25          sensitive access rates and the carrier charge. Rates for business local service are



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1 allowed to increase by the same amount as the residential rates.

2

3 **Q. What was the Pennsylvania Commission's rationale in approving the local rate**  
4 **increases and corresponding access charge reductions?**

5 A. The Pennsylvania Commission recognized the need to rationalize the pricing structure  
6 for both basic local service and access charges to foster a more competitive  
7 environment. The Pennsylvania Commission specifically found in its July 10, 2003,  
8 order that:

9 "At this juncture, the Commission is persuaded that the proposed access  
10 charge reductions are in the public's interest and in accordance with the  
11 Commission's objective to reduce implicit subsidy charges such as  
12 access charges that impede competition in the telecommunications  
13 market. As implicit charges become explicit charges, competitors are  
14 better able to compete for local and long distance customers in an  
15 ILEC's service territory because IXCs are not hindered by paying ILECs  
16 excessive access charges in providing competitive toll services and  
17 CLECs are better able to compete with ILEC local service rates that  
18 have been kept artificially low as a result of the access charge  
19 subsidies." (Order at page 10).

20

\*\*\*

21

22

23

24

25

"We further look to the Federal Communications Commission's (FCC)  
recent decisions in the CALLS and MAG orders for precedence in  
ordering implicit charges to become explicit, either through an increase  
in basic local telephone service rates, or through service line charges on  
customer bills. This enables other carriers to compete due to reduced

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1           subsidies. While the Joint Proposal does not require a rural ILEC or  
2           Sprint/United to mirror interstate access charges, the fact that this is a  
3           step towards making the charges closer to cost and closer to the  
4           interstate access charges will help to avoid arbitrage and will help  
5           competition enter the ILEC territories.” (Order at page 11).

6

7   **III. ACCESS RATE REDUCTIONS**

8

9   **Q. What provisions of the Tele-Competition Innovation and Infrastructure**  
10 **Enhancement Act (“2003 Act”) govern Sprint’s filing of its petition to reduce its**  
11 **intrastate switched access rates?**

12 **A.** The applicable provisions of the legislation associated with the access reductions  
13 include the following:

14           364.164 (1)

15           "Each local exchange telecommunications company may, after July 1,  
16           2003 petition the Commission to reduce its intrastate switched network  
17           access rate in a revenue neutral manner."

18

19           364.164 (5)

20           "As used in this section, the term 'parity' means that the local exchange  
21           telecommunications company’s intrastate switched network access rate is  
22           equal to its interstate switched network access rate in effect on January 1,  
23           2003, if the company has more than 1 million access lines in service."

24

25           364.164 (6)

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1            "As used in this section, the term 'intrastate switched network access rate'  
2            means the composite of the originating and terminating network access  
3            rate for carrier common line, local channel/entrance facility, switched  
4            common transport, access tandem switching, interconnection charge,  
5            signaling, information surcharge, and local switching."  
6

7    **Q.    Please describe Sprint's interstate switched network access rate structure that**  
8            **will be used as the target for Sprint's intrastate access reductions.**

9    **A.**    Sprint's January 1, 2003 interstate switched network access rates are the result of the  
10           CALLS plan adopted by the Federal Communications Commission in June 2000  
11           (Sixth Report and Order in CC Docket No. 96-262 and 94-1, Report and Order in CC  
12           Docket 99-249, Eleventh Report and Order in CC Docket 96-45, released May 31,  
13           2000). The CALLS plan established a five-year timeframe for addressing issues with  
14           both the rate structure and rate levels for interstate switched network access service.  
15           Exhibit JMF-8 to my testimony identifies the rate elements reflected in Sprint's  
16           January 2003 interstate switched access rates.

17

18    **Q.    Are there any differences between Sprint's interstate and intrastate switched**  
19            **access rate structures?**

20    **A.**    Yes. Sprint's intrastate switched network access rates include rates for carrier  
21           common line and interconnection charge, however the interstate rates for these  
22           elements are set at zero. Also, the interstate switched transport rate category has sub-  
23           element rates for common and dedicated trunk ports, which are not disaggregated from  
24           the switched common transport rate element in the intrastate tariff.

25

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1 **Q. How will Sprint reduce intrastate switched access rates to be in parity with**  
2 **interstate switched access rates?**

3 **A.** Because the 2003 Act specifically identifies the interstate switched access rate as the  
4 target for parity, Sprint will implement a very simple and straight-forward approach to  
5 achieve parity. Sprint will establish a rate structure for its intrastate switched network  
6 access rates that mirrors both the rate structure and rate levels for interstate switched  
7 network access service in effect on January 1, 2003. This approach ensures that the  
8 intrastate switched network access rates are in parity with their interstate counterpart  
9 since both the structure and rates will be exactly the same once the transition to parity  
10 is completed.

11

12 **Q. Using this method of mirroring both the rate structure and rate levels for**  
13 **interstate switched network access rates, how did Sprint calculate the impact of**  
14 **the intrastate switched network access rate reduction?**

15 **A.** As specified by the 2003 Act, Sprint will utilize the most recent 12 months' actual  
16 pricing units in developing the impact of the intrastate switched access reduction. For  
17 purposes of this filing, the most recent available 12 months information covers the  
18 period from June 2002 to May 2003. Sprint applied the current intrastate switched  
19 access rates to the actual pricing units to develop the current intrastate switched access  
20 revenues. Sprint then applied the January 1, 2003 interstate access rates to those same  
21 pricing units to develop the estimate of revenues to be received after implementation  
22 of the rate changes. Assuming – for illustration purposes only - a flash-cut, one-time  
23 reduction, the difference between the two revenue amounts represents the total value  
24 of the intrastate switched access rate reductions. For purposes of its Petition, Sprint  
25 has calculated this amount as \$142,073,492. The detailed calculations of this amount

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1 are included on Exhibit JMF-9 to my testimony.

2

3 **Q. Does Sprint's approach result in parity between the intrastate composite**  
4 **switched network access rate and the interstate composite switched network**  
5 **access rate?**

6 **A.** Yes. As noted earlier, Section 364.164 (6) provides a comprehensive description of  
7 what is included in the term "intrastate switched network access rate."

8

9 "As used in this section, the term 'intrastate switched network access rate'  
10 means the composite of the originating and terminating network access  
11 rate for carrier common line, local channel/entrance facility, switched  
12 common transport, access tandem switching, interconnection charge,  
13 signaling, information surcharge, and local switching."

14

15 I have prepared Exhibit JMF-10 which demonstrates that Sprint's access rate reduction  
16 plan will produce a composite switched intrastate access rate that is equal to the  
17 composite January 1, 2003 interstate switched access rate. Sprint's calculation  
18 produces an intrastate switched access composite rate of \$.012852 after the access rate  
19 reduction is completed. This composite rate is equivalent to the January 1, 2003  
20 interstate switched access composite rate of \$.012852.

21

22 **Q. What is Sprint's revised plan for adjusting intrastate switched network access**  
23 **rates?**

24 **A.** Sprint will reduce its intrastate switched network access rates to the target levels in  
25 three separate annual increments over a two-year period. The first annual access

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1 reductions are targeted to reducing the current intrastate switched network access  
2 charge elements which have no associated costs and are therefore providing a pure  
3 subsidy. Specifically, Sprint will target the reduction of \$62,319,890 to the  
4 interconnection charge and the carrier common line rates. The first annual access  
5 reductions result in an elimination of the interconnection charge and a substantial  
6 reduction in the carrier common line rates. Amended Exhibit JMF-11 to my testimony  
7 provides the detailed calculations supporting the first annual access reductions.

8  
9 **Q. What intrastate switched network access rate changes are planned for the second**  
10 **increment?**

11 **A.** The second annual intrastate switched network access rate reductions are directed first  
12 towards elimination of the remaining carrier common line rates. The remainder of the  
13 second annual access rate reduction is directed at the end office local switching rate  
14 element. . Sprint has estimated the impact of the second annual increment of the  
15 access reduction as \$56,211,283 based on current pricing units (see Amended Exhibit  
16 JMF-11).

17 **Q. What intrastate switched network access rate changes are planned for the third**  
18 **increment ?**

19 **A.** The third annual intrastate switched network access rate reductions are directed first  
20 towards reducing the end office local switching rate element, which was partially  
21 reduced in the second increment, to the January 1, 2003 interstate level. The  
22 remainder of the third annual access rate adjustment is directed at establishing the rate  
23 elements and rates that fully mirror the January 1, 2003 interstate rates. Sprint has  
24 estimated the impact of the third annual increment of the access reduction as  
25 \$23,541,741 based on current pricing units (see Amended Exhibit JMF-11).

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1

2 **Q. With these changes, does Sprint's revised plan comply with the provisions of the**  
3 **2003 Act regarding intrastate switched access rate levels?**

4 **A.** Yes. Based on this revised plan Sprint will reduce its intrastate switched access rates  
5 to exactly match (in both structure and rate level) the January 2003 interstate switched  
6 network access rates over a two-year period utilizing three separate access reductions.  
7 Although Sprint has estimated the impact of each increment of the access reduction, it  
8 is recognized that the actual reduction amount for each increment will be based on the  
9 latest 12 months pricing units at that time. As a result, the impact of the access  
10 reduction for each of the three increments will likely vary from the estimated amounts.

11

12 **IV. REVENUE NEUTRALITY**

13

14 **Q. You have described Sprint's revised plan for reducing its intrastate switched**  
15 **access rates to parity with interstate rates. What does the 2003 Act provide for in**  
16 **terms of revenue neutrality?**

17 **A.** The 2003 Act specifies that, if intrastate access rates are to be reduced, they must be  
18 reduced in a revenue-neutral manner. Section 364.164 (2) describes the specific  
19 methodology to be used for calculating revenue neutrality:

20

21

22

23

24

25

"If the Commission grants the local exchange company's petition, the local exchange company is authorized, the requirements of section 364.051 (3) notwithstanding, to immediately implement a revenue category mechanism consisting of basic local telecommunications service revenues and intrastate switched network access revenues to achieve revenue neutrality. The local exchange company shall

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1           thereafter, on 45 days' notice, adjust the various prices and rates of the  
2           services within its revenue category authorized by this section once in  
3           any 12-month period in a revenue-neutral manner."

