

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of

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

DOCKET NO. 030867-TL

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

DOCKET NO. 030868-TL

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

DOCKET NO. 030869-TL

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

DOCKET NO. 030961-TI

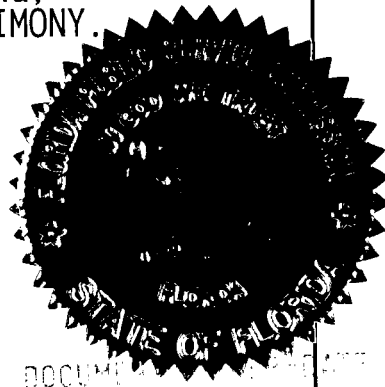
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FLORIDA PUBLIC SERVICE COMMISSION



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

DATE: Friday, December 12, 2003

TIME: Commenced at

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

REPORTED BY: LINDA BOLES, RPR
Official FPSC Reporter
(850) 413-6734

APPEARANCES: (As heretofore noted.)

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COMMISSIONER JABER: All right. Let's get back on the record.

MCI, where we left off, you were about to call Mr. Dunbar.

MS. McNULTY: Yes. Good afternoon. MCI calls to the stand Joe Dunbar.

JOSEPH DUNBAR

was called as a witness on behalf of MCI WorldCom Communications, Inc. and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. McNULTY:

Q Good afternoon, Mr. Dunbar. Please state your name and business address for the record.

A My name is Joe Dunbar. My business address is Two International Drive, Rye Brook, New York.

Q By whom are you employed and in what capacity?

A I'm employed by MCI. I'm the senior manager for regulatory compliance and reporting.

Q Have you prefiled revised direct testimony in this docket consisting of 17 pages filed on November 25th?

A Yes.

Q Do you have any changes or corrections to that

1 testimony?

2 A No.

3 Q If I were to ask you those same questions today,
4 would your answers be the same?

5 A Yes.

6 MS. McNULTY: Chairman Jaber, at this time I'd ask
7 that the prefiled direct, revised direct testimony of Joe
8 Dunbar be entered into the record as though read.

9 CHAIRMAN JABER: Prefiled revised direct testimony of
10 Joseph Dunbar shall be inserted into the record as though read.

11 MS. McNULTY: Thank you.

12 BY MS. McNULTY:

13 Q Mr. Dunbar, you had no exhibits attached to that
14 testimony; is that correct?

15 A That is correct.

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1 **Q. Please state your name and address.**

2 A My name is Joseph Dunbar. My business address is Two International
3 Drive Rye Brook, NY 10573.

4 **Q. By whom are you employed and what are your duties?**

5 A. I am employed by MCI. My title is Senior Manager, Regulatory
6 Compliance and Reporting. In this position my team and I work with
7 MCI's business units to keep them abreast of various state regulations that
8 may affect their operations and to work with those units to insure
9 compliance with such state regulations. In addition we are responsible for
10 collecting and assimilating information from MCI's business units and then
11 filing that information with Public Service Commissions across the country.
12 Such reporting may be on a regularly scheduled basis, such as annual
13 financial reports or monthly service quality reports or may be on an ad hoc
14 basis for specific issues like flow through compliance.

15 **Q. Please describe your background and experience.**

16 A. I have been employed by MCI since 1984. Since joining MCI I have held a
17 variety of positions within the State Regulatory and Public Policy
18 Organization. In addition to my current position I have managed the
19 intrastate tariff function and have at various times represented the company
20 before Public Service Commissions on a variety of public policy issues.

21 **Q. Have you ever testified before this Commission?**

1 A. No, I have never testified on behalf of MCI before this Commission, but I
2 have testified before other public service commissions, such as New York,
3 Connecticut, Rhode Island, Pennsylvania, Virginia, and Georgia.

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

5 A. The primary purpose of my testimony is to respond to the additional issues
6 the Commission established regarding IXC flow-through as listed in the
7 Nov. 10, 2003, procedural Order in this docket.

8 **Q. Are you familiar with the access reduction petitions filed by the ILECs?**

9 A. Yes, generally. Verizon, Sprint and BellSouth have asked the Commission
10 to allow them to reduce their intrastate access charges and rebalance retail
11 service rates on a revenue neutral basis to recognize those revenue
12 reductions. Their petitions were filed as permitted by statutory changes that
13 became effective upon enactment of law.

14 **Q. Has MCI filed testimony addressing the issues regarding the ILEC**
15 **petitions filed in these dockets?**

16 A. Yes, MCI and AT&T are co-sponsoring Dr. John W. Mayo, who has
17 already prefiled testimony in these dockets.

18 **Q. If the Commission approves the petitions filed by the ILECs, will that**
19 **have an affect on MCI?**

20 A. Yes. The ILECs filed their petitions pursuant to Section 364.164, Florida
21 Statutes. The Legislature also amended Section 364.163, Florida Statutes,
22 to require intrastate interexchange companies (IXCs), like MCI, to return
23 the benefits of any access reductions to both residential and business

1 customers. If the Commission approves the ILECs' petitions, thereby
2 reducing access charges, IXCs, such as MCI, will then be required to flow-
3 through the benefits of those reductions to its residential and business
4 customers. Also, if the Commission approves the ILECs' petitions,
5 Section 364.163 also provides that IXCs may determine specifically how to
6 accomplish the flow through.

7 **Q. And MCI would implement that flow-through?**

8 A. Yes. That is the statutory requirement and we will comply. Initially, MCI
9 expects to change its tariffed rates for some business and residential
10 customers, but MCI has not finalized its plans. Customers may see other
11 benefits as well, such as new programs, and innovative offerings as a result
12 of the access charge reductions.

13 **Q. Does the manner by which benefits are flowed-through have any affect
14 on approval of the ILEC petitions?**

15 A. No. The Commission is required to evaluate the ILEC petitions based on
16 the four criteria set forth in the statute. The manner by which IXCs flow-
17 through the benefits to their customers is not related to whether the
18 Commission should approve the ILEC petitions. There are no flow-through
19 issues unless the petitions are approved, so except for approval triggering
20 the flow-through, I don't believe there is a relation.

21 **Q. Will approval of the ILEC petitions have an effect on long distance
22 services?**

1 A. Yes. The long distance market place is already highly competitive and I
2 think it will become more so. Carriers now compete on prices, new
3 features, services, and other innovative offerings. Consumers have choices
4 in the long distance market and the flow-through of these reductions will
5 stimulate the development of more promotions, features and innovations.
6 Consumers have choices in the long distance market and can make changes
7 fairly quickly if not satisfied. If a consumer is not happy with a service for
8 whatever reason there are other choices available.

9 **Q. If the petitions are approved, will MCI be expanding or changing the**
10 **services offered to consumers?**

11 A. Yes. However, MCI's specific plans are not yet finalized, in part because it
12 must know what specifically is or is not approved and in part because it is
13 premature to predict what specifically is happening in the competitive
14 market at the time the flow-through is to be accomplished and whether
15 MCI's plans are an appropriate competitive response

16 MCI has been a leader in the long distance market with innovative
17 services. For example, Friends and Family, 1-800-collect, 10-10-NXX, The
18 Neighborhood and similar offerings were MCI innovations and some were
19 copied by its competitors in the market. One reason that these innovative
20 offerings have been available is that access cost reductions have allowed
21 MCI to reprice and repackage services for consumers.

1 **Q. If the ILEC access rate reductions are approved, should the IXCs be**
2 **required to flow-through the benefits of the reductions, simultaneously**
3 **with the approved ILEC access rate reductions?**

4 A. Yes. MCI would support the IXCs filing concurrently with the ILEC access
5 reduction if we are given at least 60 days to implement the rates changes.
6 For instance, if LEC access rates were to change on March 1, 2004, MCI
7 would be prepared to implement changes on March 1, 2004 as long as the
8 specific changes the LECs were going to implement were known by
9 December 31, 2003.

10 **Q. For each access rate reduction that an IXC receives, how long should**
11 **the associated revenue reduction last?**

12 A. The marketplace should and will decide this issue. IXCs are in a dynamic
13 market and trying to fit this flow-through effort into a “static box” does not
14 make sense and doing so could cause significant harm to a company trying
15 to compete.

16 **Q. How should the IXC flow-through of the benefits from the ILEC access**
17 **rate reductions be allocated between residential and business**
18 **customers?**

19 A. Consistent with the statute, MCI believes that each IXC should determine
20 the best way to accomplish its flow through obligation to both its residential
21 and business customers. MCI has traditionally split the savings on a pro rata
22 share between its residential/consumer markets switched access base and
23 business markets switched access customer base. This results in a split of

1 approximately [REDACTED] residential and [REDACTED] business.
2 Then, within those customer bases, MCI has allocated the flow through
3 savings in a manner that reflects the competitive market for that base of
4 customers. This calculation excludes wholesale markets.

5 **Q. What amount of access savings does MCI expect to see if the ILEC**
6 **access rate reductions are approved?**

7 A. MCI expects that the first year access savings will amount to approximately
8 [REDACTED] dollars. MCI determined this amount by
9 looking at the specific changes proposed by BellSouth (Typical Network
10 Methodology), Verizon, and Sprint, and then calculated a composite rate
11 per minute change in intrastate switched access. MCI then looked at
12 forecasted minutes for 2004 and multiplied those minutes by the change in
13 switched access. This calculation excludes wholesale markets. MCI's
14 wholesale offerings contain components based on the underlying
15 originating and terminating access rates of the ILECs. This results in an
16 "automatic" flow through as ILEC rates change.

17 **Q. Will all residential and business customers experience a reduction in**
18 **their long distance bills? If not, which residential and business**
19 **customers will and will not experience a reduction in their long distance**
20 **bills?**

21 A. MCI believes all consumers in Florida will benefit from these access
22 reductions either directly or indirectly. First, if the ILEC petitions are

1 approved, pricing changes will occur, making people look at their bills to
2 make sure that they have the right long distance plan for their needs.

3 Second, all MCI stand-alone, presubscribed, residential long
4 distance customers paying MCI's in-state access recovery fee will receive a
5 benefit, because MCI will reduce its in-state connection fee over the next
6 three years, eliminating it by July 1, 2006. At a minimum MCI will reduce
7 it by one third each year. MCI will be passing other benefits to some of its
8 residential customers, but has not determined specifically how it will do so
9 at this time. MCI is also contemplating offering new products if the ILEC
10 petitions are approved.

11 Third, depending on the service and plan, some business customers
12 will see benefits, though not all will because of the nature of the plans.

13 **Q. Does MCI support the access reduction petitions?**

14 A. Generally, yes. I would refer to the testimony of Dr. John W. Mayo for
15 specific responses. MCI endorses the reductions and believe they will bring
16 benefits to all consumers.

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

18 A. Yes, it does.

1 BY MS. McNULTY:

2 Q Please provide a brief summary of your testimony.

3 A In my testimony I address the access reductions that
4 would occur and explain MCI's calculations of estimated access
5 savings resulting from reduced intrastate switched access
6 charges if the Commission approves the ILEC, excuse me,
7 petitions.

8 MCI will flow through its access savings consistent
9 with the statute. In my testimony, MCI proposes to flow
10 through the access savings on a pro rata basis based on MCI's
11 business and residential distribution of access minutes. As a
12 result, MCI's residential long distance customers will receive
13 all the benefit that they generate. If all the ILEC petitions
14 are approved, MCI commits to reduce its in-state connection fee
15 by one-third each year. Other savings not yet identified will
16 take place so that residential customers see 100 percent of the
17 access reductions associated with their usage. That concludes
18 my summary.

19 MS. McNULTY: Thank you. MCI tenders Mr. Dunbar for
20 cross-examination.

21 CHAIRMAN JABER: Companies first. Okay. Mr. Beck.

22 MR. BECK: Thank you, Madam Chairman.

23 CROSS EXAMINATION

24 BY MR. BECK:

25 Q Good afternoon, Mr. Dunbar.

1 A Good afternoon.

2 Q You just described in your summary that you're going
3 to flow through access reductions in the proportion that
4 customers incur access charges, MCI customers incur those
5 charges; is that right?

6 A That is correct.

7 Q And on your direct testimony at Page 6, Line 1 -- I
8 guess I need to make sure we have the same page numbers and
9 all.

10 A Yes.

11 Q Do you list what, those proportions there?

12 A Yes, I do.

13 Q Okay. And so that's the proportion in which the
14 access charges will be flowed back, residential versus
15 business; is that correct?

16 A That is correct.

17 Q Okay. You also list your total access savings on
18 Line 8, on Page 6 of your testimony; is that right?

19 A That is correct.

20 Q And that's a confidential number?

21 A Yes, it is.

22 Q Okay. Do you know where AT&T or, I'm sorry, where
23 MCI ranks vis-a-vis AT&T and Sprint as far as access revenue or
24 access charges?

25 A No, I do not.

1 Q You don't know whether AT&T or Sprint is bigger or
2 smaller than MCI with respect to its access charges?

3 A In total?

4 Q Yes.

5 A No, I do not.

6 Q Okay. MCI has an in-state connection fee; is that
7 right?

8 A Yes, that is correct.

9 Q How much is that?

10 A \$1.88.

11 Q Okay. And you've committed that MCI will reduce that
12 by at least one-third each year; is that right?

13 A That is correct.

14 Q Okay. To do that, in other words, to pass through or
15 to reduce your in-state fee by that one-third amount, how much
16 of the, the percent of the access reduction would that take for
17 MCI?

18 A I can tell you that of the percentage that's
19 associated with residential, that number that is on Page 1 of
20 Line -- Page 6, Line 1, approximately 20 to 25 percent of that
21 figure would be attributable to elimination in the first year
22 of the in-state access recovery fee, so that essentially of
23 that 30 percent, an additional 70 percent would be --

24 COMMISSIONER DEASON: I think we just disclosed some
25 confidential information.

1 MS. McNULTY: Excuse me, Chairman (sic.) Deason. He
2 did not.

3 THE WITNESS: No. No, I did not.

4 COMMISSIONER DEASON: Oh, he did not? Oh, okay.

5 THE WITNESS: No. I'm sorry, but --

6 CHAIRMAN JABER: Well, you need to repeat it, please.

7 COMMISSIONER DEASON: You need to clarify your answer
8 then.

9 THE WITNESS: I -- well, I'll try again.

10 Of the first number on Line 1 of Page 6, that
11 represents the percentage that will go to residential. If we
12 eliminate one-third of the in-state access recovery in year
13 one, that one-third represents approximately 20 to 25 percent
14 of the first number on Line 1, which means 80 -- 75 to
15 80 percent of the remainder will have to flow through to
16 residential customers in the form of other actions.

17 COMMISSIONER DEASON: I have to ask a question at
18 this point then. Does that mean that in the first year there
19 will be other savings for residential customers in addition to
20 the one-third elimination of the in-state access fee?

21 THE WITNESS: Yes. We have not yet identified those,
22 but, yes, sir, that is correct.

23 COMMISSIONER DEASON: Okay. I understand. Thank
24 you.

25 MR. BECK: That's all I have. Thank you.

1 CHAIRMAN JABER: Ms. Bradley. Mr. Twomey.

2 MR. TWOMEY: Yes, ma'am. But I want to ask first, I
3 think Commissioner Deason was eminently correct in his
4 observation of what happened in the witness's response.

5 MS. McNULTY: Excuse me.

6 CHAIRMAN JABER: Well, let's assume -- hang on
7 Ms. McNulty. Let's assume he was.

8 MR. TWOMEY: Yes.

9 CHAIRMAN JABER: This witness disclosed it.

10 MR. TWOMEY: That's my point. And my question was
11 going to be that, that if something was disclosed publicly by
12 them, then it can't, in my view, still be claimed as being
13 confidential.

14 THE WITNESS: May I --

15 MS. McNULTY: May I respond to that?

16 CHAIRMAN JABER: And I'm going to give you an
17 opportunity to respond. Hang on, Ms. McNulty.

18 Mr. Dunbar, I need you to wait until we address a
19 question to you.

20 Ms. McNulty, can you provide us with some
21 clarification?

22 MS. McNULTY: Yes. I believe the witness was trying
23 to provide an estimate of the percentage of the one-third
24 amount of the in-state connection fee, and it was a
25 mathematical calculation in his mind that would range between,

1 you know, between 20 and the number he disclosed, and that, I
2 believe, is what he was representing.

3 MR. TWOMEY: Madam Chair, may I ask you to ask the
4 court reporter to read back the answer and question; not the
5 second answer but the first answer?

6 CHAIRMAN JABER: Before Commissioner Deason
7 interjected his --

8 MR. TWOMEY: The one he, the one he brought -- yes,
9 ma'am, the one he brought to --

10 CHAIRMAN JABER: Sure.

11 THE WITNESS: Could I offer one --

12 COMMISSIONER JABER: No, Mr. Dunbar, not unless a
13 question is posed to you. We'll get, we'll get back to you.

14 Ms. Court Reporter, I need the response to the
15 original question, and that was before Commissioner Deason
16 expressed a concern.

17 COMMISSIONER DEASON: Before I interrupted.

18 CHAIRMAN JABER: Well, I didn't want to say that,
19 but -- good interruption.

20 MS. McNULTY: May I also interject one more thing?
21 An inadvertent disclosure, if that's what you determine, is
22 never a waiver.

23 CHAIRMAN JABER: Well, how exactly would we determine
24 if it was an inadvertent disclosure?

25 MS. McNULTY: We have claimed confidentiality of that

1 and we have not expressly waived that.

2 CHAIRMAN JABER: Madam court reporter, would you read
3 the response to me, please.

4 (Requested answer read by the court reporter.)

5 CHAIRMAN JABER: Mr. Twomey, I'd like to think that I
6 wrote down exactly what the response to the second question
7 was, and I have to tell you, what the court reporter just read
8 is consistent with that.

9 MR. TWOMEY: You're saying it's inconsistent?

10 CHAIRMAN JABER: Is consistent.

11 MR. TWOMEY: Madam Chair, the, the -- Commissioner --
12 I appreciate that. If I may, though. Commissioner Deason, I
13 think, was looking -- I don't have the exhibit in front of me,
14 but I have a memory of it. Commissioner Deason was, was
15 looking at the exhibit, I think, or he can speak to this point,
16 when he thought he caught the disclosure.

17 The -- Ms. McNulty, when you first started to ask the
18 court reporter to read it back, started, changed her, her
19 objection, if you will, from he was saying what was the third
20 and got the percentage wrong to saying, changing it to
21 inadvertence is not a waiver. Okay?

22 So the -- I think -- I would ask you, please, to ask
23 the witness if the number he read is, was a redacted number on
24 his paper.

25 CHAIRMAN JABER: Ms. McNulty, I'll allow you to

1 respond, and then I think Mr. Twomey has a good, good idea for
2 us. Ms. McNulty.

3 MS. McNULTY: One moment, please.

4 (Pause.)

5 MS. McNULTY: Commissioners, in addition to the two
6 points I have raised, I also believe it is what the witness
7 meant and what the witness intends by his numbers and his
8 responses.

9 CHAIRMAN JABER: I'm sorry. I didn't understand what
10 you said. Say that again.

11 MS. McNULTY: Okay. One, we never -- MCI, I believe,
12 did not intend nor was it meant by the witness's response to
13 disclose anything that was confidential. We have claimed that
14 as confidential, and if you believe that it was, he did so
15 respond that way, which I think you should ask the witness, it
16 would be inadvertent, which would not constitute waiver.

17 CHAIRMAN JABER: Mr. Dunbar, in your response did you
18 reveal any confidential information?

19 THE WITNESS: No, I did not.

20 CHAIRMAN JABER: Okay.

21 THE WITNESS: And I would like -- if the Commission
22 is pleased, I would like to clear up the confusion that
23 apparently counsel has. If it helps the Commission and
24 counsel, I'd be glad to do it. Not my counsel, but --

25 CHAIRMAN JABER: That will help. And with all due

1 respect, the confusion was created perhaps by your statements.
2 And I have to tell you, I'm confused as well. It's not just
3 counsel. So go right ahead.

4 THE WITNESS: Okay. I believe that the figure that
5 Commissioner Deason was concerned about was the second number
6 on Page 6, Line 1. That number was not disclosed. What I
7 attempted to do was to explain that the first number on
8 Line 1 was split in an approximate 70/30 split of that first
9 number between the in-state access recovery fee and other items
10 that we have not yet identified. There is no revealing of
11 either number on Line 1.

12 COMMISSIONER DEASON: Madam Chairman, may I ask a
13 follow-up question, just --

14 CHAIRMAN JABER: Yeah. Absolutely.

15 COMMISSIONER DEASON: Of that first number, you said
16 that it was split on a proportion of approximately 70/30, and
17 when you were trying to determine the amount that was
18 attributable to the in-state connection fee. The in-state
19 connection fee, which, which proportion of that first number
20 does it comprise? Does it comprise 70 or 30?

21 THE WITNESS: It's com -- I'm sorry if I misspoke.
22 It's comprised of 25 -- 20 to 25.

23 COMMISSIONER DEASON: 20 to 25?

24 THE WITNESS: Of that first number --

25 COMMISSIONER DEASON: Of that first number is the

1 in-state connection.

2 THE WITNESS: -- is the in-state access connection
3 fee. Yes.

4 COMMISSIONER DEASON: Okay.

5 THE WITNESS: One-third first year.

6 COMMISSIONER DEASON: All right. That's what I
7 needed to know. Thank you.

8 CHAIRMAN JABER: Mr. Twomey, let me get back to your
9 initial question. Having reviewed the exhibit Commissioner
10 Deason was looking at, considered your concern, referred back
11 to my notes, considered what the court reporter has said, no
12 confidential information has been released. But you have
13 questions; you're welcome to follow up.

14 CROSS EXAMINATION

15 BY MR. TWOMEY:

16 Q Mr. Dunbar, good afternoon.

17 A Good afternoon.

18 Q You, you say that -- let me ask you this way. The,
19 the -- does MCI have generally the same type of plan offerings
20 for business that AT&T and MCI have? That is to say, did you,
21 did you hear the, my cross-examination of the AT&T and the
22 Sprint witnesses?

23 A Yes, for the most part.

24 Q And, and the AT&T witness talked about something like
25 a signature plan for really, really big businesses and another

1 plan for big businesses and down until the little guys. Does,
2 does MCI have similar plans to compete with AT&T's offerings?

3 A MCI offers a variety of plans that basically are
4 tailored to the size of the customer. That would be correct.

5 Q Okay. And so similar to AT&T, does MCI have, have
6 plans that generally would only be taken by customers other
7 than residential or single-line business customers by virtue of
8 the volumes required?

9 A Yes.

10 Q Okay. And are you aware that, that in this case that
11 those type customers that are eligible for those plans, the
12 larger volume plans, are not receiving rate increases?

13 A Yes. But I don't believe that's relevant to the
14 reduction of access charges. The reduction of access charges,
15 all customers of MCI will contribute to the access minutes,
16 and, therefore, what MCI realizes is savings.

17 Q Now with respect to, with respect to your in-state
18 connection charge, a person obviously, a customer can't benefit
19 from that unless they're currently paying the connection
20 charge; right?

21 A That is correct.

22 Q Okay. And I think that Mr. Beck brought out the,
23 the -- y'all get to net the in-state connection fee out against
24 the reductions you make in your permanent rates; isn't that
25 correct? Is it correct?

1 A The, the total amount of our access savings, the
2 flow-through will be accomplished by reducing -- one of the
3 things that will accomplish the flow-through of that amount is
4 the elimination of the in-state access recovery fee. That's
5 correct.

6 Q Right. So those, those dollars, whatever percentage
7 they are of the total --

8 A Yes.

9 Q -- for the first year, necessarily can't go into per
10 minute reductions for anybody, for any class of customers.
11 You're going to -- do you follow me?

12 A Yes. I understand what you're saying. Yes. That's
13 correct.

14 Q And that's correct; right?

15 Just a minute. I had some other -- the, the number,
16 the number of, that's going back to residential that is
17 confidential is, is purely a result, if I understand it
18 correctly, of the, the number of minutes of usage of that class
19 of customer versus all the other customers; is that correct?

20 A Correct. That is -- let me clarify usage. It is the
21 access usage that's associated with the minutes sold to
22 residential. Correct.

23 Q So the, the dollars, the dollars of the -- what is
24 the total -- that's confidential as well, isn't it, the --

25 A Our total access savings?

1 Q Yes. That you expect to get.

2 A Yes.

3 Q That's confidential as well. So whatever that pot of
4 money is for the first year off the top, so to speak, comes in
5 the amount of dollars necessary to, to reduce a third of the
6 in-state access fee; right?

7 A No. Let me, let me give you a little explanation
8 first. Of the total --

9 Q Yeah.

10 A -- we have allocated the total as indicated on
11 Line 1 between business and residential. From that residential
12 total, then, yes, off the top of that number comes the in-state
13 access recovery fee because that is only a residential charge.

14 Q I see. So the, so the, the large business customers
15 don't have their pot of money for per minute access reductions
16 impaired by the portion needed to reduce the in-state
17 connection fee; correct?

18 A Correct. Because large business customers do not pay
19 an in-state access recovery fee.

20 Q Okay. That's all I have. Thank you.

21 CHAIRMAN JABER: Uh-huh. Staff.

22 CROSS EXAMINATION

23 BY MS. CHRISTENSEN:

24 Q Good afternoon.

25 A Good afternoon.

1 Q On Page 5 of your direct testimony, Lines 21 through
2 23, you state that, "MCI has traditionally split the savings on
3 a pro rata share between its residential/consumer markets
4 switched access base and business markets switched access
5 base"; is that correct?

6 A Yes.

7 Q Does that mean the split is based on access minutes?

8 A Traditionally, yes.

9 Q Okay. Is the methodology that MCI uses to split the
10 savings between residential and business customers affect at
11 all, is affected at all by how the LECs split the basic service
12 increases between residential and business?

13 A No, it is not.

14 Q Referring to Page 7 of your direct testimony, Lines
15 6 and 7, you state that, "At a minimum MCI will reduce the
16 in-state connection fee by one-third each year"; is that
17 correct?

18 A I'm sorry. What, what page was that?

19 Q Page 7, Lines 6 and 7.

20 A Yes. Okay. I'm there. Yes. That's correct.

21 Q Okay. Are all MCI residential customers charged the
22 in-state connection fee?

23 A No.

24 Q Okay.

25 A The only residential customers that are charged the

1 in-state access recovery fee are those customers that make
2 over \$1 a month in usage. If a customer does not use the
3 service within a month or has less than \$1, they do not pay the
4 in-state access recovery fee.

5 Q Okay. Will all residential MCI customers receive a
6 long distance rate reduction?

7 A Not -- it is, it is -- we have not determined what
8 changes in addition to the in-state recovery fee we will
9 address. It is possible that there will be customers that do
10 not see a reduction as a result of these changes. However, we
11 think that ultimately all customers will benefit because of
12 items like additional choice that may evolve or even additional
13 competitors that may enter the market because of this
14 proceeding.

15 Q Finally, one last question consistent with, I
16 believe, what we've been asking other long-distance carriers.
17 Consistent with the past Commission's requirement in Order
18 Number PSC-980795-FOF which required that IXCs file their
19 access tariffs within 30 days, couldn't MCI file its tariff in
20 this proceeding within 44 days?

21 A I believe that, as I addressed in my testimony, MCI,
22 because of just internal processes, would like to have 60 days
23 in order to implement its reductions. Now that, that's 60 days
24 notice. And as I provided as an example in my testimony,
25 should the Commission hypothetically, or actually because of

1 the statute they have to decide earlier than that, but as an
2 example, if an order was issued on the 31st of December that
3 required the LECs to implement access reductions on March 1st,
4 MCI could have a simultaneous tariff implementation date as
5 long as when the order was issued by the Commission, we knew
6 for certain what the LECs were going to do. I think this
7 proceeding is a little bit different than past proceedings
8 because I think when the Commission renders its decision, with
9 a couple of minor exceptions, we will have a very good idea of
10 what the LECs will do when their tariffs or when their rates go
11 into effect.

12 Q So if I'm understanding correctly from your answer,
13 it would or it could be possible you could do it in 44 days,
14 although you would prefer 60, yes or no?

15 A Yes.

16 MS. CHRISTENSEN: Thank you.

17 CHAIRMAN JABER: Redirect, Ms. McNulty.

18 MS. McNULTY: Thank you.

19 REDIRECT EXAMINATION

20 BY MS. McNULTY:

21 Q Mr. Dunbar, in response to questions by staff and
22 Mr. Twomey, you indicated that the allocation of MCI's
23 flow-through reductions represents actual MCI business
24 residential access savings; is that correct?

25 A That is correct.

1 Q Why did MCI choose to allocate in this manner?

2 A We chose to allocate in this manner because this
3 reflects what our business actually -- where our business is.
4 We felt that to allocate in another manner would, would just be
5 artificial, it would not be representative of our marketplace.

6 Q Also in response to some questions, and I believe by
7 staff, I believe you said that to date MCI has not determined
8 specifically how it will flow through the remaining amount it
9 anticipates to go to residential customers; is that correct?

10 A That is correct.

11 Q What are some of the ways MCI could achieve the rest
12 of its estimated flow-through to its residential customers?

13 A There are a number of ways that the, the revenue that
14 MCI realizes from access reductions could go to residential
15 customers. There could be the introduction of new products,
16 there could be rate changes to existing products and there
17 could be movement of existing customers from higher priced
18 products to lower priced products. All of those types of items
19 result in lower revenues for MCI.

20 MS. McNULTY: Thank you. That concludes my redirect.

21 CHAIRMAN JABER: Okay. Mr. Dunbar, thank you for
22 your testimony. You may be excused.

23 THE WITNESS: You're welcome.

24 (Witness excused.)

25 CHAIRMAN JABER: And we had no exhibits. That takes

1 us to the next witness, Mr. Henson from BellSouth Long
2 Distance.

3 MR. ANTHONY: Yes, ma'am. Commissioners, Harris
4 Anthony on behalf of BellSouth Long Distance calls Mr. Henson
5 to the stand, please.

6 CHAIRMAN JABER: Mr. Anthony, was your witness sworn?

7 MR. ANTHONY: Yes. Yes, he was.

8 DIRK S. HENSON

9 was called as a witness on behalf of BellSouth Long Distance,
10 Inc. and, having been duly sworn, testified as follows:

11 DIRECT EXAMINATION

12 BY MR. ANTHONY:

13 Q Mr. Henson, would you state your full name and
14 business address for the record, please.

15 A Certainly. My name is Dirk Henson, and I work at
16 400 Perimeter Center, Atlanta, Georgia 30346.

17 Q And where are you employed and in what capacity?

18 A I'm employed by BellSouth Long Distance. I am the
19 director of marketing and product development for the consumer
20 and small business markets.

21 Q And in preparation for this case did you cause to be
22 prepared direct prefiled testimony consisting of nine pages of
23 questions and answers?

24 A I did.

25 Q Do you have any changes or corrections to that

1 testimony, Mr. Henson?

2 A I do not.

3 Q And if I asked you the questions in that prefiled
4 testimony today, would your answers be the same?

5 A They would.

6 MR. ANTHONY: I'd move that Mr. Henson's direct
7 testimony be inserted into the record as though read.

8 CHAIRMAN JABER: Prefiled direct testimony shall be
9 inserted into the record as though read.

10 MR. ANTHONY: Thank you.

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1 BELL SOUTH LONG DISTANCE, INC.

2 DIRECT TESTIMONY OF DIRK S. HENSON

3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

4 DOCKET NOS. 030867-TL, 030868-TL, 030869-TL, AND 030961-TI

5 NOVEMBER 19, 2003

6
7 **Q. PLEASE STATE YOUR NAME, YOUR EMPLOYER AND YOUR BUSINESS**
8 **ADDRESS.**

9 A. Dirk S. Henson – Senior Director of Marketing and Product Development for BellSouth
10 Long Distance, Inc., 400 Perimeter Center Terrace, Suite 350, Atlanta, GA 30346.

11
12 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL**
13 **BACKGROUND AND EXPERIENCE IN TELECOMMUNICATIONS.**

14 A. I graduated with a Bachelor of Science Management degree from Louisiana State
15 University in 1980. Thereafter, I attended Boston University in London, England.

16
17 After graduating from college, I was employed by AT&T Corporation in the United
18 States, Europe, and Middle East. My assignments included responsibilities related to
19 business markets, consumer markets, CPE, Value-Added Network services, as well as
20 strategy/business development. I was employed by BellSouth Long Distance in 1996.
21 My current responsibilities include the development of long distance marketing
22 strategies, channel management and products, and offers for the Consumer and Small

1 Business markets of BellSouth Long Distance. In this role, I analyze customer and
2 market trends to develop marketing strategies. These strategies are used to develop
3 offers and new services.
4

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

6 A. My testimony provides responses to the additional issues raised as a result of the
7 consolidation of Docket Nos. 030867-TL, 030868-TL, 030869-TL, and 030961-TL.
8 BellSouth Long Distance, as an intrastate interexchange telecommunications carrier
9 operating in the state of Florida and as a potential recipient of access charge reductions,
10 believes it appropriate to provide its positions on the issues in this docket that relate to
11 such carriers.
12

13 **Q. PLEASE STATE THE REQUIREMENTS OF THE TELE-COMPETITION ACT**
14 **AS IT RELATES TO INTRASTATE INTEREXCHANGE CARRIERS SUCH AS**
15 **BELLSOUTH LONG DISTANCE AND THE FLOW-THROUGH OF ACCESS**
16 **CHARGE REDUCTIONS.**

17 A. Section 364.163 of the Tele-Competition Act requires that "Any intrastate interexchange
18 telecommunications company whose intrastate switched network access rate is reduced
19 as a result of the rate adjustments made by a local exchange telecommunications
20 company in accordance with § 364.164 shall decrease its intrastate long distance
21 revenues by the amount necessary to return the benefits of such reduction to both its
22 residential and business customers." In other words, each such carrier must reduce its

1 revenues in an amount equal to the access charge reduction benefit it has received and
2 must spread these benefits between its residential and business customers.