4

5   **Q.    What information did Sprint use to create the revenue category mechanism**  
6   **provided for in the provision quoted above?**

7   **A.    The provisions of the 2003 Act related to calculation of the revenue category**  
8   **mechanism are contained in section 364.164 (7):**

9           "Calculation of revenue received from each service before the  
10          implementation of any rate adjustment must be made by multiplying the  
11          then-current rate from each service by the most recent 12 months' actual  
12          pricing units for each service within the category, without any  
13          adjustments to the number of pricing units. Calculation of revenue for  
14          each service to be received after implementation of rate adjustments  
15          must be made by multiplying the rate to be applicable for each service  
16          by the most recent 12 month's actual pricing units for each service  
17          within the category, without any adjustments to the number of pricing  
18          units."

19

20          Based on these guidelines, Sprint extracted billing information for the most recent 12  
21          months (June 2002 through May 2003) for intrastate switched network access services  
22          and basic local telecommunications services and created a model which documents the  
23          calculations necessary to achieve the revenue neutrality provisions of the 2003 Act.  
24          This information is summarized in Amended Exhibit JMF-12 to my testimony.

25



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1 **Q. What is Sprint's revised plan for achieving revenue neutrality?**

2 **A.** As noted previously, Sprint will reduce its intrastate switched access rates to the target  
3 interstate levels over a two-year period using three separate annual increments (2004,  
4 2005 and 2006). To achieve the revenue neutrality provided by the 2003 Act, Sprint  
5 will increase rates for basic local telecommunications services over that same two-year  
6 period, accomplishing the increase over three separate annual increments. I previously  
7 described how Sprint's calculation of the amount to achieve access rate parity  
8 produces a reduction of \$142,073,492 in access revenues, assuming a one-time, flash-  
9 cut reduction. This \$142,073,492 represents an estimate of the amount to be  
10 recovered through adjustments in the rates for basic telecommunications service,  
11 assuming the same one-time, flash-cut adjustment.

12

13 As noted previously, Sprint will reduce its intrastate switched access revenues in three  
14 annual increments as follows:

15 Increment 1 (2004) \$62,319,890

16 Increment 2 (2005) \$56,211,862

17 Increment 3 (2006) \$23,541,711

18 Sprint will achieve revenue neutrality for these switched access revenue reductions by  
19 implementing increases in its rates for basic local telecommunications services over  
20 the same two-year period, accomplished in three annual increments.

21

22 **Q. What rate changes to basic local telecommunications services will be**  
23 **implemented to achieve revenue neutrality?**

24 **A.** Amended Exhibit JMF-12 to my testimony summarizes Sprint's revised rate change  
25 plan for its basic residential and single-line business local service rates for the three

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1 annual increments. . Sprint will increase residential basic local service recurring rates  
2 by \$2.95 in the first increment , \$2.75 in the second increment and \$1.16 in the third  
3 increment. Rates for single-line business basic local service will increase by an  
4 average of \$2.70 in the first increment , \$2.40 in the second increment and \$.90 in the  
5 third increment. Sprint will also increase certain residential and business non-  
6 recurring service charges in each of the three annual increments of the plan. These  
7 rate changes will increase basic local service revenues by \$142,084,461, an amount  
8 which is slightly different from the total access reduction amount due to rounding  
9 differences.

10

11 Upon the grant of Sprint's Revised Petition, Sprint, in compliance with Section  
12 364.164(2), Florida Statutes, will commence the implementation of its first annual  
13 intrastate switched network access and basic local service price adjustments. These  
14 adjustments should become effective in the first quarter of 2004. The subsequent  
15 annual adjustments will be scheduled to take place on the anniversary of the effective  
16 date of the first annual adjustment.

17

18 **Q. How does Sprint's revised plan comply with the provision in 364.164 (2)**  
19 **regarding limiting the increases to the basic local service monthly recurring rate?**

20 **A.** The 2003 Act provides that:

21 "An adjustment in rates may not be offset entirely by the company's  
22 basic monthly recurring rate."

23

24 In compliance with this provision, Sprint's revised plan includes an estimated  
25 \$7,638,900 of increases to certain non-recurring, service charges. As a result, Sprint's

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1 access charge reductions are not offset entirely by increases in the basic local service  
2 monthly recurring rate.

3

4 **Q. How will Sprint comply with the provisions of the 2003 Act relating to Lifeline**  
5 **and pay telephone access lines?**

6 A. The 2003 Act provides that:

7 "Billing units associated with pay telephone access lines and Lifeline  
8 service may not be included in any calculation under this subsection."

9

10 Sprint has specifically identified the number of Lifeline and pay telephone lines in  
11 service during the 12-month period used in calculating the revenue neutrality  
12 provisions of its revised plan. The pay telephone lines were removed from the  
13 calculation of revenue neutrality and the current rates will not be affected by rate  
14 changes associated with implementing the 2003 Act. For Lifeline customers, billing  
15 system limitations will preclude Sprint from continuing to display the current basic  
16 local service rate for Lifeline customers on the bill as the rate changes resulting from  
17 the revenue neutrality provisions are implemented. Sprint will, instead, reflect on  
18 these customers' bills, a Lifeline credit that is increased by the amount of the increases  
19 to recurring residential rates. This will insure that there is no net impact to the  
20 customer from the increases associated with implementing the 2003 Act. Sprint  
21 believes this approach is expressly consistent with the legislative provisions regarding  
22 Lifeline customers – namely, to ensure their bills are unaffected by the rate changes  
23 resulting from implementation of the revenue neutrality provisions of the 2003 Act.

24

25 **Q. What are the factors that could change the actual basic local service rates in the**

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1           **Sprint revised plan?**

2    **A.**    The 2003 Act provides that the actual pricing changes to accomplish revenue  
3            neutrality must be based on the company's most recent 12 months' pricing units. As a  
4            result, changes to the pricing units for both switched access services and basic local  
5            telecommunications services are expected and will affect all three increments of  
6            Sprint's planned price changes. Upon the granting of the Petition, Sprint will adjust  
7            the price changes to ensure revenue neutrality is achieved and the calculations remain  
8            in compliance with the provisions of the 2003 Act.

9  
10   **Q.**    **Could you identify the specific rate changes planned for residential and single-**  
11           **line business basic local service rates?**

12   **A.**    Yes. I have prepared Amended Exhibit JMF-13 which identifies the current rates and  
13            the specific rate changes for the three annual increments of Sprint's revised plan for  
14            both residential and single-line business basic local service. The exhibit also identifies  
15            the current and planned rates for the service connection charge elements.

16  
17   **Q.**    **Does Sprint's revised plan apply the basic local service increase equally across all**  
18           **rate groups?**

19   **A.**    For residential basic local service rates, Sprint will implement increases that are  
20            consistent across all rate groups. For single-line business basic local service rates,  
21            Sprint has taken into account competitive and calling scope considerations in its rate  
22            design. As a result, Sprint's revised plan for single-line business basic local service  
23            rates does reflect some variability in the increases across the rate groups.

24  
25   **Q.**    **What is Sprint's rationale for the distribution of its revenue-neutral rate changes**

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1           **over the three increments?**

2       A.     Sprint has elected to increase its basic local services prices in a graduated manner over  
3           the two-year period because Sprint continues to believe that it is important to eliminate  
4           the non-cost-based component of its intrastate switched network access rate as quickly  
5           as possible. This principle drives, in part, the size of the resulting first of three annual  
6           basic local service price increases. The size of each of the remaining two annual  
7           switched access rate decreases and resulting basic local service price increases also  
8           reflects Sprint's efforts to fulfill the underlying goal of the legislation to enhance the  
9           creation of a more competitive local market for the benefit of residential consumers as  
10          quickly as possible.

11

12       **V.     CONSUMER IMPACTS**

13

14       **Q.     Sprint includes a two-year timeframe for implementation of its revised revenue-**  
15           **neutral plan. Why is a two-year plan most appropriate?**

16       A.     As described in more detail in the testimony of Dr. Kenneth Gordon, the elimination  
17           of implicit subsidies in access rates and the establishment of pricing for local services  
18           which are more closely aligned with their costs, will make the residential local market  
19           more attractive to competitors and will bring about enhanced market entry.  
20           Additionally, as indicated by the access charge and local service rate differentials  
21           shown in my exhibits JMF-5 and JMF-6, Florida is already well behind other states in  
22           making these changes.

23

24       **Q.     Will Sprint introduce other consumer benefits in addition to those that accrue**  
25           **from a more competitive market?**

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1 A. Yes. In an effort to mitigate the impacts to customers from the increases in rates for  
2 basic local service, Sprint will reduce the amount residential customers pay for  
3 extended local calling services by providing a free allowance of five calls per month  
4 for routes which are charged on a per message basis. Currently, customers incur a  
5 charge of \$.20 or \$.25 per message for all calls made on these local calling plans.  
6 Under Sprint's plan, customers will receive the first five calls free, and will incur the  
7 tariff charges for calls over the allowance. Based on current rates, customers could  
8 experience savings of up to \$1.00 or \$1.25 per month in their charges for extended  
9 local calling. This plan has the potential for providing benefit to a large number of  
10 Sprint's residential customers as over 82 percent have extended local calling service  
11 available to them over 283 routes included in Sprint's proposal.

12  
13 **Q. Are there other consumer benefits provided by the legislation?**

14 A. Yes. The interexchange carriers ("IXCs") are required to return to their residential and  
15 business customers the benefits of access reductions they realize from the ILEC rate  
16 reductions. The reductions that customers experience in the rates for long distance  
17 calling will serve to offset the increases they will experience for basic local services.  
18 This offset will consist of eliminating, by January 1, 2006, any "instate connection  
19 fee" which for the "big three" IXCs is currently approximately \$1.90 per month, and  
20 flowing-through any residual switched network access charge reduction amount in the  
21 form of lower toll rates. Thus, IXC's residential customers currently being charged an  
22 instate connection fee will see a direct reduction in their monthly toll bill of about  
23 \$1.90, regardless of the amount of their toll calling volume. Thereafter, long distance  
24 users will receive the benefits of additional IXC flow-through toll price reductions.