3
4 **Q. HOW SHOULD THE "RETURN OF BENEFITS" TO CUSTOMERS BE**
5 **ACCOMPLISHED?**

6 A. The Tele-Competition Act states "The intrastate interexchange telecommunications
7 company may determine the specific intrastate rates to be decreased, provided that
8 residential and business customers benefit from the rate decreases." Florida Statute §
9 364.163(2). Accordingly, BellSouth Long Distance will flow through the access
10 reductions it receives to both groups of customers through the rates it chooses.

11
12 **Q. WHICH INTEREXCHANGE CARRIERS SHOULD BE REQUIRED TO FILE**
13 **TARIFFS TO FLOW THROUGH BELLSOUTH'S, VERIZON'S AND SPRINT-**
14 **FLORIDA'S SWITCHED ACCESS REDUCTIONS, IF APPROVED? WHAT**
15 **SHOULD BE INCLUDED IN SUCH FILINGS?**

16 A. BellSouth Long Distance does not take any position on the appropriate criteria for
17 determining which interexchange carriers should be required to file tariffs to flow-
18 through any approved BellSouth, Verizon and Sprint-Florida switched access reductions,
19 other than to note that Section 364.163 requires that all intrastate, interexchange
20 telecommunications carriers must flow through such reductions.

21

1 Responsive filings should include tariffs that reduce rates and thus reflect the anticipated
2 access charge reductions that each intrastate interexchange telecommunications company
3 will receive. Each such carrier may also file a statement of the total revenue reduction
4 anticipated by such company. In order for an intrastate interexchange
5 telecommunications company's tariffs to be available for filing on a timely basis,
6 intrastate interexchange telecommunications companies should be permitted to base their
7 total estimated access charge reductions based on a time period in line with the same
8 twelve-month study period used by the LECs in their petitions.

9
10 **Q. IF THE ILEC ACCESS RATE REDUCTIONS ARE APPROVED, SHOULD THE**
11 **INTEREXCHANGE CARRIERS BE REQUIRED TO FLOW THROUGH THE**
12 **BENEFITS OF SUCH REDUCTIONS, VIA THEIR TARIFFS,**
13 **SIMULTANEOUSLY WITH THE APPROVED ILEC ACCESS RATE**
14 **REDUCTIONS?**

15 A. Intrastate interexchange telecommunications companies should file tariffs to be effective
16 within a reasonable time after the effective date of LEC filings, not to exceed fifteen (15)
17 days. If BellSouth, Verizon, and Sprint-Florida file for access rate reductions within a
18 few days of each other, as was the case when they filed their amended petitions, it would
19 be unduly burdensome to intrastate interexchange telecommunications companies and
20 confusing to customers if the intrastate interexchange telecommunications companies
21 were required to flow-through each of these separate reductions through separate
22 multiple tariff filings. A more reasonable approach would be to interpret a

1 “simultaneous” effective date to mean within fifteen (15) days of the effective date of the
2 last of the three main LECs’ 2004 access charge reductions.

3
4 **Q. IF THE INTEREXCHANGE CARRIERS RECEIVE ANY ACCESS RATE**
5 **REDUCTIONS, HOW LONG SHOULD THE INTRASTATE INTEREXCHANGE**
6 **TELECOMMUNICATIONS COMPANIES’ REVENUE REDUCTIONS REMAIN**
7 **IN PLACE SO THAT THE BENEFITS FLOW THROUGH TO RESIDENTIAL**
8 **AND BUSINESS CUSTOMERS: A) FOR EACH IMPLEMENTED REDUCTION**
9 **AND B) ONCE THE ILECS REACH PARITY?**

10 A. Given the highly competitive nature of the long distance market in Florida, there is no
11 need for the Commission to impose a minimum period of time during which the
12 intrastate interexchange telecommunications companies would be required to keep in
13 place revenue reductions related to access charge reductions.

14
15 There can be no disputing the fact that the intrastate interexchange market in Florida is
16 fully and irrevocably open to competition. As of November 14, 2003, there are 1681
17 certified interexchange carriers listed on the Florida Public Service Commission website
18 www.psc.state.fl.us/mcd/handler.cfm. This, by itself, would render the Florida long
19 distance market highly competitive.

20
21 Even beyond these competitors, though, are other types of providers that also offer
22 intrastate long distance services to both residential and business customers in Florida.

1 For example, voice over internet protocol providers such as Vonage offer long distance
2 services in Florida at extremely competitive rates.¹ Wireless carriers also offer calling
3 plans that provide long distance calls at no incremental cost to the end user.
4

5 Since it is axiomatic that competition drives prices toward cost, once the access charges
6 are flowed through to residential and business customers, the intense level of competition
7 in the Florida long distance market will ensure that carriers do not thereafter raise their
8 rates in an effort to absorb the access charge savings.
9

10 In addition, any effort by this Commission to overlay a Commission enforced cap on
11 prices would create serious market distortions. In a market as competitive as long
12 distance, carriers must have the flexibility to lower or raise rates as the market dictates.
13 A simple example will demonstrate why carriers must have such pricing flexibility. Each
14 carrier that is required to flow through access charge reductions will decide
15 independently of all other carriers the particular rates it will reduce. The carriers will
16 then file, on or about the same day, their rate reductions. If Carrier 1 decides to reduce
17 its rates for plans A, B, and C, but its major competitors have decided to lower rates on
18 plans X, Y, and Z, Carrier 1 faces a conundrum. If offers similar to plans X, Y and Z are
19 important parts of its mix of services, Carrier 1 can either keep its rates at their originally
20 filed levels, and thus face competitors who have price advantages for Plans X, Y and Z,

¹ Vonage, for example, advertises on its website (www.vonage.com) a "Premium Unlimited Plan for \$34.99 a month with unlimited local and long distance calling within the United States and Canada, as well as a \$24.98 plan that provides "Unlimited Local and Regional service", with 500 long distance minutes included. Minutes over 500 are only 3.9¢ per minute.

1 or it must reduce its own rates for its versions of Plans X, Y and Z. If it chooses the
2 letter option, it must be permitted to raise its rates for Plans A, B and C back to their pre-
3 filing levels. Otherwise, Carrier 1 would face a reduction in revenues that is twice as
4 great as the access reductions it received. As this example shows, each carrier must have
5 the flexibility to raise and lower rates to meet the demands of the market place. So long
6 as, in the aggregate, the carrier has passed through the access reductions it has received,
7 the statute's requirements have been met. Thereafter, competitive forces will ensure that
8 these revenue reductions remain in place.

9
10 **Q. HOW SHOULD THE INTRASTATE INTEREXCHANGE**
11 **TELECOMMUNICATIONS COMPANIES FLOW-THROUGH OF THE**
12 **BENEFITS FROM THE ILEC ACCESS RATE REDUCTION BE ALLOCATED**
13 **BETWEEN RESIDENTIAL AND BUSINESS CUSTOMERS?**

14 A. Section 364.163, Florida Statutes only requires that an intrastate interexchange carrier
15 decrease its revenues "by the amount necessary to return the benefits of such reduction to
16 both its residential and business customers." Section 364.163(2). This statute does not
17 specify any formula as to how to allocate such reductions, nor does it grant this
18 Commission the authority to mandate an allocation.

19
20 Nonetheless, under current market conditions, and assuming all carriers are also willing
21 to do so, BellSouth Long Distance is willing to allocate its rate reductions to both
22 residential and business customers in an approximate pro rata manner. For example, if X

1 percent of BellSouth Long Distance's access reductions turn out to be attributable to
2 minutes of use by residential customers, BellSouth Long Distance will allocate
3 approximately X percent² of its revenue reductions to residential customers in the
4 aggregate. In this manner, both sets of customers will receive the benefits, in the
5 aggregate, of their share of access reductions.

6
7 **Q. WILL ALL RESIDENTIAL AND BUSINESS CUSTOMERS EXPERIENCE A**
8 **REDUCTION IN THEIR LONG DISTANCE BILLS? IF NOT, WHICH**
9 **RESIDENTIAL AND BUSINESS CUSTOMERS WILL AND WILL NOT**
10 **EXPERIENCE A REDUCTION IN THEIR LONG DISTANCE BILLS?**

11 A: Not every customer will necessarily experience a reduction in its long distance bill.
12 Section 364.163(2) provides to each carrier the statutory discretion to determine how it
13 will pass through the access reductions it receives. Some companies may reduce rates on
14 one set of plans, while others may reduce other rates. Customers will be free to select the
15 plan that provides them with the most value. If a particular customer is on a plan that
16 does not experience a reduction as a result of the flow through, that customer can change
17 its plan. Indeed, if that customer prefers another carrier's plan, which may or may not
18 have had a price reduction, it can change carriers and subscribe to that plan. Thus, every
19 customer will have the opportunity to benefit from the rate reductions. Whether or not
20 each customer chooses to do so, of course, is up to that customer.

21

² In this context "approximately" means plus or minus 10%. BellSouth Long Distance needs this flexibility since anticipating actual usage for each plan that may experience a rate reduction requires some estimation.

1 | **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 | **A. Yes.**

1 BY MR. ANTHONY:

2 Q And did you also cause to be prepared prefilled
3 rebuttal testimony consisting of seven pages of questions and
4 answers?

5 A I did.

6 Q Do you have any changes to that rebuttal testimony?

7 A I do not.

8 Q And if I asked you the questions in that rebuttal
9 testimony today, would your answers be the same?

10 A They would.

11 MR. ANTHONY: Move that the rebuttal testimony also
12 be inserted into the record as though read.

13 CHAIRMAN JABER: Prefiled rebuttal testimony of
14 Dirk S. Henson shall be inserted into the record as though read

15 MR. ANTHONY: Thank you.

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1 BELLSOUTH LONG DISTANCE, INC.

2 REBUTTAL TESTIMONY OF DIRK S. HENSON

3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

4 DOCKET NOS. 030867-TL, 030868-TL, 030869-TL, AND 030961-TI

5 NOVEMBER 26, 2003

6

7 **Q. WOULD YOU STATE YOUR NAME AND BUSINESS ADDRESS?**

8 A. My name is Dirk S. Henson – Senior Director of Marketing and Product Development
9 for BellSouth Long Distance, Inc., 400 Perimeter Center Terrace, Suite 350, Atlanta, GA
10 30346.

11

12 **Q. ARE YOU THE SAME DIRK S. HENSON WHO CAUSED TO BE FILED**
13 **DIRECT TESTIMONY ON BEHALF OF BELLSOUTH LONG DISTANCE IN**
14 **THESE DOCKETS ON NOVEMBER 19, 2003?**

15 A. Yes.

16

17 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

18 A. In my rebuttal testimony, I address a number of positions taken by Mr. Bion C.
19 Ostrander, who filed testimony in these dockets on behalf of the Office of Public
20 Counsel.

21

1 In particular, I explain why the Commission should look at access minutes of use
2 (“AMOU”), rather than revenues, when determining what information intrastate
3 interexchange telecommunications carriers (“IXCs”) should file with the Commission;
4 why the rates of IXCs do not need to be capped for any period of time; why the mix of
5 local exchange company (“LEC”) local rate increases for residential and business
6 customers should have no bearing on the particular rates IXCs reduce when they pass
7 through access reductions; and why the IXCs should be allowed to follow the dictates of
8 the long distance market when they reduce rates to reflect the access reductions.

9
10 **Q. CAN YOU PLEASE ADDRESS MR. OSTRANDER’S ASSERTION THAT IXCs**
11 **SHOULD PROVIDE TO THIS COMMISSION INFORMATION RELATED TO**
12 **THE AMOUNT AND PERCENT OF REVENUES RECEIVED FROM**
13 **RESIDENTIAL VERSUS BUSINESS CUSTOMER?**

14 **A.** Yes. When determining whether an IXC has distributed revenue reductions resulting
15 from access charge reductions in a roughly proportionate manner between residential and
16 business customers, the relevant criterion is the number of AMOUs for each group of
17 customers, not the long distance revenues attributable to each group.

18
19 The magnitude of access rate reductions that an IXC will receive will be determined by
20 the number of AMOUs it originates and terminates on each LEC’s network. This
21 number, in turn, is related to the number and duration of calls made by its customers.

1 As a consequence, the appropriate measure of how much of an IXC's access reduction is
2 attributable to residential versus business customers and thus how much corresponding
3 benefit each group should receive in the form of lower rates is the number of AMOUs
4 generated by each group. Using the revenues derived from each group would be
5 inappropriate since such revenues do not correspond to access usage. Revenue numbers
6 can be skewed based on such factors as residential and business plans having different
7 monthly recurring charges and rates per minute, the plan mix of an IXC's residential
8 customers versus its plan mix of business customers, and similar matters.

9
10 **Q. MR. OSTANDER ALSO SUGGESTS THAT IXCS SHOULD BE REQUIRED TO**
11 **CAP AND MAINTAIN THEIR LONG DISTANCE RATE REDUCTIONS FOR A**
12 **PERIOD OF THREE YEARS AFTER PARITY IS ACHIEVED. DO YOU**
13 **AGREE?**

14 **A.** No, and for a number of reasons. As I explain in my November 19, 2003 Direct
15 Testimony, the Florida long distance market is completely and irrevocably competitive.
16 This intense level of competition drives prices toward cost and, so long as other costs do
17 not increase, carriers will be unable to raise rates after having lowered them to pass
18 through the access reductions. Any effort by an IXC to keep the benefits of the access
19 reductions is bound for failure.

20
21 Moreover, Mr. Olander's suggestion that IXC rates be capped for three years after parity
22 is reached totally ignores the dynamics of a competitive market place. As I explained in

1 my Direct Testimony, as long as, in the aggregate, IXCs reduce their revenues in an
 2 amount equal to their access reductions, IXCs must have the flexibility to raise and lower
 3 rates as the market demands. Mr. Olander's proposal also totally ignores the fact that,
 4 while access charges are an important part of a carrier's cost structure, they are not the
 5 entirety of that structure. If some other aspect of a carrier's costs, such as postage,
 6 billing and collection expenses, or wages and salaries increases, the carrier should be
 7 permitted to raise its rates in a corresponding amount. To prevent this would be an
 8 improper prohibition against allowing a carrier to recover its legitimately incurred
 9 expenses.

10
 11 **Q. WOULD YOU PLEASE COMMENT ON MR. OLANDER'S POSITION THAT**
 12 **IF RESIDENTIAL CUSTOMERS BEAR A SIGNIFICANT PORTION OF ANY**
 13 **INCREASES IN LOCAL RATES, THEY SHOULD RECEIVE A**
 14 **PROPORTIONATE OFFSETTING BENEFIT IN LONG DISTANCE RATES?**

15 A. Mr. Olander's assertion is neither supported by the law nor would it be good policy.

16 Florida Statutes, Section 364.163(2), states:

17 Any intrastate interexchange telecommunications company...
 18 shall decrease its intrastate long distance revenues by the amount
 19 necessary to return the benefits of such reduction to both its
 20 residential and business customers. The intrastate interexchange
 21 telecommunications company may determine the specific intrastate
 22 rates to be decreased, provided that residential and business customers
 23 benefit from the rate decreases. [emphasis added]

24
 25 A plain reading of this language makes it clear that the legislature left it to the IXCs, not
 26 this Commission, to determine what rates they would reduce to pass through the access

1 reductions they receive. BellSouth Long Distance has already gone on record as stating
2 that it will pass through the benefits of the access reductions it receives in an
3 approximately pro rata basis between its residential and business customers. As
4 explained above and in my Direct Testimony, BellSouth Long Distance will determine
5 this pro ration based on the number of AMOUs generated by each customer group. It
6 will then decide which specific rates to reduce based upon the amount of access
7 reductions it will receive and the dictates of the market. This, unlike Mr. Olander's
8 position, is entirely consistent with the requirements of Section 364.163(2).

9
10 It would also be bad policy for the Commission to adopt Mr. Olander's suggestion. The
11 manner in which the LECs choose to implement Section 364.164 is completely beyond
12 the control of IXCs like BellSouth Long Distance. To require BellSouth Long Distance
13 to reduce a specific set of rates based on the particular rates that are increased by the
14 LECs creates a linkage that is both unreasonable and likely to create market distortions.
15 As an initial matter, there is no evidence whatsoever that any particular IXC's revenue
16 mix generated from its residential and business customers bears any relationship to the
17 corresponding revenue mix of any LEC. Furthermore, a particular LEC may
18 hypothetically decide to place 75% of its rate increases on its residential customers, while
19 an IXC's customer base may, for example, be 90% business and 10% residence
20 customers. It would be patently unreasonable to require such an IXC to flow through
21 75% of its rate reductions to 10% of its customer base. This problem is exacerbated for a
22 carrier like BellSouth Long Distance, that serves only a de minimus number of customers

1 who are not local customers of BellSouth Telecommunications, Inc. While BellSouth
2 Long Distance may terminate calls to customers of Verizon and Sprint, it should not be
3 required to base its rate reduction design on how those carriers decide to implement local
4 rate increases. There is simply no linkage between what the LECs do with their rates and
5 what the IXCs should do with theirs.

6
7 **Q. SHOULD ALL RESIDENTIAL AND BUSINESS CUSTOMERS EXPERIENCE A**
8 **REDUCTION IN LONG DISTANCE RATES, AS ASSERTED BY MR.**
9 **OSTANDER?**

10 A. No. Essentially, Mr. Olander's proposal in this regard would require an IXC to have an
11 across the board rate reduction. As noted above, Section 364.163(2) gives IXCs the
12 discretion as to how to reduce their revenues, so long as both their residential and
13 business customers benefit from the rate reduction. While a given carrier may choose to
14 spread reductions across all its services, there are many reasons why it may decide to
15 focus on a smaller number of plans. For example, a certain plan may be an important
16 part of a given IXC's marketing strategy. Similarly, market forces, such as the relative
17 prices of analogous plan offered by competitors, may dictate a need to reduce the rates of
18 particular plans.

19
20 In any event, as I explain in my Direct Testimony, customers will have the opportunity to
21 benefit from rate reductions by switching plans or carriers.

1 | **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

2 | **A. Yes.**

1 BY MR. ANTHONY:

2 Q Do you have a summary of your testimony, Mr. Henson?

3 A I do.

4 Q Would you please provide that to the Commission?

5 A Certainly. In my testimony I stated that BellSouth
6 Long Distance will pass through the access charge reductions
7 specified by the Florida Tele-Competition Act and will
8 implement these reductions not to exceed 15 days after the last
9 ILEC tariff effective date.

10 I also stated in my testimony that BellSouth Long
11 Distance will pass through rate reductions in an approximate
12 proportionate manner based upon access minutes of use to both
13 the residential and business markets respectfully.

14 These reductions will be done by responsive filings
15 and will include tariffs that reduce rates and reflect the
16 anticipated access charge reductions.

17 Concerning the issue of mandating minimum periods of
18 time in which revenue reductions would be required to maintain,
19 the conclusion that I made is that the intensely competitive
20 profile of the interexchange long distance market will ensure
21 that the rate reductions will continue indefinitely. In
22 Florida there are hundreds of licensed providers of traditional
23 long distance service, and there's also many alternative
24 providers of services via voice over the Internet protocol,
25 wireless, cable and two-way radio.

1 The presence of traditional carriers and alternative
2 providers combined with the large number of companies providing
3 long distance services prevents any provider the ability to
4 gain discretionary pricing privilege. In an industry as
5 competitive as the long distance market, adding pricing
6 oversight will certainly result in distortion of the market.
7 While not every customer will necessarily experience a
8 reduction in its long distance bill, there will be sufficient
9 rate reductions and new offers to benefit any customer that
10 uses long distance service, especially if the market dynamics
11 are allowed to operate efficiently.

12 If mandated minimum rate reduction periods are
13 implemented, the end result could be to actually reduce the
14 number of long distance offerings, as providers will forego
15 introduction of some new offerings because of their inability
16 to adjust the pricing of obsolete services. Carriers also need
17 the ability to adjust pricing in order to react to changing
18 costs. Access charges only make up one of the many cost
19 elements associated with providing long distance services. And
20 this concludes the summary of my testimony.

21 MR. ANTHONY: Thank you. The witness is available
22 for cross-examination.

23 CHAIRMAN JABER: Companies? Okay. Ms. Bradley.

24 CROSS EXAMINATION

25 BY MS. BRADLEY:

1 Q You talked about the benefit that customers would
2 enjoy by the reduction of their long distance calls. If a
3 person doesn't make long distance calls, he's not going to
4 enjoy any of those benefits, is he?

5 A I think I made that statement in my summary, yes. If
6 they don't use long distance services -- or I mentioned, I said
7 that not every customer will benefit from reduction in long
8 distance rates.

9 Q And that person will bear the full extent of the
10 increase in basic rates.

11 A I didn't comment on the local rates.

12 Q Isn't that correct?

13 A They will, they will bear a portion of that, yes.

14 Q There will be nothing to offset it if they don't use
15 long distance; correct?

16 A That's correct.

17 MS. BRADLEY: No further questions.

18 CHAIRMAN JABER: Mr. Twomey.

19 MR. TWOMEY: Thank you, Madam Chairman.

20 CROSS EXAMINATION

21 BY MR. TWOMEY:

22 Q Good afternoon, sir.

23 A Good afternoon.

24 Q The -- Page 5 of your testimony, Line 10, you say,
25 "Given the highly competitive nature of the long distance

1 market in Florida, there is no need for the Commission to
2 impose a minimum period of time during which the intrastate,
3 intrastate interexchange telecommunications companies would be
4 required to keep in place revenue reductions related to access
5 charge reductions"; correct?

6 A That's correct.

7 Q The law imposes some minimum time period, does it
8 not?

9 A Not that I'm aware of.

10 Q Well, does BellSouth Long Distance believe that, that
11 it has to flow back these access reductions you're receiving to
12 the customers?

13 A Yes, we do.

14 Q Well, you have to -- how long do you plan on doing
15 it?

16 A It's my testimony that, that the competitive nature
17 of the marketplace will result in these rate reductions being
18 in effect indefinitely as a result of competitive forces.

19 Q Yes, sir. But let me ask you this way. Let's just
20 say hypothetically that BellSouth's share of the access fee
21 reductions throughout the state from these three IXCs is, let's
22 just say \$20 million. Okay? The law, as I understand it,
23 requires that you flow that back to your customers, both the
24 residential and the business classes; correct?

25 A May I ask for a clarification of your question?

1 Q Yes, sir.

2 A You understand that I'm with BellSouth Long Distance,
3 not the local company?

4 Q Yeah. I understand that.

5 A Okay. The, the law states that we flow through
6 benefits through to the customers. It doesn't specify in what
7 proportionate amount. In my testimony I said that we would do
8 it in an approximate proportionate amount to the access minutes
9 both to the consumer and small business markets.

10 Q Yes, sir, and I understand that. Thank you.

11 What I'm trying to, to understand here is that --
12 let's just say hypothetically that the figure is \$20 million,
13 take any number you want, your share of the, the reductions.
14 The -- and let's say, let's say that you split it evenly
15 amongst the residential and business classes, and in the first
16 year you gave back \$10 million to each class of customers in
17 toll reductions in-state; right?

18 A Correct.

19 Q Okay. The, the shortest -- the period requested by
20 all the companies to reach parity is two years, as I understand
21 it; correct?

22 A That's correct.

23 Q So you'll get, you'll get one increment of reduction
24 in the first year and then the full amount in the second year;
25 correct?

1 A That's correct.

2 Q Okay. So -- but you have to give, you have to flow
3 through the, the first year reduction to your residential and
4 business customers, which you do. Then you get the second
5 year's adjustment, and do you view that the law requires you to
6 flow that through?

7 A Yes, I do.

8 Q Okay. So how about -- and then after that there's no
9 step down of access fees by the, by the ILECs because they're
10 finished, they've reached parity. After that point do you view
11 that there's any legal requirement that you continue to flow
12 through that \$20 million to your residential and business
13 customers irrespective of what the competitive market would
14 require?

15 A I don't believe there's a legal obligation to do it.
16 But what I stated was that I believe that the competitive
17 forces are such that it would be irrevocable with regards to
18 flow-through.

19 Q Were you in the room earlier today when Mr. Beck
20 handed one of the witnesses the article from the Wall Street
21 Journal?

22 A Yes, I was.

23 Q Okay. And there was a -- did you hear the discussion
24 about the fact that, that -- I apologize, I forget the exhibit
25 number -- but the, that AT&T Corporation was going to add

1 the \$3.95 monthly fee starting in January?

2 A Yes, I did.

3 Q I'm sorry. It was Number 74.

4 And that Sprint Corporation and MCI were going to
5 raise rates or fees in other ways?

6 A Yes, I heard that.

7 Q Okay. Now in, in that kind of a competitive market,
8 wouldn't the pressure at least at the moment trend toward
9 increasing revenues?

10 A I'm not following your question.

11 Q Well, you -- you're suggesting, you're suggesting, if
12 I understand your testimony correctly, that competitive
13 pressures will, will require BellSouth and the others to keep
14 in-state toll rates low. And what I'm asking you is doesn't
15 this Wall Street Journal article that shows that, that AT&T is
16 going to raise its rates \$3.95 on a plan and Sprint and MCI are
17 raising rates, too, for long distance service, doesn't that
18 indicate that competitive pressures will to be raise rates
19 whenever you can?

20 A No, sir. I disagree. I think that what the article
21 says is that they are raising the rates on one plan, and Sprint
22 and MCI on a comparable plan. But there is a selection of
23 plans available, there's a wide selection of plans from many
24 different carriers. And if customers so choose, you know, they
25 can select a plan with a lower rate.

1 Q I see.

2 A The rates that were described in that plan, certainly
3 there are more competitive rates in the marketplace.

4 Q Now did you hear my, my cross questions for the other
5 IXC's on the type of, of business plan offerings they had?

6 A Yes, I did.

7 Q Okay. Would I be correct in assuming that, that
8 BellSouth Long Distance probably has comparable offerings in
9 order to compete?

10 A The nature of your question was about the consumer as
11 well as the business markets?

12 Q Yes, sir. Primarily -- no, sir, the business. Do
13 you have, do you have plans that are targeted toward very large
14 corporations, medium sized corporations and so forth based upon
15 their volume of usage?

16 A Yes, we do.

17 Q Okay. And, and like the others, would generally the
18 larger plans, by virtue of the volumes used, not be taken by
19 single-line business customers?

20 A The larger plans offer discounts based upon volumes
21 of usage. That's correct.

22 Q Yes.

23 A So they would not be taken by smaller businesses or
24 residential accounts.

25 Q Okay. And your distribution of your allocation is

1 going to be based upon per minute usage between all the
2 different classes; is that --

3 A No. Our distribution is based upon access minutes of
4 use. So X percent of the access minutes are coming from a
5 residential market, then a proportionate amount of the
6 reductions will flow through to that market. And if it's in
7 the business market, you know, respectfully.

8 Q Okay. So, so if, so if 60 minutes, 60 percent of
9 access minutes were attributable to business, they would get
10 60 percent of the access fee reductions, and that would be
11 apportioned by your managers amongst the various plans, and the
12 residential would get the remainder?

13 A That's correct.

14 MR. TWOMEY: Thank you, ma'am.

15 CROSS EXAMINATION

16 BY MS. BANKS:

17 Q Good afternoon, Mr. Henson.

18 A Good afternoon.

19 Q I'm Felicia Banks, and I have just a few questions
20 for you this afternoon.

21 The first addresses the flow-through of the benefits
22 of the LEC reductions should they be approved.

23 On Page 4 of your direct testimony, and this is Lines
24 15 through 17, you state that, "Intrastate IXCs should file
25 tariffs to be effective within a reasonable time after the

1 effective date of LEC filings, not to exceed 15 days"; is that
2 correct?

3 A That's correct.

4 Q And the LECs are required to provide 45-days notice
5 before adjusting the various prices and rates if their
6 petitions are approved. So conceivably IXC's would have the
7 notification of these adjustments the day after filing, if not
8 the day of. So would you agree then that a 44-day notice is
9 ample time to file the tariff for the IXC's?

10 A Yes. In the event that all of the ILEC's were to file
11 simultaneously, the assumption that we had in here is that we
12 might find ourselves in a situation where one ILEC filing was
13 on day one, another one was possibly ten days later, another
14 one possibly 15 days later, and they would not all be
15 coincident in terms of their implementation. So that was the
16 basis of the statement.

17 Q Okay. Changing focus just to another issue, and this
18 is dealing with the customers who will receive a reduction in
19 their long distance bill. You state on Page 7 of your direct,
20 Lines 21 and 22, that under current conditions, and assuming
21 all carriers are willing to do so, I quote, "BellSouth Long
22 Distance is willing to allocate its rate reductions to both
23 residential and business customers in an approximate pro rata
24 manner." Is that correct?

25 A That is correct.

1 Q Okay. As proposed, will the allocation of your
2 access charge rate reductions essentially offset the increases
3 in the basic service rates that they may be implemented for the
4 LECs' residential and single-line business customers?

5 A I'm sorry. Could you repeat? I'm not --

6 Q As proposed, will the allocation of your access
7 charge rate reductions essentially offset the increases in the
8 basic service rates that may be implemented for the LECs'
9 residential and single-line business customers?

10 A I don't believe that's something that I stated in my
11 testimony. What I said was that we would pass through the
12 access charge reductions on a proportionate basis. I don't
13 know that there's a tie between the LEC increases in terms of
14 the -- is that -- where are you referring to?

15 CHAIRMAN JABER: Staff, Ms. Banks, Ms. Banks, I
16 didn't understand your question either. Is your question that
17 the long distance rate reductions will be in proportion to the
18 access reductions the IXC's receive?

19 MS. BANKS: That is correct, Madam Chair.

20 CHAIRMAN JABER: Okay.

21 THE WITNESS: The answer to that is yes.

22 BY MS. BANKS:

23 Q Okay. I heard you give a response to Ms. Bradley
24 about not all of the BellSouth Long Distance customers who make
25 long distance calls will receive a reduction in long distance

1 rates. Is that correct?

2 A That is correct.

3 Q And if not, which customers will not receive a
4 reduction?

5 A We fully intend to flow through the access charge
6 reductions. And at this point I'm not -- you know, I haven't
7 decided exactly where those reductions will occur. But my
8 point was that they may not occur on some plans, they may occur
9 on some other plans. Certainly customers can move from plan to
10 plan and take advantage of those plans that, that have the
11 reductions associated with them.

12 CHAIRMAN JABER: Mr. Henson, when you said that the
13 first time, I went back and pulled up the statute. And if you
14 can't answer this question, that's fine, because I'm really not
15 asking for a legal interpretation. But the statute says the
16 intrastate interexchange telecommunications company may
17 determine the specific intrastate rates to be decreased,
18 provided that residential and business customers benefit from
19 the rate decreases.

20 Now you've already acknowledged a couple of times now
21 that some residential customers will not receive reductions to
22 their long distance bill. How does that mesh with this
23 requirement in the statute that residential customers must
24 receive a benefit from the rate decreases? And understand that
25 part of the statute directly follows the requirement that IXCs

1 have to decrease their long distance revenues by the amount
2 necessary for both residential and --

3 THE WITNESS: Right. As I understand the way the
4 statute is, a carrier may choose to lower the rates of 60, 70,
5 80 percent of its residential plans currently and, therefore, a
6 vast majority of the customers that use long distance and who
7 subscribe to those plans will get, see that benefit. But if
8 there are obsoleted plans which they choose not to lower the
9 rate on, then those customers would not see the benefit unless
10 they were to choose one of the other plans.

11 CHAIRMAN JABER: Okay. So it's, it's your testimony
12 that indirectly they benefit because some plans' prices go down
13 and customers -- I assume you'll advertise to customers to join
14 into those reduced pricing packages.

15 THE WITNESS: Certainly in a competitive market
16 you're going to push your incentives and plans that are most
17 attractive.

18 CHAIRMAN JABER: And you believe that indirect
19 benefit is enough to comply with this portion of the statute.

20 THE WITNESS: I've also stated though that we would
21 do that both in the consumer and the business markets.

22 CHAIRMAN JABER: Okay. Thank you.

23 MS. BANKS: Thank you, Mr. Henson. Staff has no
24 further questions.

25 CHAIRMAN JABER: Commissioners? Redirect.

1 MR. ANTHONY: No redirect.

2 CHAIRMAN JABER: Thank you. Mr. Henson, thank you
3 for your testimony.

4 THE WITNESS: Thank you.

5 CHAIRMAN JABER: And there were no exhibits.

6 MR. ANTHONY: May Mr. Henson be excused?

7 CHAIRMAN JABER: Yes. Absolutely.

8 MR. ANTHONY: Thank you.

9 (Witness excused.)

10 CHAIRMAN JABER: That takes us to, it looks like John
11 Broten, Verizon Long Distance.

12 MR. CHAPKIS: This witness has been sworn previously.

13 CHAIRMAN JABER: Thank you, Mr. Chapkis.

14 JOHN BROTEN

15 was called as a witness on behalf of Verizon Long Distance,
16 Verizon Enterprise Solutions and Verizon Select Services and,
17 having been duly sworn, testified as follows:

18 DIRECT EXAMINATION

19 BY MR. CHAPKIS:

20 Q Mr. Broten, would you please state your name and
21 business address for the record.

22 A My name is John Broten. My business address is
23 1320 North Courthouse Road, Arlington, Virginia 22201.

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

25 A I'm employed by Bell Atlantic Communications,

1 Incorporated, doing business as Verizon Long Distance, and I'm
2 president of that entity.

3 Q Have you been caused to file, to be filed in this
4 docket direct testimony consisting of six pages?

5 A Yes, I have.

6 Q Do you have any changes to that testimony?

7 A No, I do not.

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

10 A Yes, they would.

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

13 CHAIRMAN JABER: Prefiled direct testimony of John
14 Broten shall be inserted into the record as though read.

15 MR. CHAPKIS: I would also note that Pages 5 and 6 of
16 that testimony contain confidential information.

17 CHAIRMAN JABER: Thank you.

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

2 A. John D. Broten, President, Verizon Long Distance. My business
3 address is 1320 N. Courthouse Road, 9th Floor, Arlington VA 22201.