25

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1   **Q.    What additional protections are there for those customers that are economically**  
2       **disadvantaged who might otherwise be impacted more significantly by the**  
3       **increases in basic local service?**

4   **A.**   As I stated previously, Section 364.10(3)(a) exempts Lifeline customers from the rate  
5       changes allowed by Section 364.164.  Additionally, Section 364.10 (3) (a) enhances  
6       the Lifeline program effective September 1, 2003, to allow any customer who meets a  
7       stand-alone income eligibility test at 125% or less than the federal poverty level to  
8       subscribe to Lifeline service without having to apply to a low-income assistance  
9       program.  Eligibility for these customers will be administered by the Office of Public  
10      Counsel.  Sprint implemented this new criterion as of August 1, 2003.  As further  
11      protection for Lifeline customers, Sprint will extend the Lifeline credit amount for an  
12      additional year beyond the two-year rebalancing period through at least the first  
13      quarter of 2007.

14

15   **Q.    What about universal service objectives?  Aren't you concerned that increasing**  
16       **residential local service rates will result in some subscribers dropping off the**  
17       **network?**

18   **A.**   No, for several reasons.  First, the 2003 Act has increased Lifeline service availability  
19       to a greater number of Florida's economically disadvantaged.  In fact, Lifeline is being  
20       expanded such that the requirement of participation in one of the six public assistance  
21       programs is not required.  Customers that have household incomes up to 125% of the  
22       Federal Poverty Level can apply to the Office of Public Counsel for approval for  
23       subscription to Lifeline service.  Additionally, as I stated previously, the rates for  
24       Lifeline service will not increase for a period of three years as a result of the  
25       rebalancing.

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Second, the empirical data from the other states that have increased their local service rates demonstrates that subscribership has not been adversely affected. Exhibit JMF-14, shows that of the seven other southeastern states, all of which have higher local service rates than Florida, each has increased its residence subscribership more than Florida's subscribership, except for Georgia, where subscribership has remained unchanged. Exhibit JMF-15 shows the subscribership for 1988 and November of 2002 for each of the seven other southeastern states.

Finally, from an ability to pay perspective, Florida customers have higher average incomes than any of the other seven states. Exhibit JMF-16 shows the per capita personal income for Florida as compared to the other states. Exhibit JMF-17 shows Florida's higher level of disposable personal income versus the seven other states. Nationally, Florida ranks 25<sup>th</sup> in per capita personal income, again higher than the other states as shown in Exhibit JMF-18, another indication of Florida's higher income relative to the other states.

**Q. You previously described Sprint's access rebalancing experience in Ohio and Pennsylvania. How do the rates for basic residential local service in those states compare to the rates in the Sprint revised plan for Florida?**

**A.** Sprint's rate for basic residential local service in Ohio averages \$16.55. The \$4.10 "intrastate access fee" authorized by the Ohio Commission brings the total charge for residential local service to \$20.65. In Pennsylvania, Sprint's current average residential local service rate is \$15.88 and based on the Pennsylvania Commission's recent order, it will move towards the cap of \$18 in 2004. Sprint's revised revenue-



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1 neutral plan for Florida will result in a weighted-average residential local service rate  
2 of \$16.84 (current average of \$9.98 plus increase of \$6.86 over Sprint's two-year  
3 plan). The resulting residential local service rate in Florida will be significantly below  
4 Sprint's rates in Pennsylvania and Ohio.

5  
6 **Q. Has Sprint experienced any significant changes in subscribership for residential**  
7 **basic local service as a result of the local rate increases in Pennsylvania or Ohio?**

8 **A.** No, there was virtually no negative customer reaction to the increases in local rates in  
9 these two states, either in the form of complaints to the Commission or decreases in  
10 subscribership. In Ohio, primary residential access lines declined approximately 1%  
11 during the six months following the local rate increase. In Pennsylvania, primary  
12 residential access lines declined less than ½ of 1 percent in the six months following  
13 the most recent local rate increase. Although minor declines in residential access lines  
14 were experienced in these states, there are many factors other than the local rate  
15 increases that influenced this trend, including the general state of the economy,  
16 wireless replacement and competition from other wireline carriers. As an illustration,  
17 Sprint's primary access lines for its entire 18 state local telephone division declined  
18 approximately .3 percent during 2001 and .5 percent in 2002, even though the other  
19 states were not experiencing the type of local rate increases that were ordered in Ohio  
20 and Pennsylvania.

21  
22 **Q. Do the changes in interstate access rates provide any evidence that the correct**  
23 **assignment for recovery of these costs to end users does not negatively impact**  
24 **universal service objectives?**

25 **A.** The FCC, in recognition of the problems of continuing service cross-subsidies in a

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1 competitive telecommunications markets, has been transitioning the support for local  
2 services provided through interstate access charges from toll users to local service via  
3 the End User Common Line or Subscriber Line Charge. Local subscribership,  
4 measured by the FCC's Telephone Penetration Data as the percentage of households  
5 with telephone service, has steadily increased even though the subscriber line charge  
6 has increased to \$6.50 for primary residential service as of July 2003. The subscriber  
7 line charge for residential and single-line business was initially implemented at a rate  
8 of \$1.00 on June 1, 1985. At that time, the FCC reported subscribership nationally at  
9 91.8%; as of November 2002, the latest available data, subscribership was at 95.3%.  
10 This is not surprising given that the increase in the recurring subscriber line charge  
11 rate has been offset by significant decreases in long distance rates and increases in  
12 consumer income.

13

14 **Q What is your conclusion regarding the significance of this data?**

15 **A.** The data conclusively demonstrates that basic local service rates in Florida can be  
16 increased without negatively impacting universal service or subscribership levels. In  
17 fact, when basic local service rates are increased on a revenue neutral basis, with  
18 access charge rate reductions flowed through to end user customers, along with  
19 Sprint's plan to provide the first five extended local calls free, universal service will be  
20 positively impacted. This is particularly true given that under Section 364,164, those  
21 most economically disadvantaged consumers, Florida's Lifeline subscribers, will not  
22 be subject to rate increases in their recurring local service rates from the rate  
23 rebalancing for three years and will have the benefit of reduced toll charges.

24

25 It is also worth noting that even with the basic local service price increases being

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1 implemented by Sprint, the residential basic local service prices will still be below the  
2 cost of providing the basic local service. As noted by Dr. Staihr and Dr. Gordon, there  
3 are significant benefits to the residential marketplace that will result from moving  
4 prices towards cost in terms of making the residential market more attractive to  
5 competitors and inducing enhanced market entry.

6  
7 **VI. CONCLUSION**

8  
9 **Q. Could you summarize Sprint's position in this proceeding?**

10 A. Through its petition and the testimony and exhibits of its witnesses in this proceeding,  
11 Sprint demonstrates that its revised plan for reducing intrastate network access rates  
12 in a revenue neutral manner meets all of the criteria established by the 2003 Act and  
13 should therefore be approved by the Commission. Specifically, granting Sprint's  
14 petition will:

15  
16 ➤ *Remove current support for basic local telecommunications services that*  
17 *prevents the creation of a more attractive, competitive local exchange market for*  
18 *the benefit of residential customers.*

19 My testimony, along with the cost study information supported by Sprint witness  
20 Dickerson, provides evidence that intrastate switched network access rates are  
21 providing support for Sprint's residential basic local telecommunications services.  
22 Sprint's witnesses Gordon and Staihr provide evidence that the removal of the  
23 current level of support for residential local services will create a more attractive,  
24 competitive local exchange market for the benefit of residential customers.

25

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1           ➤ *Induce enhanced market entry.*

2           Sprint witnesses Gordon and Staihr provide evidence demonstrating that approval  
3           of Sprint's petition will result in enhanced market entry by competitors.

4

5           ➤ *Result in intrastate switched access rate reductions to parity over a period of two*  
6           *years.*

7           My testimony describes Sprint's revised plan for implementing its revenue neutral  
8           intrastate switched access reductions over a two-year period, which complies with  
9           the 2003 Act provisions of a period of not less than two years or more than four  
10          years.

11

12          ➤ *Will be revenue neutral.*

13          My testimony describes Sprint's revised plan for decreasing intrastate network  
14          switched access rates to the January 2003 interstate levels and increasing basic  
15          local service rates to offset the access reductions. Sprint's revised plan fully  
16          complies with the provisions of the 2003 Act regarding revenue neutrality.

17

18       **Q.    Does this conclude your testimony?**

19       A.    Yes, it does.

20

21       h:\jpf\sprint\access charges\testimony\felz direct.doc

1 BY MR. FONS:

2 Q Mr. Felz, you did not file rebuttal testimony; is  
3 that correct?

4 A That is correct.

5 MR. FONS: Before we begin, I'm not sure whether it  
6 would be appropriate for me to do supplemental direct of  
7 Mr. Felz on the issues that have been raised during these last  
8 two days or whether you'd like him to summarize his testimony  
9 or none of the above.

10 CHAIRMAN JABER: Remind me what issues you want to  
11 address.

12 MR. FONS: I have the issues of the nonrecurring  
13 charges that you've asked about. I have several issues with  
14 regard to Lifeline. Mr. Felz is the witness to answer.

15 CHAIRMAN JABER: Let's go ahead and do it in the form  
16 of supplemental so that parties can cross-examine.

17 MR. FONS: Yes. Thank you. We'll do that before or  
18 after he summarizes?

19 CHAIRMAN JABER: Right now.

20 MR. FONS: Okay.

21 BY MR. FONS:

22 Q Mr. Felz, you were present here for the last two  
23 days; is that correct?

24 A That's correct.

25 Q And you're aware of the questions that the Chair and

1 several of the Commissioners have asked with regard to several  
2 topics, including nonrecurring charges and Lifeline?

3 A Yes.

4 Q And let me ask you some questions, if I may. With  
5 regard to the nonrecurring charges, can you tell me how the  
6 level of nonrecurring charges were developed?

7 A Yes. Sprint essentially began with an analysis of  
8 existing nonrecurring charge rates in comparison to their  
9 underlying cost to provide those functions. And the first step  
10 we looked at was to ensure that the proposed rates for  
11 nonrecurring charges that we have put forth in this proceeding  
12 exceeded -- equaled or exceeded the costs of providing those  
13 functions.

14 Q Perhaps it would be helpful to the Commission,  
15 Mr. Felz, did you file one of your exhibits, JMF-13, which  
16 addresses both the recurring and nonrecurring charges?

17 A Yes, I did.

18 Q And could you turn to that, please.

19 A Okay.

20 Q And the first bracket that you have there is  
21 individual access lines. Is that the access lines the same as  
22 the residential local and business service line?

23 A Bear with me just a second. Okay. I've got it now.

24 Q And this is your Amended Exhibit JMF-13?

25 A Yes, my amended exhibit.

1 Q And it sets out separately the individual access line  
2 rates and the service charges; is that correct?

3 A That's correct.

4 Q And I believe I've asked you how those were  
5 determined, and you indicated that you looked at whether or not  
6 they covered costs; is that correct?

7 A That was the first step in the process, yes.

8 Q Was there any other step that was taken to determine  
9 the setting of these -- this --

10 A Yes. We also received input from our consumer in  
11 business marketing organizations in terms of what the price  
12 points in the market that they believed were appropriate to be  
13 set for these nonrecurring charge elements.

14 Q And based upon the first criteria, are the rates that  
15 you propose cover the cost of providing these services  
16 associated with nonrecurring charges?

17 A Yes.

18 Q With regard to the second criteria, and that is what  
19 price would be acceptable in the marketplace, can you explain a  
20 little bit further what that entails?

21 A Well, as I said, we received input from the marketing  
22 organizations as to essentially the price points that could be  
23 established in the market that would ensure that it did -- they  
24 did not present a barrier to customers establishing service and  
25 doing the other functions that are associated with the service

1 charges shown here.

2 Q You heard the testimony -- or did you hear the  
3 testimony of Mr. Boccucci with Knology this afternoon?

4 A Yes, I did.

5 Q And did he testify in any respect with regard to the  
6 ILECs' service charges?

7 A Yes. I believe that he said that there are  
8 competitors out there who will provide service to customers in  
9 some cases without a nonrecurring charge.

10 Q So to the extent that Sprint or any ILEC were to  
11 price its service connection charges well above the cost of  
12 providing that service, would you expect that there would be  
13 competitive disadvantages to doing so?

14 A Yes, I would expect that.

15 Q And is it your testimony that the prices that are  
16 proposed here are acceptable prices in the marketplace?

17 A Yes, that is my belief.

18 Q Turning now to the Lifeline issue.

19 CHAIRMAN JABER: Before you leave that schedule, help  
20 me read it. I can see that the service charges on the bottom  
21 of this schedule, they appear to go to the business  
22 nonrecurring. Am I reading this incorrectly?

23 MR. FONS: I think, Madam Chair, that the left-hand  
24 side is residential and the right-hand side is business.

25 CHAIRMAN JABER: Which line do I need to look at,



1 Mr. Fons, for the total nonrecurring charge for residential and  
2 the total nonrecurring charge for business?

3 MR. FONS: I think Mr. Felz is better capable of  
4 answering that than me.

5 CHAIRMAN JABER: He doesn't want to testify anymore,  
6 so we'll have to let you do it.

7 THE WITNESS: Yes, Madam Chair. For installation of  
8 an access line, you would need to consider the primary service  
9 charge, which is listed in the first two lines there, and also  
10 the access line charge, which is listed in Lines 5 and 6. And  
11 those two added together would comprise the basic installation  
12 charge.

13 CHAIRMAN JABER: Thank you.

14 BY MR. FONS:

15 Q Turning to Lifeline. One of the questions that was  
16 asked was, what is Sprint's current proposal with regard to  
17 exempting Lifeline participants during the course of and  
18 following the implementation of the plan that Sprint has  
19 proposed here if permitted by the Commission?

20 A Well, Sprint's current proposal in compliance with  
21 the legislation is to exempt Lifeline customers from any  
22 increases from the rebalancing or rate increases that are  
23 associated with the revenue-neutral reduction in access rates  
24 for the period of -- that the rebalancing takes place. And for  
25 Sprint that is a two-year period in three successive

1 increments.

2 Sprint has further committed to not increasing the  
3 rates for Lifeline customers for an additional year beyond  
4 that, which assuming that the petition is granted, we would  
5 expect sometime in the first quarter of 2003 that this  
6 rebalancing would take place, so the freeze in Lifeline rates,  
7 if you will, under our proposal would continue through  
8 February of -- the first quarter of 2007, depending on the  
9 timing of when those increases became effective.

10 Q Are you aware of the commitment that was made by  
11 BellSouth with regard to the Lifeline exemption following the  
12 completion of the plan over the two years in three increments?

13 A Yes. It is my understanding that BellSouth has  
14 committed to a four-year freeze in Lifeline rates or exempting  
15 Lifeline rates from any increases for four years. And their  
16 beginning date is September 1st, 2003, which if I did the math  
17 correctly would essentially take that to September of 2007.

18 Q And has Sprint considered that commitment, and is  
19 Sprint willing to make the same commitment?

20 A Sprint has considered it and is certainly willing to  
21 make that same commitment.

22 Q And if you were to make that commitment when would  
23 your -- would you use the same four-year period that BellSouth  
24 has suggested, the September or October 2003 until sometime in  
25 2007?

1           A     Actually, Sprint's current plan, as I said, we have  
2 committed to an additional year through February of 2007, but  
3 practically Sprint's -- Lifeline customers would not be subject  
4 to any increases under Sprint's plan until October of  
5 2007 because that is the timing of when our annual price  
6 regulation plan filing comes up again.

7           Q     Mr. Felz, there was also a discussion about the  
8 federal poverty -- federal income poverty level this afternoon.  
9 Are you familiar with that?

10          A     Yes.

11          Q     And the request was whether or not Sprint would  
12 commit to using a 135 percent of the federal poverty level as  
13 the benchmark for Lifeline eligibility. Are you aware of that?

14          A     Yes.

15          Q     And Sprint will so commit?

16          A     Yes. Sprint will commit to utilizing the 135 percent  
17 of the federal poverty level as the eligibility criteria for  
18 Lifeline.

19          Q     Again, with regard to Lifeline, Commissioner Davidson  
20 asked the question as to the take rate of Lifeline customers  
21 for services other than just plain basic local exchange  
22 service. Were you familiar with that?

23          A     Yes.

24          Q     And have you looked to see what -- that that take  
25 rate is for Sprint-Florida?

1           A     Yes, I have. Based upon information through  
2 September of 2003, the percentage of Lifeline customers who  
3 subscribe to at least one ancillary service beyond basic local  
4 service is approximately 53 percent.

5           Q     And what is the source of that information?

6           A     That information was provided to the Commission staff  
7 in response to, I think, a general data request that was issued  
8 by the Commission staff.

9           Q     And do you know the date of that report to the  
10 Commission staff?

11          A     Just one second. I believe the -- Sprint's response  
12 was provided on October 16th. I don't have the date of when  
13 the Commission staff actually sent the request.

14               CHAIRMAN JABER: Let me make sure I understand what  
15 you just said. 53 percent of Sprint's customers that are on  
16 Lifeline also have some ancillary services.

17               THE WITNESS: Yes, that's correct.

18               MR. FONS: That's all the questions I have on  
19 supplemental direct.

20               CHAIRMAN JABER: Thank you, Mr. Fons. I appreciate  
21 the supplemental testimony.

22               MR. FONS: Thank you.

23               CHAIRMAN JABER: And summary?

24               MR. FONS: Yes.

25 BY MR. FONS:

1 Q Would you summarize your testimony?

2 A Yes, I will. Good evening. In my testimony, I  
3 support Sprint-Florida's amended plan to reduce its intrastate  
4 switched network access rates in a revenue-neutral manner as  
5 authorized in Section 364.164 of the Florida Statutes 2003.  
6 The legislation authorizes the Commission to grant reductions  
7 of intrastate switched network access rates in a  
8 revenue-neutral manner upon consideration of whether granting  
9 the petition will remove current support for basic local  
10 telecommunications services that prevents the creation of a  
11 more attractive competitive local exchange market for the  
12 benefit of residential customers; induce market entry; require  
13 intrastate network access rate reductions to parity over a  
14 period of not less than two years or more than four year; and  
15 be revenue neutral.

16 In my testimony utilizing cost information provided  
17 by Sprint Witness Dickerson, I demonstrate that the rates for  
18 basic local telecommunications services are being supported by  
19 revenues provided by intrastate switched access charges which  
20 are priced well above their costs. Sprint has estimated the  
21 impact of reducing its intrastate network switched access rates  
22 to parity with its interstate rates as approximately  
23 \$142 million. Sprint's plan reduces its intrastate access  
24 rates from approximately 10.4 cents per minute to approximately  
25 1.3 cents per minute.

1           The provisions of the legislation specify that if  
2 interstate -- I'm sorry, intrastate access rates are to be  
3 reduced, they must be reduced in a revenue-neutral manner.  
4 Sprint's plan provides for increases in basic local  
5 telecommunications services over two years accomplished in  
6 three increments. Rates for basic local service -- residential  
7 basic local service will increase by \$2.95 per month in the  
8 first increment, \$2.75 per month in the second increment, and  
9 \$1.16 in the third increment. Rates for single-line business  
10 service will increase on average by \$2.70 in the first  
11 increment, \$2.40 in the second increment, and 90 cents in the  
12 third increment.

13           Sprint's plan includes increases in certain  
14 nonrecurring charges in compliance with the provisions of the  
15 legislation which specify that the access reductions are not to  
16 be offset entirely by increases in the basic local service  
17 monthly recurring rate. Sprint's plan also includes provisions  
18 to ensure that Lifeline and pay telephone access lines are not  
19 impacted by the increases in basic local telecommunications  
20 service rates during the term of the revenue-neutral plan.

21           In addition, Sprint is committed to maintaining the  
22 Lifeline rates for an additional year, and as I said earlier,  
23 we've extended that to October of 2007. Sprint's plan also  
24 includes a provision which will reduce the amount residential  
25 customers pay for extended local calling services. Concurrent

1 with the approval of its plan, Sprint will provide a free call  
2 allowance of five extended local calls per month to residential  
3 customers. Based on current rates for these plans of 20 or 25  
4 cents, customers can experience savings of up to \$1 or \$1.25  
5 per month in their charges for extended local calling services.  
6 Although this provision will decrease Sprint's extended local  
7 calling revenues, Sprint has not considered this revenue  
8 reduction in its revenue neutrality calculations.