4

5 **Q. Please summarize your background and qualifications.**

6 A. I have worked in the telecommunications industry for 27 years. My
7 telecommunications career began at Ernst and Young where I was
8 a consultant in the firm's telecommunications group. In that
9 position, I was responsible for traffic measurement requirements
10 and the development of regulatory cost support for independent
11 telephone companies. I joined Bell Atlantic Network Services, Inc.
12 in 1984 as Manager - Interstate Access. In 1988, I was appointed
13 Director - Federal Regulatory. My responsibilities in that position
14 included management and analysis of a wide variety of regulatory
15 and policy issues including cost allocation, tariff requirements at the
16 state and federal levels, and implementation of regulatory
17 requirements as a result of the Telecommunications Act of 1996. In
18 1999, I assumed responsibility for regulatory matters for the Bell
19 Atlantic long distance affiliates as Director – Regulatory Matters. I
20 assumed my current position as president of Bell Atlantic
21 Communications, Inc. d/b/a Verizon Long Distance ("VLD") and
22 president of NYNEX Long Distance Company d/b/a Verizon
23 Enterprise Solutions ("VES") in May of 2003. As president of VLD
24 and VES, I am responsible for the operation and management of
25 the long distance network platforms, capacity, pricing and regulatory

1 matters. I graduated from the University of Puget Sound with a B.A.
2 in business administration.

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

4 A. The purpose of my testimony is to respond on behalf of VLD, VES,
5 and Verizon Select Services Inc., ("VSSI") (collectively referred to
6 as the VZ LD Affiliates) to Issues 6 through 10 from the
7 Commission's Tentative Issues List. VLD currently provides long
8 distance services to consumers and small businesses in Florida.
9 VSSI provides services to large business customers in the state.
10 VSSI also sells prepaid long distance cards in Florida. While VES
11 is certificated in the state to provide long distance services, it does
12 not actively market such services in the state at the present time.

13

14 **Q. ISSUE 6: Which IXCs should be required to file tariffs to flow**
15 **through BellSouth's, Verizon's, and Sprint-Florida's switched**
16 **access reductions, if approved, and what should be included**
17 **in these tariff filings?**

18

19 A. Any IXC that receives the benefit of intrastate switched access rate
20 reductions must file intrastate tariffs (if tariff filings are required)
21 flowing through these reductions. These IXCs should have the
22 discretion to determine how to flow through the access charge
23 reductions (e.g., by lowering in-state per minute rates and/or
24 monthly recurring plan charges). If the Commission should decide
25 to deregulate long distance services and eliminate long distance

1 tariffing obligations, the reductions should be passed through to end
2 users under end user service agreements.

3 The Commission must recognize that many IXCs resell service and
4 that the reduction in Bell South's, Verizon's and Sprint-Florida's
5 access charges flow directly to the facility-based carrier, not the
6 reseller. Resellers of long distance service typically contract with
7 facilities-based providers for service. These agreements may not
8 obligate the facilities-based carrier to pass through access charge
9 reductions that it receives. An IXC reseller should not be required
10 to reduce prices to its customers unless it receives a reduction in
11 the prices it is charged by its facilities-based supplier. As discussed
12 below, this is not an issue where the VZ LD Affiliates purchase
13 service from an affiliate.

14

15 **Q. Do VLD, VES and VSSI resell long distance services in Florida?**

16 **A.** Yes. The VZ LD Affiliates are resellers of long distance services in
17 the state. These companies obtain service over long distance
18 network facilities procured and managed by an affiliate, Verizon
19 Global Networks Inc. ("VGNI"), or they purchase services from non-
20 affiliated long distance carriers, such as MCI, Sprint and Qwest.
21 Any reductions that benefit VGNI will be passed through to the VZ
22 LD Affiliates. In turn, the VZ LD Affiliates will pass through these
23 reductions to its customers as described below.

24

25 **Q. ISSUE 7: If the ILEC access rate reductions are approved,**

1 **should the IXCs be required to flow through the benefits of**
2 **such reductions, via the tariffs, simultaneously with the**
3 **approved ILEC access rate reductions?**

4

5 A. Facility-based IXCs that benefit from reductions in the price of
6 access should be required to pass through rate reductions, via their
7 intrastate tariffs (if tariffs are required), as soon as possible after the
8 approved ILEC access rate reductions. Non-facilities based IXCs
9 should be required to flow through access charge reductions when
10 they are received from the underlying facilities-based carrier. Since
11 the flow-through of the access charges will require facilities-based
12 carriers as well as IXC resellers to make modifications to, for
13 example, billing systems, rate tables, marketing and fulfillment
14 materials, carriers should be given a reasonable amount of time to
15 implement necessary plan and system changes before they are
16 required to pass through access rate reductions.

17

18 **Q. ISSUE 8: For each access rate reduction that an IXC receives,**
19 **how long should the associated revenue reduction last?**

20

21 A. The long distance communications market is highly competitive.
22 Traditional wireline long distance carriers compete against each
23 other as well as with wireless carriers, cable companies and IP
24 telephony providers. Competition will ensure that IXCs flow through
25 access reductions without any need for Commission intervention.

1 Nevertheless, to remove any doubt about whether customers will
2 actually receive the benefit of the access reductions, the VZ LD
3 Affiliates agree to flow through the reductions year over year for
4 three years. After that time, the VZ LD Affiliates should be free to
5 change its long distance rates in accordance with demands of the
6 marketplace.

7

8 **Q. ISSUE 9: How should the IXC flow-through of the benefits from**
9 **the ILEC access rate reductions be allocated between**
10 **residential and business customers?**

11

12 A. VLD plans to flow through the benefits realized from access
13 reductions to both residential and business customers based on the
14 relative proportion of access minutes associated with these classes
15 of customers. Based on data for July through October 2003, VLD
16 expects approximately ** ** of the rate reduction to flow to
17 residential customers and ** ** to business customers. VSSI also
18 plans to flow through savings to its large business customers. The
19 amount of intrastate switched access that VSSI uses is significantly
20 less than the amount that VLD uses.

21

22 **Q. ISSUE 10: Will all residential and business customers**
23 **experience a reduction in their long distance bills? If not,**
24 **which residential and business customers will and will not**
25 **experience a reduction in their long distance bills?**

1 A. To the extent it receives access charge reductions, VLD plans to
2 reduce in-state usage rates on some, but not all, residential and
3 business plans. Our current plan is not to reduce prices on any of
4 our unlimited long distance plans. Customers on these plans
5 already receive, on an aggregate basis, our lowest rates on a per
6 minute basis. A reduction in access charges will not provide an
7 incentive for customers to make additional calls since their plans
8 already permit unlimited in-state calling. For residential customers,
9 the access flow through reductions realized by VLD would be
10 reflected in the per minute rates for several plans that represent
11 approximately ** ** of VLD's residential subscriber base. Florida
12 tariffed calling plans under consideration by VLD at this time for
13 such reductions are Plans B (Best Times), C (bundled service
14 option)(Timeless Bundle), D (E-values), F (TalkTime), G (State
15 Saver), and L (5 Cent Plan). Small business customers will realize
16 the flow through reductions by way of reduced per minute rates in
17 VLD's Plan 2 (Simple Options).

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Q. Does this conclude your testimony at this time?

A. Yes, it does.

1 BY MR. CHAPKIS:

2 Q Have you caused to be filed rebuttal testimony in
3 this docket consisting of five pages?

4 A Yes, I have.

5 Q Do you have any changes to that testimony?

6 A No, I do not.

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

9 A Yes, they would.

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

12 CHAIRMAN JABER: Prefiled rebuttal testimony of John
13 Broten shall be inserted into the record as though read.

14 BY MR. CHAPKIS:

15 Q And you have no exhibits to either of your
16 testimonies; is that correct?

17 A No, I do not.

18

19

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23

24

25

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

2 A. John D. Broten, President, Verizon Long Distance. My business
3 address is 1320 N. Courthouse Road, 9th Floor, Arlington VA 22201.

4

5 **Q. Are you the same John Broten who submitted direct testimony**
6 **on behalf of Verizon Long Distance, Verizon Enterprise**
7 **Solutions, and Verizon Select Services Inc. (collectively**
8 **referred to as the VZ Affiliates) in this proceeding?**

9 A. Yes.

10

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

12 A. My testimony addresses certain points made in the Direct
13 Testimony of Bion C. Ostrander on behalf of the Office of Public
14 Counsel (OPC).

15

16 **Q. OPC recommends that the Commission impose significant**
17 **reporting requirements on IXCs that paid \$1 million or more in**
18 **intrastate switched access. Are these requirements**
19 **necessary?**

20 A. No. The Commission should not impose the significant record-
21 keeping and reporting burdens that OPC recommends. Detailed
22 reporting is not required by statute and IXCs should only be
23 required to show, through tariff filings (where required), that
24 residential and business customers will benefit from actual, not
25 estimated, access reductions realized by IXCs. Imposition of

1 detailed reporting requirements favored by OPC (e.g., calculation of
2 the long distance rate reduction by class of service, type of service,
3 and plan) will add unnecessary costs and no benefits.

4

5 **Q. Should IXCs be required to flow-through long distance rate**
6 **reductions simultaneously with the approved ILEC access rate**
7 **reductions?**

8 A. No. IXCs should be obligated to flow through to their residential
9 and business customers only those rate reductions that they
10 actually realize. All IXCs should have a reasonable period of time
11 after the LECs' access rate reductions take effect to modify their
12 rate plans, billing, and other systems to flow through realized
13 access rate reductions. And for the reasons stated in my direct
14 testimony, resale IXCs may need additional time to determine the
15 extent of access reductions from their underlying providers. Any
16 delays in flow-through of access reductions for the reasonable
17 grounds described above should not be cause for concern because
18 the VZ LD Affiliates will, and other IXCs should be required by the
19 Commission to, flow-through any reductions they actually realize.
20 Stated otherwise, any reductions that the IXCs receive during the
21 reasonable delay period will be required to be passed on to IXC end
22 users.

23

24 **Q. For each access rate reduction that an IXC receives, how long**
25 **should the associated revenue reduction last?**

1 A. In its testimony, OPC states that Section 364.163(1) requires that
2 IXCs cap and maintain their long distance rate reductions for three
3 years after parity. This is not correct. The statute states: “After a
4 local exchange telecommunications company’s intrastate switched
5 network access rates are reduced to or below parity, as defined in
6 s. 364.164(5), the company’s intrastate switched network access
7 rates shall be, and shall remain, capped for 3 years.” The three-
8 year requirement to keep prices below a cap is an obligation
9 imposed on local exchange carrier access rate reductions. Neither
10 this section nor any other section of the Tele-Competition
11 Innovation and Infrastructure Enhancement Act dictates how long
12 interexchange carriers must pass through rate reductions.

13
14 As I stated in my direct testimony, competition will ensure that IXCs
15 flow through access reductions without any need for the
16 Commission to dictate pricing levels. Given the highly competitive
17 nature of the long distance market in Florida, IXCs will price their
18 products toward actual costs. An IXC could not compete effectively
19 if it failed to pass through cost savings. For this reason, it is not
20 necessary for the Commission to place an arbitrary time period
21 during which IXCs must maintain certain rates. Nonetheless, the
22 VZ LD Affiliates have agreed to flow through the reductions year
23 over year for three years and to reflect those reductions in tariff
24 filings, where tariff filings are required.

25

1 **Q. OPC recommends a variety of remedies that the Commission**
2 **should impose if an IXC does not pass through rate reductions.**
3 **Are those remedies appropriate?**

4 A. No. Under Section 364.285, Florida Statutes, the Commission has
5 the authority to enforce its rules and orders and to impose
6 appropriate penalties for violations (i.e., not more than \$25,000 per
7 day per violation). Consequently, there is no good reason to
8 establish another, duplicative set of specific remedies and penalties
9 solely for this proceeding.

10

11 **Q. How should the IXC flow-through of the benefits from the ILEC**
12 **access rate reductions be allocated between residential and**
13 **business customers?**

14 A. The statute only requires that access rate reductions benefit both
15 residential and business customers. It does not require, as the
16 OPC has recommended, that residential customers receive
17 proportionately greater long distance rate reductions. Nonetheless,
18 in my direct testimony, the VZ LD Affiliates have proposed to flow
19 through the substantial majority of benefits to residential customers
20 because, in our customer base, residential customers are the
21 primary users of access minutes.

22

23 **Q. Will all residential and business customers experience a**
24 **reduction in their long distance bills? If not, which residential**
25 **and business customers will and will not experience a**

1 **reduction in their long distance bills?**

2 A. OPC recommends that customers of all calling plans experience
3 rate reductions so long as the plan includes usage by “average
4 residential customers”. It is not clear what OPC means by
5 “average residential customers” and OPC does not define that
6 phrase.

7
8 In any event, OPC’s recommendation is not appropriate because
9 the statute does not require that customers of all calling plans
10 experience rate reductions and, as I explained in my direct
11 testimony, the VZ LD Affiliates do not plan to reduce prices on all of
12 their calling plans. For example, Verizon Freedom customers
13 already receive unlimited in-state interLATA usage as part of the
14 monthly plan price. Passing through reductions in access rates to
15 this customer base will not provide an incentive for customers to
16 use more long distance services. Moreover, these customers, on
17 average, already receive the Company’s lowest per minute rates.
18 For these reasons, VLD does not plan to flow through rate
19 reductions to Freedom customers. IXCs should have, and under
20 the statute they do have, discretion to pass through cost savings in
21 a fashion that makes sense in light of marketplace conditions.

22

23 **Q. Does this conclude your testimony at this time?**

24 A. Yes.

25

1 BY MR. CHAPKIS:

2 Q Would you please read a summary of your testimony?

3 A Yes. Good afternoon, Madam Chairman and
4 Commissioners. I'm here representing Verizon Long Distance,
5 Verizon Enterprise Solutions and Verizon Select Services. For
6 brevity's sake, I'll refer to these three companies
7 collectively as the Verizon LD affiliates.

8 My prefiled testimony addresses Issues 6 through 10
9 from the Commission's tentative issues list. I'm going to
10 summarize the position of Verizon LD affiliates on each of
11 these issues.

12 Issue 6 asks which IXCs should be required to flow
13 through the access reductions and what should be included in
14 their filings. Any IXC that receives the benefit of the access
15 reductions should be required to flow through the reductions it
16 receives. The IXCs, however, should be given the discretion to
17 flow through the reductions in the manner they see fit to the
18 residential and business customers as permitted by the statute.

19 The Verizon LD affiliates will pass through the
20 access reductions received by affiliated and nonaffiliated
21 network providers through to access reductions to the
22 Verizon LD affiliates.

23 The Commission should not impose significant
24 recordkeeping and reporting burdens such as those recommended
25 by the OPC. Detailed reporting is not required by statute, and

1 IXC's should only be required to show that residential and
2 business customers will benefit from access reductions realized
3 by IXC's. These showings could be made in tariff filings
4 without burdening carriers with additional reporting and
5 recordkeeping requirements and their associated costs.

6 Issue 7 asks whether the IXC's should be required to
7 flow through the access reductions via their tariffs
8 simultaneously with the approved ILEC access reductions. Since
9 the flow-through will require facilities-based carriers as well
10 as IXC resellers make a host of modifications to their billing
11 systems, rate tables, marketing and fulfillment materials and
12 so forth, carriers should be given a reasonable amount of time
13 to implement necessary plan and system changes before they're
14 required to pass through access rate reductions. The
15 reasonable time period for these changes is consistent with the
16 public interest. Failure to provide a reasonable
17 implementation period could lead to billing errors and customer
18 confusion. In addition, IXC's will still be required to flow
19 through all access reductions they receive, and consumers will
20 therefore receive the economic benefits of access reductions.

21 Issue 8 asks how long IXC's should be required to
22 maintain the rate reductions. Because the long distance
23 communications market is highly competitive, there's no need to
24 burden the market with additional regulations in this area.
25 Competition will ensure that IXC's flow through access

1 reductions without any need for Commission intervention.
2 Nevertheless, to remove any doubt about whether customers will
3 actually receive the benefit of the access reductions, the
4 Verizon LD affiliates have agreed to flow through the
5 reductions they receive year over year for three years. After
6 that time, the Verizon LD affiliates should be free to change
7 their long distance rates in accordance with the demands on the
8 marketplace.

9 Issue 9 asks how the flow-through of the access
10 reductions should be allocated between residential and business
11 customers. Verizon Long Distance plans to flow through the
12 access reductions to both residential and business customers
13 based on the relative proportion of access minutes associated
14 with these classes of customers. Based on this approach, a
15 significant portion of the rate reduction will flow to
16 residential customers.