9 In summary, Sprint's plans for reducing intrastate  
10 network switched access rates in a revenue-neutral manner is  
11 fully compliant with the provisions of the Florida statutes.  
12 The plan will reduce intrastate switched network access rates  
13 by \$142 million to achieve parity with interstate switched  
14 access rates and will be accomplished over a two-year period in  
15 three increments. And that concludes my summary.

16 MR. FONS: Madam Chair, before I turn the witness  
17 over for cross-examination, my guardian angel has indicated to  
18 me that if I ask Mr. Felz the right questions, we may be able  
19 to get you the answer to your ECS questions.

20 CHAIRMAN JABER: Thank you.

21 MR. FONS: If I may proceed.

22 CHAIRMAN JABER: Will I like the answer?

23 MR. FONS: I'm not sure of that.

24 CHAIRMAN JABER: Okay. Go ahead.

25 BY MR. FONS:

1 Q Mr. Felz, can you tell us how much annual revenue ECS  
2 generates today?

3 A I believe the number is approximately \$24 million.

4 Q And under the Act, Section 364.164(2), are these  
5 revenues to be included in the revenue category mechanism to be  
6 created if the petition is granted?

7 A Yes. They are in the basic local telecommunications  
8 service category. And the revenue mechanism in the statutes  
9 essentially says that for the calculations of revenue  
10 neutrality, you would include basic local telecommunications  
11 services and intrastate switched access services.

12 CHAIRMAN JABER: Let me make sure I understand,  
13 Mr. Fons. Under the new law, if we grant the petitions, you  
14 get to create a basket that deals with the access charge  
15 reductions and the basic service rate increases. And what  
16 you're saying is the ECS revenues will be included in that  
17 basket such that there's an offset?

18 THE WITNESS: Well, the revenues are in the basket.  
19 I'm not sure I understand your question about offset.

20 CHAIRMAN JABER: Mr. Fons, maybe you can follow up  
21 for me. What I'm looking to understand is, are you saying that  
22 because the revenues are included in that basket they are  
23 somehow considered in the determination of revenue neutrality?

24 MR. FONTS: They would be, and I think if I ask the  
25 next question it will be clearer.



1 BY MR. FONS:

2 Q If the ECS revenues were to be eliminated in this  
3 proceeding, the \$24 million, what impact would that have on  
4 recurring monthly local rates, assuming that no additional  
5 increases can be achieved in basic nonrecurring charges?

6 A Well, if the \$24 million were eliminated, in order to  
7 remain revenue neutral in compliance with the legislation,  
8 basic local service rates would have to go up more.

9 CHAIRMAN JABER: I understand. I told you I wouldn't  
10 like the answer.

11 MR. FONS: That concludes my examination of the  
12 witness on this issue.

13 CHAIRMAN JABER: Commissioner Deason.

14 COMMISSIONER DEASON: Well, to me, that begs the  
15 question then, how were you able to come up with your five free  
16 call allowance and that not be included in your revenue  
17 neutrality calculation and that was okay?

18 THE WITNESS: Well, it's an order of magnitude issue,  
19 Commissioner Deason. As I said, the number is \$24 million. To  
20 totally eliminate the charges we did believe that there was  
21 some benefit to --

22 COMMISSIONER DEASON: Let me interrupt you. I  
23 understand the magnitude, and I don't mean to cut you off, and  
24 if you need to go that way, fine. But just let me explain that  
25 I took the question and answer to be one that this is legally

1 required, that if ECS were eliminated, the law requires you  
2 then to increase basic local rates even more to achieve parity.  
3 And my question is, if the law requires that, why then were  
4 you -- did you have the latitude to do the five free allowance  
5 and not have that part of the parity calculation? It looks  
6 like if the law requires one, it would require you to do both  
7 that way. That's the question.

8 THE WITNESS: Yes. I believe I understand your  
9 question. And I guess I would concede that the law does not  
10 require --

11 COMMISSIONER DEASON: So it's not a question of the  
12 law requiring, it's just a question of the financial impact of  
13 doing such.

14 THE WITNESS: That's correct.

15 BY MR. FONS:

16 Q And just for clarification purposes, with regard to  
17 the ECS allowance that Sprint is proposing, Sprint is not  
18 seeking to recover those dollars in any rebalancing?

19 A That's correct.

20 MR. FONS: The witness is available for  
21 cross-examination.

22 CHAIRMAN JABER: Mr. Fons, would your company at  
23 least participate in a generic investigation to further review  
24 what ECS charges are being assessed by companies, what parts of  
25 Florida, and whether or not there is a period of time that

1 those charges are eliminated?

2 MR. FONS: We will be -- we will participate in any  
3 such proceeding, yes.

4 CHAIRMAN JABER: Okay. The witness is tendered for  
5 cross. Mr. Beck.

6 MR. BECK: Thank you, Madam Chairman.

7 CROSS EXAMINATION

8 BY MR. BECK:

9 Q Good evening, Mr. Felz.

10 A Good evening.

11 Q Could you tell me how many Lifeline customers Sprint  
12 currently has in Florida?

13 A I believe that number was also provided in this  
14 response, and if you can give me just a second. I have as of  
15 September of 2003, 14,937.

16 Q Do you have any idea how many people are eligible for  
17 Lifeline in Sprint's territory in Florida?

18 A No, sir, I don't know.

19 Q Is there some movement afoot at the federal level  
20 concerning the eligibility at 135 percent of the poverty level?

21 A I am not familiar with that federal proceeding.

22 Q Could you turn to Page 29 of your testimony?

23 A Okay.

24 Q And in your testimony, you recount the experience in  
25 Ohio and Pennsylvania concerning rate rebalancing and the

1 effect that had on people dropping off the network; is that  
2 right?

3 A Yes.

4 Q And at Line 24 on Page 29, you state that in Ohio the  
5 primary residential access lines declined approximately  
6 1 percent during the six months following the local rate  
7 increase, and then you follow that with Pennsylvania was about  
8 a half of 1 percent in the six months following the local rate  
9 increase. Do you see that?

10 A Yes.

11 Q And then further down on Page 30, you state that  
12 there are other factors at work that may have had some impact  
13 or relationship to the losses you saw following the rate  
14 rebalancing in those two states; is that right?

15 A Yes.

16 Q You show a .3 percent decline in 2001 and .5 percent  
17 in 2002 across of all of Sprint's territories?

18 A Yes.

19 Q Since you gave percentage declines over a six-month  
20 period in Ohio and Pennsylvania at 1 percent and a half of a  
21 percent, wouldn't it be fairer to compare those declines to the  
22 half-year declines in your national territory?

23 A It would probably be fair to look at it. I haven't  
24 done that. I wouldn't expect that the changes would be  
25 significant.

1 Q Okay. And in Florida what would 1 percent of your  
2 access lines equal?

3 A Of what base of access lines?

4 Q Residential access lines, whatever -- you use primary  
5 residential access lines when you discuss Ohio and  
6 Pennsylvania, and I'm trying to get a feel for what that  
7 percentage -- what that would be reflected in in Florida if  
8 that were the case.

9 A 1 percent of 1.2 million roughly.

10 Q And what would that be?

11 A I'm having trouble doing the math here.

12 Q You're a CPA; right?

13 A No, I'm not certified.

14 Q About 12,000?

15 A 12,000.

16 MR. BECK: Thank you. That's all I have.

17 CHAIRMAN JABER: Mr. Shreve. Mr. Twomey.

18 MR. TWOMEY: Yes, ma'am.

19 CROSS EXAMINATION

20 BY MR. TWOMEY:

21 Q Good evening, sir.

22 A Good evening.

23 Q I want to ask you, on Page 3 of your amended direct  
24 testimony, you talk about, at Line 20, over 70 percent of  
25 Sprint's lines being residential, and you note that your

1 largest exchange, Tallahassee, has 218,638 access lines, while  
2 your smallest in Kingsley Lake has only 332 access lines;  
3 correct?

4 A Yes.

5 Q Do those access lines in each of those exchanges  
6 describe the local calling access -- local calling scope?

7 A No. Those are actual access lines.

8 Q How many -- in Kingsley Lake, for example, if you  
9 know, how many other telephones can a subscriber there in that  
10 exchange call on a local basis?

11 A I don't know the answer to that.

12 Q So it's not the same number? I'm sorry. Do you know  
13 if it's the same number as access lines?

14 A I don't know. It could be if -- it could be the same  
15 if there was extended area service into other exchanges,  
16 surrounding exchanges that could be higher.

17 Q But then it wouldn't be truly a local call anymore,  
18 would it?

19 A Well, if there was extended local -- extended area  
20 service, it would still be a local call.

21 Q Is your answer the same for Tallahassee in terms of  
22 what the local calling scope is?

23 A I do believe Tallahassee has some extended calling  
24 capabilities.

25 Q Starting on Page 5, you talk about how rates were

1 established historically in the monopoly environment; correct?

2 A Yes.

3 Q Would it be fair to discuss the fact -- or isn't it  
4 true that the rates were eventually set in parts, you don't  
5 discuss I don't think, using a value of service concept?

6 A Are you talking about residential local service  
7 rates?

8 Q Well, yes, sir. Initially weren't rates historically  
9 once you had your revenue requirement and you had your residual  
10 amount left, weren't those increases distributed across the  
11 different rate groups based upon a value of service concept  
12 that looked at what in part what the calling scope was, the  
13 local calling scope?

14 A Yes. The value of service, including the ability to  
15 make local calls, has been a consideration in the development  
16 of the rates.

17 Q And going back to Page 3, would you concede that the  
18 value of a telephone in Tallahassee probably has greater value  
19 than that in Kingsley Lake if you measure value by the number  
20 of people you can call on a local call basis?

21 A If that were your only measurement of the value, I  
22 would say that's correct.

23 Q What other values would you use?

24 A Well, other values that might be important to  
25 customers might be the ability to make and receive long

1 distance calls, to be able to access emergency services, other  
2 things other than just the number of people they are able to  
3 call on a local basis.

4 Q I don't mean to belabor this, but isn't it generally  
5 true that those other things you just mentioned exist in all  
6 your rate groups pretty much on a par?

7 A Yes, I would agree with that.

8 Q Okay. I want to ask you, at Page 6, Line 21, rates  
9 were originally established in a docket you give there. Do you  
10 know, Mr. Felz, if rates were -- increases, if there were  
11 increases, were imposed on a percentage basis in that case?

12 A No, I do not.

13 Q Do you know whether that was the practice in this  
14 state at that time?

15 A No, I don't.

16 Q How about on Page 7? The two dockets listed there,  
17 okay, on Line 8 and Line 14, the same question. Do you know  
18 whether those rate changes were imposed, if there were changes,  
19 I'm sorry, the middle of Line 8, if those changes were imposed  
20 on a percentage basis or a uniform dollar rate?

21 A Let me make sure I understand your question. Whether  
22 the rate increases were applied across rate groups on a  
23 percentage basis. Is that your question?

24 Q Yes, sir.

25 A No, I don't know under what basis they were applied.



1 Q Because what you're asking the Public Service  
2 Commission to approve in your case is a -- my understanding, it  
3 is a uniform application of a \$6.86 rate increase to all rate  
4 groups irrespective of their geographic size and location;  
5 correct?

6 A That's correct.

7 Q Is it your testimony that you don't know whether  
8 applying uniform dollar amounts to all rate groups is a  
9 departure for rate increases for this company in this state?

10 A In these specific proceedings, no, I don't know.

11 Q On Page 8, you testify to the fact that -- I think  
12 starting at Line 7, you say, "The 1995 Act established a target  
13 for intrastate switched access rates as the December 31st,  
14 1994 interstate switched network access rate levels and  
15 provided for a 5 percent annual reduction in access charges."  
16 Do you know whether the IXCs were required to reduce their  
17 in-state toll rates to their customers as a result of that  
18 access fee reduction?

19 A Yes, I believe there was a flow-through requirement.

20 Q Do you know how long it was required to be in place?

21 A I don't know if there were any specific requirements.

22 Q Okay. The next one starting at 12, it discusses the  
23 fact that in '98 the Legislature required a 15 percent  
24 reduction apparently over two installments of 5 percent and 10  
25 percent each; is that correct?

1 A Yes.

2 Q And are you aware, Mr. Felz, whether in that case the  
3 IXC's were again required to reduce their in-state rates to  
4 their customers?

5 A Yes, I believe there was a flow-through requirement.

6 Q If you know, isn't that last example the rate  
7 reduction after which the IXC's or some of them were accused of  
8 rapidly increasing their in-state tolls again at or near the  
9 minimum flow-through period?

10 A I'm not familiar with that.

11 Q Do you have any reason to believe that the IXC's in  
12 this case would leave their rate reductions in effect for a  
13 period any longer than it would take to establish parity?

14 MR. FONS: Object to the form of the question, calls  
15 for speculation, no foundation.

16 BY MR. TWOMEY:

17 Q Do you know what the minimum period of time required  
18 by the statute is under which the IXC's must maintain the  
19 flow-throughs of the access fee reductions that you pass on to  
20 them?

21 A Well, it's my understanding of the legislation that  
22 there is no specific requirement other than the IXC's are  
23 required to flow through those decreases in access rates to the  
24 benefit of the residential and business customers. I mean, the  
25 practical consideration, as other witnesses have already said

1 and you'll likely hear from the long distance companies as  
2 well, is that the competitive marketplace will be a gatekeeper  
3 to ensure that those access reductions are continued to be  
4 recognized in intrastate long distance rates as we go forward.

5 Q I see. Before I forget, help me understand, in  
6 response to the Chairman's question and Commissioner Deason's,  
7 is it your testimony that if you get rid of those ECS zones,  
8 that it's your intention, in fact, to increase your rates by an  
9 additional \$24 million?

10 A No, that was not my testimony.

11 Q Well, is that the company's intention, to increase  
12 the rates by an additional \$24 million?

13 A Mr. Fons posed a question to me of if the \$24 million  
14 in ECS charges were to be eliminated, would that necessarily  
15 change the local rate increases that we are proposing in this  
16 proceeding. And Sprint's filing in this case is not to reduce  
17 or eliminate the ECS charges. I believe in response to Chair  
18 Jaber's question to Mr. Fons, if we would participate in  
19 reviewing whether on a go-forward basis those charges are  
20 appropriate and what could be done to reduce or eliminate them,  
21 we certainly would commit to doing that. But there is no  
22 proposal at this point for us to eliminate \$24 million and  
23 recover it.

24 Q Okay. I'm still not clear. If for some reason you  
25 do eliminate them, wasn't it your testimony in response to

1 Mr. Fons's questions that you would necessarily need to  
2 increase the local rates, the remaining local rates by  
3 \$24 million in order to achieve statutory revenue neutrality?

4 A Yes, I did say that initially in a conversation with  
5 Commissioner Deason. I retracted that and basically said that  
6 the legislation would not mandate that we be allowed to recover  
7 those.

8 Q Are you in a position to commit that you will not if  
9 the ECS rates are eliminated? Can you commit that the company  
10 won't seek to raise the other rates by an additional  
11 \$24 million?

12 MR. FONS: Madam Chair, if I may. We've already  
13 committed to work with the Commission on a way to address this  
14 issue. The witness has already testified the financial impact  
15 and what the company would be faced with. This is a brand new  
16 issue, and I think it would be unfair to require the witness at  
17 this point in time to commit to something that the company has  
18 not examined in the detail that I think you perceived we would  
19 get to examine it on a generic proceeding.

20 CHAIRMAN JABER: Mr. Fons, here's my dilemma. I'm  
21 very interested in the answer to that question.

22 MR. FONS: I'm sure you would be.

23 CHAIRMAN JABER: And I don't think it's a new issue.  
24 I think that an option is to look at a generic investigation,  
25 and I'm very pleased that you've committed to participating in

1 that. And recognizing that, hypothetically speaking, if this  
2 Commission thought it had enough evidence in this record to  
3 eliminate or reduce the ECS rate, is this witness suggesting  
4 that any loss of revenue would be recovered through local  
5 rates? That's my question.

6 MR. FONS: I think you have to pose that to the  
7 witness.

8 CHAIRMAN JABER: Okay.

9 THE WITNESS: I'm sorry?

10 CHAIRMAN JABER: Mr. Felz, do you need me to repeat  
11 the question?

12 THE WITNESS: Yes, if you wouldn't mind.

13 CHAIRMAN JABER: No, I don't mind at all. If for  
14 whatever reason this Commission thought it had enough evidence  
15 in the record to either eliminate or reduce the ECS rates for  
16 Sprint, is it your position that your company would seek to  
17 recover the associated revenue with ECS by increasing local  
18 rates?

19 THE WITNESS: Well, Commissioner Jaber, I can't  
20 commit at this point that my company would be willing to  
21 essentially give up \$24 million of revenue. As to what the  
22 appropriate amount that we might be willing to consider and  
23 what would be the appropriate transition or way to mitigate  
24 that whole \$24 million, I think that is better served for a  
25 separate discussion, as Mr. Fons has suggested. I know you

1 want an answer, but I simply cannot commit to that kind of an  
2 impact to my company as we sit here.

3 CHAIRMAN JABER: That's fair.

4 MR. SHREVE: Commissioner Jaber?

5 CHAIRMAN JABER: Mr. Shreve.

6 MR. SHREVE: Since this is a new area that has not  
7 been discussed before, I would have a further question to  
8 clarify.

9 CHAIRMAN JABER: Let's let Mr. Twomey finish, and  
10 we'll come back to you.

11 MR. SHREVE: All right. Well, this is really not  
12 even a cross-examination question. It goes into the discussion  
13 you just had. I'm wondering if we're at the point that if you  
14 had this separate docket that Sprint has committed to  
15 participate in, are they saying that they would agree that the  
16 Commission has the authority to lower those rates if the  
17 Commission wants to?

18 CHAIRMAN JABER: That's a question, Mr. Shreve.

19 MR. SHREVE: Because I don't know for sure that the  
20 Commission has that authority, so then that might be a nullity  
21 if that's the case.

22 CHAIRMAN JABER: That's a question, Mr. Shreve. And  
23 certainly that's a question that would be addressed in whatever  
24 proceeding.

25 Let me finish my train of thought, Mr. Felz. The

1 disagreement you have with Mr. Shafer's proposal, that's not in  
2 terms of revenues, that's only in terms of how many years  
3 you'll use to recover revenues; right?

4 THE WITNESS: Yes, that's correct.

5 SPEAKER: (Inaudible. Microphone off.)

6 CHAIRMAN JABER: No, I'm watching them settle an  
7 issue, hopefully.

8 MR. FONS: I'm afraid we can't settle in this  
9 instance.

10 CHAIRMAN JABER: Mr. Shreve, I'm not ignoring your  
11 question --

12 MR. SHREVE: No, I understand.

13 CHAIRMAN JABER: -- but I think your question would  
14 be one that's right for a proceeding.

15 MR. SHREVE: The only reason I mentioned that is  
16 because with the discussion without the authority, the  
17 discussion itself is a nullity even with a future docket  
18 coming.

19 CHAIRMAN JABER: Well, we should leave that for the  
20 docket.

21 Mr. Twomey.

22 MR. TWOMEY: Yes, ma'am. I'm almost there.

23 BY MR. TWOMEY:

24 Q Mr. Felz, if you'll turn to Page 22 of your  
25 testimony. The increases you start discussing at Line 11, they

1 still comprise from 60 to 90 percent increases over your basic  
2 residential rates now depending upon rate group irrespective of  
3 whether they are imposed over a two- or three-year transition;  
4 is that correct?

5 A Well, your percentage calculations of just the basic  
6 rate are correct, but I think that limits the amount that the  
7 customers total bill is, and as a result, these increases are  
8 not a 60 to 90 percent increase in their total bills.

9 Q I'm sorry. I've lost you now. Did you agree with me  
10 that when you apply the \$6.86 to your smallest rate group  
11 current rates, you get a 90 percent increase and that when you  
12 apply it to your largest rate group current rates, you get  
13 approximately a 60 percent rate increase?