17 Issue 10 asks which, if any, residential and/or
18 business customers will realize a reduction in their long
19 distance bills? Verizon Long Distance plans to reduce in-state
20 usage rates on some, but not all, of its residential and
21 business plans. We do not intend to reduce prices on our
22 unlimited LD calling plans because customers on these plans
23 already receive on an aggregate basis our lowest rates on a per
24 minute basis. For residential customers our current intention
25 is to flow through the access reductions to customers on a

1 number of other calling plans that represent a significant
2 portion of Verizon LD's residential subscriber base.

3 These reductions would enable Florida consumers to
4 receive lower LD rates comparable to those in other states
5 where access reforms have been achieved. For example, on our
6 E-values plan, the current rate in Florida per minute for that
7 plan now is 12 cents per minute. In California, that has gone
8 through an access rebalancing process already, that rate is
9 7 cents. That concludes the brief summary of my testimony, and
10 thank you for the opportunity to present our views here today.

11 MR. CHAPKIS: The witness is available for
12 cross-examination.

13 CHAIRMAN JABER: Companies? Mr. Beck.

14 MR. BECK: Thank you, Madam Chairman.

15 CROSS EXAMINATION

16 BY MR. BECK:

17 Q Good afternoon, Mr. Broten.

18 A Good afternoon.

19 Q You just mentioned in your summary about your
20 E-values rate in Florida is 12 cents per minute.

21 A Yes, sir.

22 Q And you also offer that in North Carolina as well,
23 for example, do you not?

24 A We offer E-values in North Carolina.

25 Q What's the per minute rate in North Carolina?

1 A I couldn't tell you that right off the top of my
2 head.

3 Q Would you accept, subject to check, that your Web
4 page says that it's 14 cents a minutes?

5 A That may, be subject to check.

6 Q How do access charges in North Carolina compare to
7 Florida?

8 A My recollection is that they're higher than many
9 other states in the country. I couldn't tell you exactly how
10 they compare to Florida.

11 Q Mr. Broten, let me try to go through the various
12 companies that Verizon has because I find it somewhat
13 confusing.

14 Verizon Long Distance offers service to residential
15 and small business customers; is that right?

16 A That's correct.

17 Q And then there's another business, Verizon Select
18 Services, that offers service to larger businesses.

19 A That's correct.

20 Q Okay. Now are those two companies, are they
21 primarily purchasers of access or are they resellers?

22 A All of those companies are resellers. However, we
23 purchase facilities -- we purchase network capacity from a
24 network providing affiliate. And, and we also purchase,
25 purchase volume usage, if you will, from unaffiliated carriers.

1 Q Okay. And so to the extent -- the extent to which
2 Verizon, the two Verizon companies pass through access charges
3 is dependent on the extents to which the contracts you have
4 both with your affiliate and unaffiliated companies pass them
5 through in your contract?

6 A That's correct.

7 Q Okay.

8 A However, in my direct testimony we agreed that we
9 would flow through the access reductions that occur to the
10 affiliated network provider immediately.

11 Q Okay. So you procure services both from the
12 affiliated provider and unaffiliated?

13 A That's correct.

14 Q What proportion of your services are obtained through
15 the affiliate and what proportion are received from
16 unaffiliated?

17 A As of right now, it will be -- it's in the, probably
18 the high 90 percent range.

19 Q For your affiliated?

20 A That we would purchase from our affiliated carrier.

21 Q Okay. Now do your contracts with the affiliated,
22 with your affiliated carrier, do they require them to flow
23 through any access reductions they receive?

24 A I don't know exactly what the contract language says.
25 But, however, we have agreed that we would flow those through.

1 Q Okay. And is that true both with respect to Verizon
2 Long Distance and Verizon Select Services, both companies?

3 A Yes, it is.

4 Q On Page 5 in your confidential testimony, you provide
5 a breakdown of the proportion of the access charges that relate
6 to residential and the portion to business customers of Verizon
7 Long Distance; is that right?

8 A Yes, sir.

9 Q Okay. Verizon Long Distance is that portion of
10 the -- provides it only to residential and small business; is
11 that right?

12 A In Florida, Verizon Long Distance provides services
13 to both residential and the small business market. And the,
14 the preponderance, if you will, of usage in Florida is
15 attributed to that entity, as opposed to Verizon's Select
16 Services.

17 Q Okay. But you've not given us the proportion of the
18 business that relates to the combined two companies, have you?

19 A I have not.

20 Q Okay. And is it your understanding that the other
21 long distance companies we've heard from, AT&T, MCI and Sprint,
22 that they've provided that breakdown on the whole, on their
23 whole business, both residential, small and big business?

24 A That's my understanding.

25 Q Okay. And so your numbers that you give in your

1 testimony are not analogous to the numbers they would have
2 given in theirs; is that right?

3 A I would submit that they are. They may vary
4 slightly. What we've provided here is an approximation. And I
5 think the -- we're representing this approximation as the
6 combined distribution for all the entities that I'm here
7 representing today.

8 Q As I read your testimony on Page 5, beginning at the
9 end of Line 15, it says, Verizon Long Distance expects, and
10 then you give a percentage, residential and business; is that
11 right?

12 A That's true.

13 Q And Verizon Long Distance is the company that
14 provides service only to the residential and small business, I
15 thought you said.

16 A That's correct.

17 Q And so that breakdown is the proportion that relates
18 to Verizon Long Distance; is that right?

19 A That's right.

20 Q Now you have a separate amount that would relate to
21 your big business operation, Verizon Select Services?

22 A That's right.

23 Q I take it 100 percent of their reductions will go
24 through the businesses.

25 A That's probably true.

1 Q What you haven't given us is the percent residential
2 versus all business in your testimony.

3 A Insofar as the three entities, if you will, that are
4 here, I guess you could conclude that or that's a fact, if you
5 will. However, I would submit that if Verizon Select Services
6 were added to this aggregate, it would not change that number
7 significantly.

8 Q What do you mean by significantly?

9 A Maybe one or two basis points.

10 Q Percentage points, basis points?

11 A Percentage points.

12 Q Okay. So that would mean that big business -- or
13 would that mean that the big businesses served by Verizon is
14 only one or two percent of the total business that Verizon Long
15 Distance has?

16 A Yes. In Florida that would be, probably be the case.

17 Q And in that respect is Verizon, the Verizon companies
18 different than your understanding of AT&T, MCI and Sprint?

19 A That's my understanding.

20 Q That they serve a bigger portion of business than do
21 your companies?

22 A I think that would be accurate.

23 Q Okay. How does Verizon Long Distance rate in the, in
24 any measure of size in Florida compared to AT&T, MCI and
25 Sprint, if you can say?

1 A I don't know that I could say with respect to
2 Florida. I think nationally in terms of number of subscribers
3 we now range third, if I'm not mistaken.

4 Q In Florida?

5 A No. I said in Florida I don't know. Nationally I
6 believe mid-last year or so we became the number third provider
7 in terms of number of customers.

8 Q But nationally Verizon has a lot of very large local
9 companies that it's associated with; right?

10 A We have a number of ILECs that we're associated with,
11 yes.

12 Q All right. But you -- is your business in Florida,
13 is it concentrated mainly in the areas served by the Verizon
14 local company?

15 A Generally speaking, yes.

16 Q Okay. And you wouldn't have the same spread then as
17 far as serving the entire state that AT&T, MCI and Sprint would
18 have, for example?

19 A I presume not.

20 MR. BECK: Okay. Mr. Broten, thank you. That's all
21 I have.

22 MR. TWOMEY: No questions.

23 CHAIRMAN JABER: Staff.

24 CROSS EXAMINATION

25 BY MS. CHRISTENSEN:

1 Q Good afternoon. Just a few questions. We've asked
2 this of the other long distance companies. Consistent with the
3 past Commission requirements in Order Number PSC-980795-FOF-TP,
4 which required the IXCs to file access tariffs within 30 days,
5 couldn't Verizon Long Distance and Verizon Services file its
6 access tariff in this docket within 44 days?

7 A I think, as I said in my testimony, a reasonable
8 time -- I think provided we would know what the reductions were
9 to be, 45 days after we know those numbers is probably a
10 reasonable time to, to make the necessary filings and to
11 implement the rates.

12 Q Will all of Verizon Long Distance customers who make
13 long distance calls receive a reduction in their long distance
14 rates? You may have previously answered this, but I just want
15 to make sure we clarify that.

16 A No. As I mentioned in my statement as well as in my
17 testimony, those customers that are on our unlimited long
18 distance calling plan, we do not anticipate making any
19 reductions to those plans.

20 Q Are those -- the unlimited calling plan customers,
21 are those the only customers that you're representing today,
22 those, those particular customers that are on that plan that
23 would not receive the reduction, all of Verizon's other plans
24 would receive that or are there some additional plans that may
25 not receive it?

1 A At this stage we've looked at approximately four or
2 five plans where we do anticipate making reductions to flow
3 through these, these access reductions. That's on the consumer
4 residential side. On the business side for our medium, small
5 and medium sized businesses, we have proposed making a
6 reduction to our simple options plan. There is, there are
7 other business plans. We haven't yet considered exactly how we
8 would do that, but our early thinking at this stage is on the
9 business side it would be limited to the simple options plan.

10 Q And just to clarify because I don't want to -- I just
11 want to make sure I'm understanding it. You said you were
12 considering reducing rates on four or five plans.

13 A Yes.

14 Q Would the other residential plans be some sort of
15 unlimited calling type plan?

16 A No.

17 MS. CHRISTENSEN: Okay. Thank you.

18 CHAIRMAN JABER: Redirect, Mr. Chapkis.

19 MR. CHAPKIS: No redirect.

20 CHAIRMAN JABER: Thank you, Mr. Broten, for your
21 testimony.

22 THE WITNESS: Thank you.

23 CHAIRMAN JABER: And there are no exhibits. You may
24 be excused.

25 (Witness excused.)

1 CHAIRMAN JABER: Ms. White, I think this brings us to
2 the point where we can bring back Mr. Ruscilli for the sole
3 purpose of answering my question, which I hope you remember,
4 Mr. Ruscilli, because I don't have my notes in front of me.

5 MS. WHITE: I remember it.

6 CHAIRMAN JABER: Okay. Good. But while we have your
7 attention, it occurred to me last night that we, we'd asked
8 Sprint and Verizon to make a commitment that they would
9 voluntarily expand the federal income eligibility criteria to
10 135 percent of the federal poverty level instead of
11 125 percent.

12 MS. WHITE: Yes, ma'am.

13 CHAIRMAN JABER: And I neglected to circle back
14 around and ask you all.

15 MS. WHITE: Mr. Ruscilli is prepared to answer that
16 question.

17 CHAIRMAN JABER: Those are the two questions I want
18 answered, so this shouldn't take any time at all.

19 MS. WHITE: Okay. There was a third question from
20 Commissioner Davidson, I believe, about whether there was a
21 comparison of the basic residential rates in other BellSouth
22 states.

23 CHAIRMAN JABER: Yes.

24 MS. WHITE: And rather than asking Mr. Ruscilli, I
25 can tell you that on Page 16 of his rebuttal testimony there is

1 a chart of the other BellSouth states that shows the lowest
2 rate group and the highest rate group.

3 CHAIRMAN JABER: Okay. So that's already in the
4 record is what you're saying?

5 MS. WHITE: Yes, ma'am. Yes, ma'am.

6 CHAIRMAN JABER: It was part of rebuttal. Is that
7 satisfactory, Commissioner Davidson?

8 COMMISSIONER DAVIDSON: Uh-huh.

9 CHAIRMAN JABER: Okay.

10 MS. WHITE: Mr. Ruscilli is still under oath.

11 JOHN A. RUSCILLI

12 was recalled as a witness on behalf of BellSouth
13 Telecommunications, Inc., and, having been duly sworn,
14 testified as follows:

15 DIRECT EXAMINATION

16 BY MS. WHITE:

17 Q I believe that Chairman Jaber or Commissioner
18 Davidson also asked whether BellSouth was willing to commit to
19 an increased Lifeline -- to increase Lifeline to 135 percent of
20 the federal poverty level. What was BellSouth's response to
21 that?

22 A BellSouth will commit to that.

23 Q I think the third question was to the extent to which
24 Lifeline subscribers subscribe to vertical or ancillary
25 features, but I believe staff has a stipulated exhibit that

1 might take care of that one.

2 CHAIRMAN JABER: They have handed out an exhibit, and
3 I've asked staff to just leave all the stipulated exhibits
4 until the end. Parties, it's my understanding you have copies
5 as well? Ms. White, that was it?

6 MS. WHITE: That was it. I'm sorry. That was it, I
7 believe. And if no one else has any questions for Mr.
8 Ruscilli, may he be excused?

9 CHAIRMAN JABER: Mr. Ruscilli, I want to personally
10 thank you for sticking around as long as you have.

11 THE WITNESS: I enjoyed it, I have.

12 CHAIRMAN JABER: Thank you.

13 MS. WHITE: Now we're going to have to really take
14 him away.

15 CHAIRMAN JABER: You may be excused. I'm only going
16 to take that in a positive way. What do you think,
17 Commissioners? It's only a positive statement.

18 COMMISSIONER DEASON: I was just going to remind the
19 witness he was still under oath when he said that.

20 (Witness excused.)

21 CHAIRMAN JABER: All right. Wow. I think we've
22 reached the point where we can bring Mr. Shafer up, right,
23 staff?

24 MS. KEATING: Staff calls Greg Shafer.

25 CHAIRMAN JABER: Okay. Great.

1 MS. KEATING: And, Madam Chairman, Mr. Shafer has not
2 been sworn.

3 CHAIRMAN JABER: Okay. Raise your right hand,
4 please, Mr. Shafer.

5 GREGORY L. SHAFER
6 was called as a witness on behalf of the staff of the Florida
7 Public Service Commission and, having been duly sworn,
8 testified as follows:

9 DIRECT EXAMINATION

10 BY MS. KEATING:

11 Q Mr. Shafer, would you please state your name and
12 address for the record.

13 A My name is Gregory L. Shafer, 2540 Shumard Oak
14 Boulevard, Tallahassee, Florida.

15 Q And by whom are you employed and in what capacity?

16 A I'm employed by the Florida Public Service Commission
17 as a senior analyst in the Division of External Affairs.

18 Q And did you prepare and file in this proceeding
19 direct testimony consisting of 14 pages?

20 A Yes, I did.

21 Q Do you have any corrections to that testimony?

22 A No.

23 Q And if I read you the same questions, would your
24 answers still be the same?

25 A Yes.

1 MS. KEATING: Madam Chairman, I'd ask that
2 Mr. Shafer's direct testimony consisting of 14 pages be
3 inserted into the record as though read.

4 CHAIRMAN JABER: Prefiled direct testimony of
5 Gregory L. Shafer shall be inserted into the record as though
6 read.

7 BY MS. KEATING:

8 Q And, Mr. Shafer, you did not have any exhibits; isn't
9 that correct?

10 A That's correct.

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1 DIRECT TESTIMONY OF GREGORY L. SHAFER

2 Q. Would you please state your name and address?

3 A. Gregory L. Shafer, 2540 Shumard Oak Blvd., Tallahassee, Florida 32399-
4 0850.

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by the Florida Public Service Commission, Division of
7 External Affairs, as a Senior Analyst in the Office of Federal and Legislative
8 Liaison.

9 Q. What are your current responsibilities as a Senior Analyst?

10 A. I presently function as a legislative analyst on telecommunications
11 matters preparing bill analyses and representing the Florida Public Service
12 Commission before the Florida Legislature on telecommunications matters. I
13 also prepare and present analyses on various federal issues including national
14 legislation as needed and Federal Communications Commission issues.

15 Q. Please summarize your educational and professional background.

16 A. I have a Bachelors degree in Economics from the University of South
17 Florida and a Masters degree in Economics from Florida State University.18 My professional experience includes two years as a Field Economist with
19 the U.S. Department of Labor, Bureau of Labor Statistics. I have been
20 employed by the Florida Public Service Commission since September 1983. I
21 spent five plus years in the Division of Communications in various capacities,
22 the final two years as Supervisor of the Economics Section. My
23 responsibilities primarily focused on policy development in the areas of
24 Access Charges, Long Distance Service, Cellular telephone interconnection, and
25 Shared Tenant Services. While working in the Division of Communications, I

1 testified in the Interexchange Carrier Rules docket and in the A.T. & T.
2 Waiver Request (forbearance) docket.

3 I spent approximately 10 years as Bureau Chief of the Bureau of Special
4 Assistance in the Division of Water and Wastewater and have testified in
5 several water and wastewater cases on the calculation of margin reserve. I
6 also testified on ratesetting policy in the Southern States (now known as
7 Florida Water Services, Inc.) rate case, Docket No. 950495-WS.

8 For the last four and a half years I have worked primarily on
9 telecommunications issues, first in the Division of Policy Analysis and
10 Intergovernmental Liaison and currently in the Division of External Affairs.