14 A Yes, that's correct if you're only considering the  
15 rate for basic local service. I was just pointing out that a  
16 customer pays for more than just basic local service, so the  
17 percentage increase that they will see in their total bill is  
18 not 60 to 90 percent.

19 Q I see. Well, what will they be?

20 A What will the --

21 Q What percentage will they see in their total bill?

22 A Obviously it would vary by customer and what services  
23 and other products they might purchase from us or from long  
24 distance carriers.

25 Q Let me ask you this. You all have just recently,



1 very recently, is it not true, increased your basic service  
2 rates by the inflation minus 1 percent factor as well as  
3 imposed increases generally for your vertical services in this  
4 area?

5 A Yes.

6 Q So if we only looked at the basic local service rates  
7 you are proposing here and then looked at the other service  
8 offerings in terms of vertical services and so forth, the total  
9 monthly bill would be even larger than it is now; right?

10 A I am not following your question.

11 Q Well, I took it by your response to my question that  
12 you were suggesting that the rate increases might be lower than  
13 60 to 90 percent; is that correct?

14 A What I said was that looking at just the basic local  
15 service increase and saying that a 60 to 90 percent increase  
16 may be misleading because the customers total bill is not  
17 increasing by 60 to 90 percent.

18 Q Why? Because they might have increased use of  
19 in-state tolls at lower rates?

20 A Because they might have other services. Let's say,  
21 for instance, a customer has caller ID and call waiting that  
22 might take their total bill to \$30. A \$6.86 increase on a \$30  
23 bill is not 60 to 90 percent.

24 Q Oh, I see. Okay. I got you. Thank you. Now, if we  
25 were to add another \$24 million onto the -- what is the total

1 amount that Sprint is requesting in this proceeding? 184--

2 A The total amount of the reduction, access reduction  
3 and revenue increase in local is 142 million.

4 Q I'm sorry. 142. So what percentage would -- so that  
5 would be another roughly 17 percent increase on average above  
6 the requested increases if for some reason you were to seek an  
7 additional \$24 million; correct?

8 A Well, I don't think it's been established that we  
9 will be seeking any \$24 million increase or that EAS or ECS  
10 would be eliminated as part of this proceeding.

11 Q Yes, sir. I understand that. But on straight  
12 mathematics, if you take 24 of 142, it's about another  
13 17 percent; right?

14 A Well, but the part that you would not be considering  
15 in that is that we would be eliminating -- if your scenario  
16 were to be followed, we would be eliminating \$24 million of ECS  
17 revenue.

18 Q Okay. On Page 27 -- I want to finish up with the  
19 questions on Lifeline. Now you told -- is it correct you told  
20 Mr. Beck that the most recent figure you had was that there  
21 were about 14,900-and-something Sprint customers in Florida  
22 receiving Lifeline benefits?

23 A Yes, sir.

24 Q Okay. And you increased your eligibility factor to  
25 125 percent of the poverty level relatively recently, did you

1 not?

2 A Yes, we did.

3 Q When was that?

4 A I believe it was August 1st of 2003.

5 Q Do you know how many additional people you've  
6 recruited to the Lifeline participation since that change?

7 A No, I don't know those numbers.

8 Q But the number eligible obviously mathematically had  
9 to go up; right?

10 A Yes, I'm sure that that is the case.

11 Q So that if you haven't added appreciable numbers,  
12 then your take percentage mathematically has to go down; right?

13 A I'm sorry. Could you restate the question? I didn't  
14 follow it.

15 Q Yes. Let's say that you had 14,937 Lifeline  
16 participants receiving financial aid on the day before you  
17 changed to 125 percent of eligibility.

18 A Okay.

19 Q So there was a certain number that we don't know  
20 apparently that were eligible for Sprint Lifeline assistance at  
21 the 100 percent level, which is the old level; right?

22 A Correct.

23 Q And then when you went to 125 percent, that  
24 presumably went up by a quarter; right?

25 A Okay.

1 Q And the next day, your take ratio would have had to  
2 have gone down mathematically because you had the same number  
3 of participants but a larger body eligible; correct?

4 A Yes. But I would say that I wouldn't expect on the  
5 day after that change takes place that we would immediately  
6 have a whole group of new Lifeline customers waiting at the  
7 door to sign up for this service. I would certainly expect  
8 that over time that that -- those newly eligible customers will  
9 take advantage of that Lifeline eligibility.

10 Q Yes, sir. But my next is going to be, if for some  
11 reason the Commission or anybody, for that matter, decided that  
12 there was some type of inherent advantage to the general body  
13 of your ratepayers by increasing the eligibility for Lifeline  
14 to 135 percent of the poverty level and you didn't appreciably  
15 go out and recruit or if -- not you, but if additional  
16 participants were not recruited aggressively, then that would  
17 generally be without much meaning, wouldn't it?

18 A I don't think that it would be without meaning. I  
19 would certainly agree with you that there should be some effort  
20 by the company and likely by the Commission and others to  
21 increase people's awareness of their eligibility for Lifeline.

22 MR. TWOMEY: Thank you. That's all I have.

23 THE WITNESS: Thank you.

24 CHAIRMAN JABER: Staff.

25 MR. FORDHAM: Just a few, Madam Chairman.

## CROSS EXAMINATION

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BY MR. FORDHAM:

Q Good evening, Mr. Felz.

A Good evening.

Q My name is Lee Fordham, and I have just very few questions for you, sir. Referring back, we discussed very briefly Staff Witness Shafer's suggestion about spreading out Sprint's increases over one more increment than those of BellSouth and Verizon. Just a couple of questions on that, sir.

Would you agree that, first of all, Sprint's proposed basic local service increase for residential customers after the final adjustment is made at the end is going to be \$2 more than Verizon's and at least \$3 more than BellSouth, depending on the methodology of the computation? Is that a correct statement, sir?

A Mr. Fordham, I have not done those comparisons. So I am not sure that -- I'm not quibbling with your numbers, but I just haven't looked at it in that fashion.

Q Did you do any of the work at all on the amount of the distribution of the increases?

MR. FONS: You're talking about Sprint's increases?

MR. FORDHAM: Yes.

THE WITNESS: Yes.

BY MR. FORDHAM:

1 Q Would it be fair to say that Sprint's proposed  
2 first and second adjustments for the increase are at least a  
3 dollar more per month than those for BellSouth and Verizon?

4 A Yes, that is correct.

5 Q If Sprint did spread its proposed local service  
6 increase over an additional increment, would that cause each of  
7 Sprint's incremental rate adjustments to be somewhat closer to  
8 BellSouth's and Verizon's?

9 A To go to another year would certainly by its nature  
10 result in each of the existing three increments going down and  
11 would bring them closer to those of BellSouth and Verizon.

12 Q Somewhat close to the other two?

13 A Closer. Sprint's overall increase is more than  
14 BellSouth's and Verizon's, so I haven't done the math to see  
15 what a four increment would look like. But it would be closer,  
16 certainly, with an additional year to Verizon and BellSouth.

17 Q Okay. Moving on, sir. Referring to amended  
18 Exhibit JAM-12, approximately what dollar amount of access  
19 charges in that exhibit are attributable to wireless carriers?

20 A I know that that was a response to a discovery  
21 question from staff, and if you'll bear with me just a second.  
22 I just wanted to make sure I had the right number.

23 Q Does \$1,350,000 sound approximately correct, sir?

24 A Yes.

25 Q Okay. Just to save a little time here.

1 A Thank you.

2 Q Now, assuming that the revenue received from the  
3 wireless carriers were to be removed from the calculation,  
4 would the proposed increase to Sprint's proposed basic service  
5 increases be reduced if that were removed from the calculation?

6 A Yes, it would.

7 Q Okay. Moving on. There's been some discussion on  
8 the ECS calls, but I wanted to pursue that just a little bit  
9 more, sir. As I understand Sprint's proposal -- or is it your  
10 understanding that Sprint's proposal includes five free ECS  
11 calls per month?

12 A Yes, that's correct.

13 Q Now, if you recall, sir, in your deposition, we  
14 requested and you responded with a late-filed exhibit where you  
15 provided information regarding the usage demographics of ECS in  
16 Sprint's territory. Is it correct, sir, that according to that  
17 late-filed exhibit the average number of ECS calls made by all  
18 Sprint residential consumers is 4.1 per month? Does that sound  
19 correct, sir?

20 A Yes.

21 Q And for those customers who consistently use ECS, if  
22 we limit our calculation only to that group, the customers that  
23 consistently use ECS, is it correct, sir, that they make an  
24 average of 10.6 ECS calls per month?

25 A Yes.

1 Q Now, did that late-filed exhibit also demonstrate  
2 that the -- that approximately 19 percent of the residential  
3 customers make five or more ECS calls per month?

4 A Of all residential customers --

5 Q Correct.

6 A -- yes, that's correct.

7 Q For all the residential customers in the Sprint base,  
8 only 19 percent make five or more ECS calls per month; is that  
9 correct, sir?

10 A Yes, that is correct. I'd just like to point out  
11 that just because they don't make five calls doesn't mean that  
12 they would get a benefit. Anybody making one calls, two calls,  
13 three calls, four calls would also receive a benefit.

14 Q But that would be somewhat of a reduced benefit,  
15 would it not, if you would not --

16 A It would certainly be a smaller benefit, but there's  
17 also consideration that customers who know that they're not  
18 going to have to pay for the first five calls may take the  
19 opportunity to make more calls.

20 Q But based on your current statistics, is it correct,  
21 sir, that only 19 percent of the residential customer base  
22 would get the full benefit of that provision?

23 A Yes, that's correct.

24 MR. FORDHAM: Thank you, sir. Staff has no further  
25 questions.



1 THE WITNESS: Thank you.

2 CHAIRMAN JABER: Commissioners, do you have any  
3 questions?

4 Redirect.

5 MR. FONS: No redirect.

6 CHAIRMAN JABER: Mr. Felz, thank you for your  
7 testimony. You may be excused.

8 (Witness excused.)

9 CHAIRMAN JABER: And, Sprint, you have Exhibits 69  
10 and 70; without objection will be admitted into the record.

11 (Exhibits 69 and 70 admitted into the record.)

12 CHAIRMAN JABER: Now, staff tells me there's a  
13 possibility that Mr. Poag's testimony can be inserted into the  
14 record without cross; is that true?

15 Mr. Twomey, I'm looking at you.

16 MR. TWOMEY: Would you say that again? I didn't hear  
17 a word you said. I apologize.

18 CHAIRMAN JABER: Which is probably not a bad thing.  
19 I've been told by staff that it's quite possible we can insert  
20 Mr. Poag's testimony into the record without cross. Is that  
21 possible?

22 MR. TWOMEY: Yes.

23 CHAIRMAN JABER: Thank you. Let's go ahead and do  
24 that before we adjourn for the evening. Mr. Twomey, is there  
25 anything you haven't heard me say because there are some more

1 witnesses if you -- all right. Ms. Masterton.

2 MS. MASTERTON: I was going to do Mr. Poag.

3 CHAIRMAN JABER: Can I make it easy for you --

4 MS. MASTERTON: Yes.

5 CHAIRMAN JABER: -- and assume that there are no  
6 changes to Mr. Poag's direct testimony?

7 MS. MASTERTON: That's correct.

8 CHAIRMAN JABER: Therefore, his prefiled direct  
9 testimony can be inserted into the record as though read?

10 MS. MASTERTON: Yes.

11 CHAIRMAN JABER: And there are no exhibits to  
12 Mr. Poag's testimony.

13 MS. MASTERTON: No exhibits, that's correct.

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1                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                                   **REBUTTAL TESTIMONY**

3   **OF**

4   **F. BEN POAG**

5  
6   **Q.    Please state your name and business address.**

7   **A.**My name is F. Ben Poag. I am employed as Director-Regulatory Affairs for Sprint-  
8           Florida, Inc. My business mailing address is Post Office Box 2214, Tallahassee,  
9           Florida, 32301.

10  
11   **Q.    What is your business experience and education?**

12   **A.**I have over 35 years experience in the telecommunications industry. I started my  
13           career with Southern Bell, where I held positions in Marketing, Engineering, Training,  
14           Rates and Tariffs, Public Relations and Regulatory. In May, 1985, I assumed a  
15           position with Sprint (United Telephone Company of Florida at the time) as Director-  
16           Revenue Planning and Services Pricing. I have held various positions since then, all  
17           with regulatory, tariffs, costing and pricing responsibilities. In my current position I  
18           am responsible for regulatory matters. I am a graduate of Georgia State University.

19  
20   **Q.    Have you previously testified in State Regulatory Proceedings?**

21   **A.**Yes, in various proceedings before this Commission.

22  
23   **Q.    What is the purpose of your testimony?**

24   **A.**The purpose of my testimony is to rebut allegations by Messrs. Gabel and Cooper that  
25           Sprint's residential consumers will not benefit from creating a more competitive

1 market. I do so by reviewing the testimonies of the Sprint customers appearing at the  
2 public hearings held in this proceeding. I have attended two of the hearings in person  
3 and reviewed the transcripts of all of the Sprint customer witnesses. In addition, I am  
4 responding to some of the allegations and contentions made by persons at the public  
5 hearings.

6  
7 **Q. Please summarize the results of your review and your observations?**

8 **A.** Based on my review of the transcripts, in total there were only 53 total Sprint  
9 customers providing comments at the Ocala, Orlando, Ft. Myers, Ft. Walton Beach  
10 and Daytona Beach public hearings. To put this in quantitative perspective, we serve  
11 approximately 1.67 million basic service customers. Thus, only a very small  
12 percentage of the total basic service customers attended the hearings and presented  
13 testimony.

14  
15 Virtually all of the customers, with only a few exceptions, stated that they did not want  
16 to see their local phone service rates increased. Many stated that they would not  
17 benefit from the toll rate reductions as they use prepaid calling cards or their cell  
18 phones to place their long distance calls. Others indicated they would subscribe to cell  
19 phone service if their local service rates were increased and several customers  
20 indicated that they use the internet rather than place long distance calls. Even though  
21 many indicated that they did not have landline local service competitive alternatives  
22 available, it is significant to note that these customers were knowledgeable of and are  
23 embracing the competitive alternatives that are available to them, i.e., internet, cell  
24 phones and prepaid calling cards.

25

1 **Q. Did any of the customers indicate a desire for landline local service competition?**

2 **A.** Several customers did express a desire for an alternative provider. In fact, one Ft.  
3 Walton Beach area customer actually attempted to get service from a competitive local  
4 provider using the list of competitive companies in the Sprint directory. However,  
5 none of the companies he contacted provided residential local service and one  
6 company indicated they only served business customers with at least six lines.

7

8 **Q. Well aren't companies such as AT&T and MCI offering competitive services to**  
9 **residential customers?**

10 **A.** Currently, because Sprint's residential basic local service prices are heavily subsidized,  
11 in order for AT&T and MCI to make a profit in the residential market, their offerings  
12 are mainly targeted to the high volume customers that make a lot of toll calls and/or  
13 subscribe to bundles of optional features and take calling plans. The prices for these  
14 bundled local and toll competitive offerings generally are in the \$45.00 plus range.  
15 The targeted customers likely cover their costs and make some contribution to the cost  
16 of other customers. However, as the ILECs lose this more profitable customer base, a  
17 greater share of the cost burden of the carrier-of-last-resort will need to be recovered  
18 from the remaining customers that are being subsidized. It is a mistake to believe that  
19 the current prices and price structures that evolved in a monopoly environment can be  
20 sustained in a competitive market where, logically, competition flourishes in areas  
21 where prices/cost distortion are prevalent. However, consumers will benefit in the long  
22 run when competition is there for the greatest number of customers, not just the high  
23 volume low cost customers. And, it will be a more sustainable competitive market as  
24 competitors will not base investment decisions on transitional pricing signals which  
25 cannot be sustained in the long run.

1    **Q.    Since many of the witnesses at the public hearings indicated they would not**  
2    **benefit from intrastate toll reductions because they use their cell phones or**  
3    **calling cards, how will they benefit?**

4    **A.**    First, there is a basic misunderstanding that using cell phones to make long distance  
5    calls results in free long distance. Although the cell phone end user does not have to  
6    pay a "toll" charge, the cell phone user is using minutes charged against a package of  
7    minutes or on a per-minute basis. If we accept the economic premise that prices will  
8    more toward costs in a competitive market, then all access purchasers will see their  
9    expenses reduced. As this occurs, these expense reductions will flow through to end  
10   users of toll services, including calling cards and cell phone users. Additionally, when  
11   toll rates are reduced for landline customers, customers using their cell phones to place  
12   long distance calls may, depending on the type plan they have, modify their usage and  
13   place their long distance calls on their land line phones as opposed to paying for  
14   additional cell phone usage.

15  
16   **Q.    Will customers using the prepaid long distance calling cards benefit if the**  
17   **companies petitions are granted?**

18   **A.**    Yes. The retail calling cards have a margin built in to cover the cost of the access  
19   charges interexchange long distance carriers (IXCs) incur to originate and terminate  
20   the calls made by the card users. Obviously, as the IXCs access costs are reduced  
21   these cost reductions will flow through to calling card retailers as the IXCs reduce the  
22   price of the wholesale product to compete for the retailer business. The retailers, in  
23   order to compete with the lower priced long distance flow-through rates of the IXCs,  
24   will be forced by the market to reduce the rates for the prepaid cards. Otherwise, with  
25   the decreased long distance rates customers may determine it is not worth the trouble

1 to purchase prepaid cards in lieu of using their land line telephone to originate their  
2 toll calls. Thus, end user customers can benefit if they continue to use the prepaid  
3 calling cards or if they elect to stay home and take advantage of reduced long distance  
4 rates. The margin is very slim in the calling card market and the rates reflect both  
5 interstate and multiple intrastate calling patterns and associated access costs.  
6 Therefore, the level of the access reductions flow through will not be at the same level  
7 as for retail end user rate reductions and will likely not be reflected in the retail prices  
8 until the cost reductions work their way through the competitive bidding process.

9  
10 **Q. Were there any other issues addressed in Sprint-Florida's Petition which**  
11 **customers testified about at the hearings?**

12 **A.** Yes. Multiple customers testified about ECS calling rates/routes in their area and their  
13 desire to see those charges eliminated. Customers can benefit in one of two ways from  
14 granting Sprint's Petition. First, as part of Sprint's proposal, the company will provide  
15 each customer with five free ECS calls each month. Second, Sprint has previously  
16 opened up the dialing plan on all ECS routes within Sprint's local territory and  
17 allowed customers to place ECS calls as toll calls if the customer desires. If the  
18 customer chooses to place the call as an ECS call, then they dial seven or ten digits  
19 and the call is carried and billed by Sprint-Florida as an ECS call. If the customer  
20 dials the call with 1+10 digits, then the call is carried, rated and billed by their  
21 presubscribed toll carrier. Therefore, as IXCs flow through their access reductions to  
22 their toll customers, those customers dialing 1+ over ECS routes will likely see a  
23 reduced toll rate.

24  
25 Several customers also testified that the telecommunications industry is a declining

**SPRINT-FLORIDA, INC.**  
**DOCKET NO. 030868-TL**  
**FILED: November 19, 2003**

1 cost industry and therefore, the companies should be providing rate decreases not rate  
2 increases. Given the magnitude of the current differential between cost and price for  
3 residential basic local service, declining cost does not seem to be a relevant issue.  
4 Further, prices for Sprint's basic local services have increased by only a .6% annual  
5 average over the last 10 years. In this same period, the consumer price index has  
6 increased more than four times the average rate of increase for basic local service  
7 prices.

8

9 **Q. Does that conclude your testimony?**

10 **A. Yes.**

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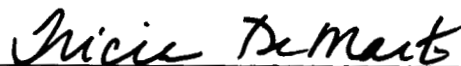
1 STATE OF FLORIDA     )  
2                             :             CERTIFICATE OF REPORTER  
3 COUNTY OF LEON        )

4  
5 I, TRICIA DeMARTE, RPR, Official Commission Reporter, do  
6 hereby certify that the foregoing proceeding was heard at the  
7 time and place herein stated.

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

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

18 DATED THIS 12th DAY OF DECEMBER, 2003.

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