11 Q. What is the purpose of your testimony in this proceeding?

12 A. The purpose of my testimony is to provide the Commission with additional
13 information and perspectives on petitions filed by BellSouth, Sprint, and
14 Verizon (the Companies) in relation to the criteria established in Section
15 364.164, subsection (1)(a-c), Florida Statutes.

16 Q. Please describe the proposed implementation schedule of intrastate access
17 charge reductions and revenue neutral basic local service increases.

18 A. As proposed, all three companies elected to file simultaneously and their
19 implementation schedules are identical. Each company has proposed to
20 implement the intrastate access charge reductions and basic local service rate
21 increases in three steps over a 24 month period from the first change to the
22 final change. This will make it substantially easier for long distance
23 carriers in Florida to develop rate reductions that will apply to all of their
24 respective Florida customers served by BellSouth, Sprint and Verizon
25 simultaneously. While the statute addresses some aspects of required rate

1 reductions by long distance carriers, it lacks specificity on timing,
2 frequency and scope. By implementing access charge reductions simultaneously
3 for Sprint, Verizon and BellSouth, it will be easier for long distance
4 carriers to pass along those savings through rate reductions in fewer
5 installments, across a broader geographic area.

6 Q. What are the proposed incremental rate increases for basic local exchange
7 service for each of the companies?

8 A. BellSouth has two different methods to implement the proposed increases.
9 The first method implements the increase in two equal increments of \$1.25 in
10 the first quarters of 2004 and 2005 and a final increment estimated at \$1.00
11 in the first quarter of 2006. The second method would implement an increase
12 of \$1.39 in the first quarter of 2004, \$1.38 in 2005 and the estimated
13 remainder of \$1.09 in 2006.

14 Verizon proposes two equal increments during the same time frame in 2004
15 and 2005 of \$1.58 and a final increment of \$1.57 in 2006.

16 In conjunction with BellSouth and Verizon, Sprint proposes increases of
17 \$2.95 in 2004, \$2.75 in 2005 and a lesser increase of \$1.16 in 2006.

18 Q. How do the basic local service increases for Sprint compare to those for
19 BellSouth and Verizon?

20 A. As proposed, Sprint's total increase in residential flat-rate basic local
21 service rates as a result of reducing intrastate access charge rates to parity
22 with interstate access rates is \$6.86 compared to \$3.50 or \$3.86 for BellSouth
23 and \$4.73 for Verizon. The incremental increases proposed by Sprint of \$2.95
24 for 2004 and \$2.75 for 2005, are approximately 86% and 75% greater
25 respectively, than those proposed by Verizon over the same period. The

1 primary reason for this disparity is that Sprint's intrastate access charge
2 rates are significantly higher than those of BellSouth. Consequently, the
3 impact of reducing these rates to parity with interstate access rates is
4 greater on the local service rates for Sprint's customers than either
5 BellSouth's customers. While Verizon's intrastate access rates are comparable
6 to Sprint's they have a greater number of access lines over which to spread
7 recovery. In addition, Sprint has elected to place a greater percentage of
8 the total revenue impact in the first two stages of the rate changes than in
9 the third, while BellSouth and Verizon have distributed the rate changes more
10 evenly over the transition period. Solely from a consumer equity perspective,
11 I would argue that Sprint's rate adjustments should be implemented through at
12 least one more step than those for BellSouth and Verizon. While this will add
13 additional administrative costs for Sprint and for the long distance carriers
14 in Sprint's territory, it will put Sprint's residential customers more on par
15 with those of BellSouth and Verizon in terms of the amount of the increase
16 they receive at any one time.

17 Q. Does the statute address rate shock mitigation or define reasonable rate
18 impact?

19 A. No, the statute does not directly address or define reasonable rates or
20 rate shock. However, the statute provides for a transition period for the
21 access charge and basic local service rate adjustments of not less than 2
22 years and not more than 4 years. One can reasonably infer that by providing
23 a transition period for implementation of the access charge reductions and
24 basic local service rate increases, the Legislature recognized the need to
25 mitigate the impact to consumers via a transition period rather than a one-

1 | time change in rates. Therefore, I believe the statute recognizes the concept
2 | of rate shock or rate reasonableness. Along those lines, had the Legislature
3 | envisioned that it was necessary to achieve access parity in thirteen months
4 | or 24 months or some other finite period, they could easily have established
5 | those time frames in the statutory language. By providing the range of not
6 | less than 2 and not more than 4 years as an implementation schedule, I believe
7 | the Legislature recognized the need to provide a transition path to temper
8 | rate impacts on consumers. It also seems reasonable that the determination
9 | of the appropriate implementation schedule for each company would not rest
10 | solely at the discretion of the Companies.

11 | Q. If Sprint were to extend its access reductions and basic local service
12 | increases by an additional step beyond those of BellSouth and Verizon, do you
13 | believe it would be appropriate for Sprint to extend its implementation
14 | timetable to 36 months?

15 | A. Yes. In addition, I believe it would be appropriate for Sprint to time
16 | its reductions in concert with BellSouth and Verizon for the first 24 months.
17 | Then Sprint would implement one more incremental rate adjustment 36 months
18 | after the initial adjustment in order to complete its transition to parity.

19 | Q. Please describe the characteristics that you believe might address the
20 | statutory criteria of inducing enhanced market entry.

21 | A. While no specific statutory guidance is provided for that particular
22 | criterion, I believe there are a number of ways to evaluate whether the
23 | petitions filed by BellSouth, Sprint, and Verizon will lead to enhanced market
24 | entry. The obvious first indication of induced market entry would be an
25 | increase in the number of market participants in any given market area.

1 Another possible standard would be an expansion of consumer choice. That
2 expanded choice may take the form of new competitors but may also be reflected
3 in the form of new bundled service offerings by existing providers and/or
4 nontraditional choices such as wireless or VoIP.

5 Q. What would be the basis for competitors choosing to enter markets they had
6 previously elected not to enter?

7 A. I think the primary factor for a competitor to consider is whether they
8 will be profitable in the foreseeable future in any particular market.
9 However, many other factors influence market entry decisions other than the
10 cost/price relationship for a particular service. In this case, the
11 theoretical underpinnings of the statute are that the cost/price relationships
12 for intrastate access charges and basic local service rates are seriously
13 misaligned. More simply put, the Legislature subscribed to the notion that
14 access charges subsidize basic local rates, or that access charge rates far
15 exceed cost and basic local service rates are on average below cost. To the
16 degree that basic local service rates are below cost, that is a significant
17 deterrent to market entry for that particular service.

18 Q. Is the removal of the alleged subsidy flowing from access charges to basic
19 local service rates sufficient to induce more market participants for basic
20 local service?

21 A. There are strong theoretical reasons to believe that the proposed changes
22 to intrastate access charges and basic local service rates will improve the
23 level of competition in many markets. As noted previously, profitability is
24 the main determinant of market entry to provide an individual product. The
25 challenge of making a profit in a market in which a key product is priced

1 | below cost is clearly a deterrent to entry. Removing or reducing the degree
2 | of any subsidy will also remove or reduce the significance of that deterrent.
3 | Q. Testimony in this case suggests that the subsidy flowing from intrastate
4 | access charges to basic local service rates does not comprise the total amount
5 | of subsidy of basic local service rates. If this is true, does this mean that
6 | removing the alleged intrastate access charge subsidy will not be effective
7 | in inducing enhanced market entry?

8 | A. Not necessarily. Many products cannot be viewed in isolation, and I
9 | believe basic local exchange access is one of those services. Basic local
10 | exchange service is a gateway product, if you will. By that I mean it
11 | provides access to an array of other products or services that cannot stand
12 | alone or have no value without local exchange access. For example, services
13 | such as caller ID, long distance service, or dial-up Internet access are
14 | unavailable to consumers without local exchange service. In addition, these
15 | types of services are discretionary: that is, one particular customer may base
16 | his purchase decision solely on the price of local exchange service while
17 | another customer may base her decision on the price of a group of services
18 | together, including local exchange service. Thus, the price of local exchange
19 | service is a critical element for competitors to consider when choosing
20 | whether to enter a particular market but is not the only factor. The
21 | profitability of these other services also plays a role in the market entry
22 | decision. This phenomenon also explains why some residential competition
23 | persists even in light of the evidence that basic local exchange service on
24 | its own is priced below cost on average. Since telecommunications competitors
25 | rarely compete only for basic local exchange service, and since some

1 competitors are already in the market, I believe the improvement of the
2 cost/price relationship for basic local exchange service as reflected in the
3 Companies' petitions will be a signal to competitors that the potential for
4 profitability is improved. As a result of the proposed changes, one can
5 reasonably expect that there will be additional market entry, particularly in
6 markets that may have previously been only marginally profitable or slightly
7 unprofitable. I would not view the petitions as deficient or necessarily
8 ineffective on the basis that the entire alleged subsidy of basic local
9 service has not been eliminated by the proposals.

10 Q. Will the improved cost/price relationships for intrastate access charges
11 and basic local exchange service induce enhanced market entry across all
12 markets in Florida?

13 A. There may be many ways to identify markets within each of the petitioning
14 companies' service territories. However, for the sake of discussion I will
15 assume that the local exchange is the relevant market area. Under that
16 assumption, I do not believe that the proposed changes will induce additional
17 market entry in all markets if by that you mean additional competitors. This
18 is true primarily because the cost of providing basic local exchange service
19 can vary dramatically between exchange areas. There will very likely be
20 exchange areas in each company's service territory where the cost to provide
21 basic local service is still significantly above its price and this will
22 remain a barrier to entry in those exchange areas. I would expect this to be
23 true in the least densely populated exchanges in particular.

24 Q. Previously you mentioned that a variety of factors besides profitability
25 would impact the decision of competitors to enter a particular market. What

1 | might some of those factors be?

2 | A. Business plans vary among providers of like products or services, and
3 | businesses adapt and adjust their plans to changing circumstances including
4 | technological changes, capital market factors, and short and long term profit
5 | horizons. There is more for a competitor to consider than the prices another
6 | competitor can charge for a particular service.

7 | Telecommunications service is costly to provide on a facilities basis
8 | due to the required investment in infrastructure. A facilities-based carrier
9 | must consider economies of scope and scale or the ability to attain enough
10 | customers in the relevant market to support the investment in infrastructure.
11 | The cost of customer acquisition is also significant when you are attempting
12 | to challenge a long-time sole provider of a product or service.

13 | In the case of providers that resell service or lease facilities from
14 | underlying carriers, the cost structure may differ but the cost of customer
15 | acquisition remains significant. Even in that case there are administrative
16 | costs for billing, customer service, management, etc.

17 | Competitive local exchange carriers also have the luxury and ability to
18 | be selective in the markets they serve in order to maximize their opportunity
19 | for profitability.

20 | Finally, demographics play a role in a decision to enter the market.
21 | Factors such as population density, age, and income in a particular market
22 | influence whether competitors will choose to provide goods and services.

23 | Q. Do the petitions as proposed address any of the factors you mention?

24 | A. The petitions focus exclusively on correcting inefficiencies in the
25 | cost/price relationships of intrastate access charges and basic local exchange

1 | service. While this is a significant factor in determining whether
2 | competitors will enter the exchange access market, it is by no means the only
3 | factor.

4 | I should note that the petitions are limited to what the incumbent local
5 | exchange companies are permitted to do by the statute in terms of the tools
6 | at their disposal. I would not view the petitions as deficient on the basis
7 | that they do not address factors other than the cost/price relationships of
8 | intrastate access charges and basic local exchange service. These issues and
9 | factors lie outside the statutory framework and petitioners are not required
10 | by the statute to address them.

11 | Q. You previously mentioned expanded customer choice as a way to view
12 | enhanced market entry. Please explain what you are referring to.

13 | A. One of the characteristics of a competitive market is that consumers are
14 | presented a variety of choices for a particular product. Products may not be
15 | identical but are essentially the same. Each competitor attempts to gain a
16 | portion of the market by differentiating its product in some way. Automobiles
17 | are a good example of product differentiation. You can distinguish your
18 | automobile purchase through seemingly endless variations in color, size,
19 | upholstery type, transmission type, horsepower, fuel efficiency, etc. Each
20 | year it seems, some automaker dreams up a new option in an attempt to attract
21 | new customers.

22 | The telecommunications market exhibits similar characteristics albeit
23 | to a lesser degree. In recent years, wireless communications carriers have
24 | developed a method of product differentiation based on pricing. Wireless
25 | carriers have provided calling options that treat local, intrastate long

1 distance, and interstate long distance minutes as identical depending on the
2 rate plan that is most attractive to individual consumers. In so doing they
3 have revolutionized telecommunications pricing and created a product desirable
4 to wireline and wireless customers alike. The response by wireline
5 telecommunications providers such as BellSouth, Sprint, and Verizon is that
6 they have each developed calling plans along similar lines as the wireless
7 companies.

8 Q. Is approval of the Companies' petitions likely to provide benefits to
9 residential consumers regardless of whether more competitors enter the market?

10 A. In my opinion achieving parity between intrastate access charges and
11 interstate access charges will lead to more competitively priced bundled
12 service offerings for residential consumers, which will provide benefits to
13 those consumers whose calling patterns match those offerings.

14 It should be noted that most wireless companies, through their
15 interconnection agreements, pay both inter- and intrastate access charges on
16 the relevant traffic. Since bundled service offerings are the mainstay of
17 wireless pricing and a competitive influence on wireline pricing, I would
18 expect that wireless pricing offerings will incorporate this cost reduction
19 and BellSouth, Sprint, and Verizon and IXCs will respond in a like manner.

20 Q. Do you believe that wireless is a significant substitute for wireline
21 service?

22 A. While I would not argue that wireless service is a perfect substitute for
23 wireline service, evidence suggests that a significant number of consumers use
24 wireless service to substitute for wireline long distance service. The FPSC
25 has for some time, commissioned consumer surveys through the University of

1 | Florida, Bureau of Economic and Business Research. That survey data for the
2 | period January 2003 through September 2003, indicates that more than 30% of
3 | residential consumers surveyed in that period most often used a wireless phone
4 | for long distance service. I believe this is because of the pricing strategy
5 | employed by wireless carriers that treats long distance minutes the same as
6 | local minutes.

7 | Q. Do you believe that all residential consumers will benefit from the
8 | changes proposed in the Companies' petitions?

9 | A. I doubt that all residential consumers affected by the proposed rate
10 | changes will experience the benefits of increased competition and additional
11 | service offerings. However, it is likely that there will be a significant
12 | number of residential consumers that will see benefits in expanded choice and
13 | new and innovative services.

14 | The survey data noted above also indicated that 88% of residential
15 | consumers surveyed had sought some type of lower cost long distance
16 | alternative (dial around, prepaid calling card, time of day, etc.). I believe
17 | the survey data, at a minimum, demonstrates that residential consumers will
18 | shop around for lower long distance prices. Armed with that knowledge, it is
19 | hard to imagine that Sprint, BellSouth and Verizon, along with the IXCs that
20 | serve in their territories, will not respond in some manner in an attempt to
21 | lure residential long distance consumers back to their networks.

22 | However, there will also be a segment of the residential customer base
23 | that will most likely see only rate increases and little or no benefit due to
24 | their individual calling patterns and location.

25 | Q. The prefiled testimony of Mr. Carl Danner (Verizon, page 21, lines 8-18)

1 suggests that the proposed rate changes will make the use of broadband
2 services more ubiquitous. Do you agree with Mr. Danner?

3 A. I do not see a direct impact of the proposed petitions on the broadband
4 market. However, if and when basic local service rates are increased, the
5 relative attractiveness of high speed data service improves as an alternative
6 for those consumers that are Internet users already. This would be
7 particularly true for consumers currently devoting a second basic local access
8 line to Internet use. Digital Subscriber Line service permits use of a single
9 access line for both voice and data service. BellSouth, Sprint, and Verizon
10 charge for each service individually or combined into bundled service
11 offerings which offer modest discounts if a consumer also accepts a variety
12 of add-on services (such as caller ID, three-way calling, call forwarding and
13 discounted long distance service). Only those consumers that have a demand
14 for data service will likely be incented to migrate to the higher priced
15 product. I do not really view a result that leads to some consumers migrating
16 to a higher priced service as a positive competitive outcome for consumers,
17 even if that service has the advantage of greater versatility. In the long
18 run, that may create a more vigorous battle for broadband customers, but I can
19 not reach that conclusion with any degree of certainty at this time.

20 Q. Do you believe increased competition will ultimately lead to lower
21 residential basic local service rates?

22 A. The premise under which the Legislature passed the Tele-competition Act
23 is that basic local service rates are subsidized by intrastate access charges.
24 To the degree that competition leads to prices that reflect true cost, it is
25 hard to envision competition leading to local service rates that are as low

1 | as the current, allegedly subsidized, rates. The only possible scenario that
2 | could produce that outcome is a reduction in the cost of providing basic local
3 | service due to new or improved technology for local loops or "last mile"
4 | interconnection. I do not believe that innovation will be driven by the
5 | desire to provide plain old telephone service. Rather, as telecommunications
6 | technology becomes more data oriented, I believe competitors will focus on
7 | providing high speed data service that will in turn provide access to
8 | desirable services such as streaming audio and video, as well as voice. Voice
9 | will become a single component of a range of possible services that the
10 | infrastructure will support. If that is the case, it seems unlikely that
11 | rates for traditional wireline basic local service, as a stand alone service,
12 | will be forced back to current levels through increased competition.

13 | Q. Does this conclude your testimony?

14 | A. Yes.

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1 BY MS. KEATING:

2 Q Okay. Have you prepared a summary of your testimony?

3 A Yes, a brief opening statement.

4 The purpose of my testimony is to provide the
5 Commission with my analysis regarding factors that a potential
6 service provider is likely to consider in its decision to enter
7 the telecommunication markets in Florida. Those factors
8 include anticipated profitability, relevant demographic data,
9 economies of scope and scale and others. I also address
10 whether the reduction of intrastate access charges and
11 increased basic local rates is likely to result in a more
12 competitive environment for telecommunications service in
13 Florida.

14 In addition, my testimony provides analysis of how I
15 believe a more competitive environment might manifest itself
16 through more choice and expanded service offerings.

17 MS. KEATING: With that, Madam Chairman, the witness
18 is tendered for cross.

19 CHAIRMAN JABER: Ms. Keating, I think, as it relates
20 to the staff witnesses, I could just start at this side of the
21 table and go on forward; right?

22 MS. KEATING: I think that's fine. Yes, ma'am.

23 CHAIRMAN JABER: Mr. Chapkis.

24 MR. CHAPKIS: Verizon has no cross.

25 CHAIRMAN JABER: Mr. Fons.

1 MR. FONS: Sprint-Florida has no cross.

2 CHAIRMAN JABER: I'm going to cut across over here,
3 Mr. Beck, and ask Ms. McNulty.

4 MS. McNULTY: No questions.

5 CHAIRMAN JABER: Mr. Hatch.

6 MR. HATCH: No questions.

7 CHAIRMAN JABER: Mr. Meros. Mr. Beck.

8 MR. BECK: Thank you, Madam Chairman.

9 CROSS EXAMINATION

10 BY MR. BECK:

11 Q Good afternoon, Mr. Shafer.

12 A Good afternoon.

13 Q I'd like to start by asking you a question about your
14 testimony at the very bottom of Page 12, the last line, and
15 then your answer that appears on Page 13.

16 And your question that begins at the bottom of Page
17 12, states that, "The prefiled testimony of Mr. Carl Danner
18 suggests that the proposed rate changes will make the use of
19 broadband service more ubiquitous," and then you respond to
20 that; is that right?

21 A That's correct.

22 Q So it's your opinion that the, the, again, that the
23 changes that are proposed by the companies in this case won't
24 make broadband more, more, used more often in Florida than it
25 is today?

1 A I believe my response is that I don't believe there's
2 a direct impact on the broadband market in Florida by the
3 proposed changes. There could possibly be a secondary, if you
4 will, effect of migrating customers from a lower price service
5 to a higher price service if that service offers more value for
6 the dollar.

7 Q Let me ask you about your statement on Line 15 in
8 your answer to the question. You state, "I do not really view
9 a result that leads to some consumers migrating to a higher
10 priced service as a positive competitive out come for
11 consumers, even if that service has the advantage of greater
12 versatility." Do you see that?

13 A Yes, sir.

14 Q Could you expand on your answer and explain why
15 that's your opinion?

16 A If you're looking at an individual consumer's welfare
17 in terms of the purchasing of services and they are currently
18 on a service that is priced, for example, at \$10, but a change
19 occurs that causes that service to go up in price and they look
20 at that, the price of that service, let's say it's now \$14, but
21 for \$16 they can get a service that gives them a lot more
22 versatility, I would say that they have increased the value of
23 the service, but they've also increased what they've had to pay
24 for that service. And that may not necessarily be a, an
25 overall benefit to that individual consumer. It's possible

1 that they would view that as a benefit, but it's also possible
2 that they would not. In other words --

3 Q I'm sorry. Are you finished?

4 A I guess the point is that if you have someone that is
5 driving a very basic vehicle, let's say it doesn't have air
6 conditioning, it gets good mileage and that sort of thing, and
7 they're perfectly content with that, but that car breaks down
8 and they have to replace it with one that, you know, and they
9 can't get one that doesn't have air conditioning anymore and
10 they have to pay more, I'm not sure they're better off with
11 that decision. From a strictly cash payout, month-to-month
12 basis they're not better off other than the benefit of the air
13 conditioning, which is hard to put a dollar amount on.

14 Q Okay. Were you present when Mr. Leo was here on
15 behalf of Verizon?

16 A No, I was not in the room.

17 Q Are you familiar with that the local exchange
18 companies all have packages that bundle a number of ancillary
19 services and other things with their local service?

20 A Yes.

21 Q Okay. And those packages are not proposed to be
22 increased as a result of the petitions in this case; is that
23 right?

24 A I'll accept that, subject to check. I'm not -- I
25 didn't review the petitions with that degree of, in that degree

1 of detail.

2 Q Well, would your statement then that says that a
3 result that leads to some consumers migrating to a higher
4 priced service relate to, if local exchange prices are
5 increased because the petitions are granted in this case, that
6 tends to move people into higher priced packaged services,
7 would your opinion apply to that as well?

8 A It would be hard for me to say that it didn't.
9 Again, as I indicated in my previous response, when you're
10 talking about value, it's hard to put a dollar amount on that.
11 But I think you have to assume that a customer who's taking a
12 particular service now that gets bumped to a higher price
13 service probably is not getting a benefit unless they weren't
14 aware of how much fun it was to have a bundled package as
15 opposed to basic service.

16 You know, that seems like a flippant response, but
17 the truth is that there are some people out there who are slow
18 to adopt technological change, they're slow to adopt, you know,
19 new and innovative ideas. That doesn't mean that they won't
20 gain a benefit out of that and, in fact, they probably will
21 once they become familiar.

22 But in terms of the dollar amount in your budget that
23 you spend every day, if that's the measuring stick that you're
24 using, then it's hard to imagine that as a benefit if you have
25 to pay more.

1 MR. BECK: Thank you, Mr. Shafer. That's all I have.

2 CHAIRMAN JABER: Mr. Twomey.

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

4 CROSS EXAMINATION

5 BY MR. TWOMEY:

6 Q Good afternoon, Mr. Shafer.

7 A Good afternoon.

8 Q The -- I'm curious. Mr. Beck asked you a minute ago
9 if you were in the room when Mr. Leo testified, and you said
10 you were not; right?

11 A That's correct.

12 Q Did you by chance listen to his testimony?

13 A Unfortunately, I haven't been able to listen as
14 carefully as I would have liked to due to other
15 responsibilities.

16 Q Okay. Thank you.

17 CHAIRMAN JABER: You had to get that in, huh? You
18 had to get that in? That was good, that was really good.

19 BY MR. TWOMEY:

20 Q It appears then in the first part of your testimony
21 that, that you're suggesting that issues surrounding rate shock
22 would indicate that Sprint's implementation timetable should be
23 expanded beyond what they've requested; correct?

24 A I believe my testimony speaks for itself on that
25 issue, yes.

1 Q I'm sorry. That's yes?

2 A I think my testimony says that I believe that
3 Sprint's proposed plan is different than, in terms of customer
4 impact, than BellSouth and Verizon in that it might be an
5 improvement for consumers in their area to have them extend
6 that plan by another increase, rate increase increment.

7 Q Okay. The -- aside, aside from that comment on
8 Sprint's implementation timetable, Mr. Shafer, would, would I
9 be correct in categorizing the rest of your testimony as being
10 supportive of the access fee petitions being granted?

11 A I don't believe that my testimony speaks to whether
12 or not those petitions ought to be granted. I think it speaks
13 to whether or not there might be some -- whether the likelihood
14 of additional market entry is improved by the petitions and by
15 whether or not there will be customers that benefit by the
16 proposed changes. I don't know that it necessarily speaks to
17 whether the petitions ought to be approved or not, nor does it
18 speak to whether the companies have made their case in that
19 regard.

20 Q Okay. So you're, you are not, you are not suggesting
21 this Commission should approve any of these petitions; is that
22 correct?

23 A Nor am I suggesting that they should deny the
24 petitions.

25 Q Okay. The -- Page 6 of your testimony at Line, at

1 Line 18, the questioner wrote, "alleged subsidy." Now is it
2 your belief that there are alleged subsidies?

3 A Well, certainly there's been allegations that there
4 are subsidies, yes.

5 Q I mean, my question is are you, are you -- does your
6 testimony, is it intended to support the notion that there are
7 subsidies or support in basic local service, does it deny that
8 or it just takes no position?

9 A I have not conducted the analysis necessary to
10 determine whether there are subsidies or not.

11 Q Okay. On the next page, Page 6, you state, beginning
12 at Line 24, at the bottom there, "Since telecommunications
13 competitors rarely compete only for basic local exchange
14 service, and since competitors are already in the market, I
15 believe the improvement of the cost/price relationship for
16 basic local exchange service as reflected in the companies'
17 petitions will be a signal to competitors that the potential
18 for profitability is improved." So, I, I take it by that that
19 --

20 A I'm sorry. On, on the -- I'm on a different -- tell
21 me, tell me the page again.

22 CHAIRMAN JABER: Mr. Twomey.

23 MR. TWOMEY: I'm sorry. I've got, I've got -- my
24 edition of it is Page 7.

25 CHAIRMAN JABER: Yeah. Mr. Twomey, initially you

1 said Page 6.

2 MR. TWOMEY: No, I'm sorry. I said -- I meant to say
3 the next page.

4 CHAIRMAN JABER: Right. Page 7, Line 24, Mr. Shafer.

5 THE WITNESS: Thank you.

6 CHAIRMAN JABER: Do you want to ask your question --

7 THE WITNESS: I'm sorry. Can you repeat the
8 question, please?

9 BY MR. TWOMEY:

10 Q Yes. Yes. Of course. On Page 7 at Line 24 I read
11 you the, the sentence that starts in the middle of Line 24.

12 A Yes, sir, I'm there. What's -- and your question --

13 Q Okay. And the question, the question is do you
14 believe that the, the increase in rates requested by these
15 petitions, if granted, then will encourage competitors to come
16 in those, those markets? That is, is that what your testimony
17 is saying?

18 A I'm -- which markets are you referring to? I mean,
19 I'm not trying to be evasive; I'm just trying to understand the
20 question.

21 Q That's okay.

22 A If you're talking about the marginally profitable or
23 slightly unprofitable markets, then I would say that if the
24 rates go up, that that will clearly improve the situation in
25 those markets as far as a competitor is concerned.

1 Q I see. Now -- thank you.

2 On Page 8 at Line 19 you say there will be, "There
3 will very likely be exchange areas in each company's service
4 territory where the cost to provide basic local service is
5 still significantly above its price and this will remain a
6 barrier to entry in those exchange areas. I would expect this
7 to be true in the least densely populated exchanges in
8 particular."

9 So by that, by that testimony, are you saying that by
10 "will remain a barrier to entry in those exchange areas," that
11 they will not experience competition at all?

12 A No, I don't know that that's necessarily true. But
13 to the extent that the margin of profitability is negative,
14 that certainly is a deterrent for somebody entering the market
15 strictly to compete for local access service. You know,
16 obviously competitors compete for other things other than just
17 local access service. But if that particular service, the
18 margin is, is such a deficit, then that's a major deterrent
19 regardless of the profitability of other services they might be
20 able to provide.

21 Q The -- were you in the room when, when Witness Fulp
22 was on the stand?

23 A No, sir.

24 Q Okay. Have you read the testimony of the other
25 witnesses in this case?

1 A Not all of it, no.

2 Q Have you read Mr. Fulp's testimony?

3 A No.

4 Q Okay. You're, you're aware, are you not, that, that
5 there is a -- do you understand the, the Commission's decision
6 in the UNE-P docket?

7 A What do you mean, do I understand it?

8 Q I mean, did you -- have you read the order? Did you
9 participate in the docket?

10 A No. No to both questions.

11 Q You understand that they set, they set rates for
12 various companies?

13 A I understand that, yes.

14 Q Okay. The -- do you agree with the, with the notion
15 that if the, if the cost of a company to provide, an ILEC to
16 provide service in a given exchange area as measured by the
17 UNE-P, as some of these companies have, have done, varies
18 dramatically from the prices, the rates that are allowed to be
19 charged there, that there's a low likelihood of competitors
20 coming in? That's essentially what you say in your testimony;
21 correct?

22 A If the cost to provide service is higher than the
23 price, then, yeah, that's, that's a disincentive for sure.

24 Q Well, in the, in the -- have you, have you or the
25 Commission undertaken any type of study that would indicate

1 what level of disparity between rates and UNE-Ps would
2 discourage competitors from coming in almost completely?

3 A I have not conducted that type of study, no. But I
4 can assure that you a negative disparity would be a strong
5 disincentive.

6 Q Okay. With respect to the, your testimony on Page 8
7 where you testify that those areas, the least densely
8 populated, the costs would remain a barrier to entry in those
9 exchange areas, if there's no competitors coming in, would you
10 agree with me that the customers in those areas are unlikely to
11 receive even the intangible benefits of competition that are
12 promoted by the IXC's in this case?

13 A Promoted by the who? I'm sorry.

14 Q I'm sorry. The ILECs.

15 A I guess my experience has been that the ILECs
16 typically offer their calling plans and service offerings
17 across their service territory if it's technically possible to
18 do so. So I would say to the extent that there is an offering
19 made that is advantageous to consumers in that particular
20 exchange, if the service is offered territory-wide, it would be
21 available to them.

22 Q Let me understand that. You're saying -- are you
23 saying that, that if and ILEC --

24 A To say it another way, I don't necessarily agree with
25 your conclusion. I think it's possible that there can be

1 benefits for consumers in those areas where the costs are high
2 to serve, even if, well, even if those costs are high.

3 Q And, and even if there are no competitors serving in
4 those exchange areas?

5 A I think there are very few areas where there aren't
6 some competitors. But regardless of that, yeah, frequently the
7 large ILECs offer their, make their service offerings
8 territory-wide. It's an administrative ease type of thing.
9 And that may not be true in all cases, but it's frequently
10 true.

11 Q Well, they definitely wouldn't have any choice, would
12 they -- if new competitors didn't come in, there wouldn't be
13 expanded choice; is that correct?

14 A Well, again, if a new offering is offered by one of
15 the incumbent companies and that offering is extended to
16 customers in all areas of their service territory, then that's
17 a benefit to those consumers who find that to be an attractive
18 service offering.

19 Q I'm sorry. You're right. I wasn't clear in my
20 question. There wouldn't be any -- there obviously wouldn't be
21 any choice of companies if no new competitors are brought in.

22 A There would be -- you know, if no new competitors
23 come in, there would be no choices beyond the choices they have
24 today for an alternative company other than a nontraditional
25 alternative such as a wireless company or a VOIP provider.

1 Q So in conclusion, your, your testimony is, is not
2 intended to suggest to the Commission that they should either
3 approve or disapprove these petitions; is that correct?

4 A That's correct. My testimony was designed to, to try
5 to explain some factors that may not have otherwise been
6 presented that I believe are important for, one, market entry
7 and, two, in terms of assessing whether benefits are being
8 received by consumers.

9 MR. TWOMEY: Okay. Thank you.

10 CHAIRMAN JABER: Any redirect, staff?

11 MS. KEATING: No redirect.

12 CHAIRMAN JABER: Mr. Shafer, thank you for your
13 testimony. You may be excused. And there were no exhibits.

14 (Witness excused.)

15 CHAIRMAN JABER: Parties, just in case you're
16 wondering, and Commissioners, we have three witnesses left, so,
17 you know, I hope folks are getting ready for their closing
18 arguments.

19 Let me ask the parties how you intended to do closing
20 arguments. Obviously there's the time restriction already
21 established of eight minutes. Did folks plan on consolidating
22 closing arguments? Give me an idea of time frame. Ms. White.

23 MR. FONS: Madam Chairman, I believe that each of the
24 ILECs is going to give its own closing argument, and we will
25 avoid duplication as much as possible.

1 CHAIRMAN JABER: Okay. IXCs?

2 MS. McNULTY: AT&T and MCI will have one combined.

3 MR. MEROS: Knology would like a brief one, but less
4 than eight minutes.

5 CHAIRMAN JABER: Attorney General's Office, I know
6 you have one. Mr. Twomey?

7 MR. TWOMEY: Yes, ma'am.

8 CHAIRMAN JABER: Public Counsel.

9 MR. BECK: Yes.

10 (Transcript continues in sequence with Volume 13.)

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1 STATE OF FLORIDA)
2 COUNTY OF LEON)

CERTIFICATE OF REPORTER


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I, LINDA BOLES, RPR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

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

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

DATED THIS 15th DAY OF DECEMBER, 2003.


LINDA BOLES, RPR
FPSC Official Commission Reporter
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