

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of

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

DOCKET NO. 030867-TL

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

DOCKET NO. 030868-TL

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

DOCKET NO. 030869-TL

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

DOCKET NO. 030961-TI

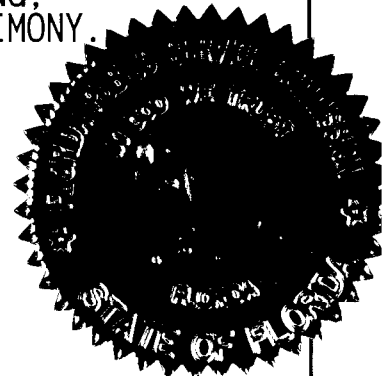
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VOLUME 14

PAGES 1671 THROUGH 1863

PROCEEDINGS: HEARING

FLORIDA PUBLIC SERVICE COMMISSION



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FPSC-COMMISSION CLERK

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

6 DATE: Friday, December 12, 2003

7 TIME: Commenced at

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

10 REPORTED BY: LINDA BOLES, RPR  
11 Official FPSC Reporter  
12 (850) 413-6734

13 APPEARANCES: (As heretofore noted.)  
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## I N D E X

## WITNESSES

NAME:	PAGE NO.
BION C. OSTRANDER	
Direct Examination by Mr. Beck	1675
Prefiled Direct Testimony Dated 10/31/03	
in Dockets 030867, 030868, 030869 Inserted	1681
Prefiled Rebuttal Testimony Dated 11/19/03	
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Prefiled Rebuttal Testimony Dated 11/26/03	
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## EXHIBITS

NUMBER:		ID.	ADMTD.
79	BCO-1, Part A and Part B and BCO-2 from Ostrander's Direct Testimony	1677	1807
80	(Confidential) BCO-1 from Ostrander's Rebuttal Testimony	1679	1807
81	Transcripts of House debates dated 4/30/03 and 5/1/03 and transcript of Senate debate dated 4/30/03	1809	1862
82	(Confidential) MNC-1, MNC-2, MNC-6	1811	1862
83	MNC-3, MNC-4, MNC-5, MNC-7 MNC-8, MNC-9	1812	1862

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## P R O C E E D I N G S

(Transcript continues in sequence from Volume 13.)

CHAIRMAN JABER: Public Counsel, your next witness,  
please.

MR. BECK: Citizens call Bion Ostrander.

BION C. OSTRANDER

was called as a witness on behalf of the Office of Public  
Counsel and, having been duly sworn, testified as follows:

## D I R E C T E X A M I N A T I O N

BY MR. BECK:

Q Mr. Ostrander, would you please state your name.

A Bion C. Ostrander.

Q By whom are you employed?

A Ostrander Consulting.

Q And did you file four pieces of testimony in this  
case?

A Yes.

Q Okay. Let's take them sequentially, if we could.  
Your first testimony would be in the three dockets related to  
the petition that was filed on October 31st, 2003; is that  
right?

A Yes.

Q Do you have any additions, deletions or changes to  
your prefiled testimony?

A Yes, I do have some changes.

1 Q Would you please provide them?

2 A If you would turn to Page 42, I would withdraw  
3 testimony from Lines 14 to Line 18. Page 43, I would withdraw  
4 testimony from Lines 7 to Line 22. And I would withdraw all of  
5 the testimony on Pages 45 -- I'm sorry. Did I say -- 44, 45,  
6 46.

7 COMMISSIONER BRADLEY: What was that?

8 CHAIRMAN JABER: Mr. Ostrander, that's Commissioner  
9 Bradley confirming --

10 COMMISSIONER BRADLEY: 44 and 45?

11 THE WITNESS: Pardon?

12 COMMISSIONER BRADLEY: You said 45 at first. Is it  
13 now.

14 THE WITNESS: Yes, I think I did. I should have said  
15 44, then 45 --

16 COMMISSIONER BRADLEY: Okay.

17 THE WITNESS: -- and 46 to Page 47, Line 10. That  
18 completes my changes.

19 BY MR. BECK:

20 Q Have you also filed rebuttal testimony in the  
21 consolidated dockets dated November 19th, 2003?

22 A That's correct.

23 Q Let me back up. I forgot to ask you, do you have any  
24 exhibits attached to your direct testimony?

25 A Yes, I do.

1 Q And are they labeled BCO-1, Part A and Part B, and  
2 BCO-2?

3 MR. BECK: Madam Chair, I'd ask that they be labeled  
4 as an exhibit.

5 CHAIRMAN JABER: BCO-1, Part A, and BCO-1, Part B,  
6 BCO-2 will be identified as Composite Exhibit 79.

7 (Exhibit Number 79 marked for identification.)

8 MR. BECK: Thank you.

9 BY MR. BECK:

10 Q And Mr. Ostrander, you have rebuttal testimony, I  
11 started to ask you earlier, dated November 19th, 2003, in the  
12 consolidated dockets?

13 A Yes.

14 Q Do you have any additions, deletion or changes to  
15 that testimony?

16 A No, I do not.

17 Q And do you have any attachments or exhibits attached  
18 to that?

19 A No.

20 Q Okay. Also on November 19th you filed direct  
21 testimony in the 030961 docket; is that right?

22 A That's correct.

23 Q Do you have any changes, additions or deletions to  
24 that testimony?

25 A Yes, I do.

1 Q Would you please provide them?

2 A Turn to Page 5.

3 COMMISSIONER BRADLEY: That's in rebuttal?

4 THE WITNESS: This is direct.

5 COMMISSIONER BRADLEY: Rebuttal? Okay.

6 THE WITNESS: Page 5 of the direct, Line 6, after the  
7 word "achieved" there should be a period to complete that  
8 sentence. And then you can strike the words, "as required by  
9 Section 364.163(1)." I'm striking this testimony because  
10 there's clarification in my rebuttal.

11 BY MR. BECK:

12 Q Is that your only change to the November 19th direct  
13 testimony in Docket 030961?

14 A I have one other change, and it's related to the same  
15 issue. Page 14, Line 5. Once again, behind the word  
16 "achieved" should be a period to complete that sentence. And  
17 the words that should be stricken are, "as required by Section  
18 364.163(1)." And moving down to Line 8, same type of change.  
19 There should be a period behind the word "rates" to complete  
20 that sentence. And the words that should be stricken are,  
21 "because of the 'cap' as required by Section 364.163(1)." That  
22 completes my changes.

23 Q And Mr. Ostrander, did you also file rebuttal  
24 testimony in Docket 030961 on November 26th, 2003?

25 A Yes.



1 Q Do you have any changes, additions or deletions to  
2 that testimony?

3 A No, I do not.

4 Q Do you have an attachment to that rebuttal testimony  
5 dated November 26th? It's labeled Exhibit BCO-1?

6 A Yes.

7 MR. BECK: Okay. Madam Chair, I'd ask -- this is a  
8 confidential exhibit. I'd ask that it be provided an exhibit  
9 number.

10 CHAIRMAN JABER: BCO-1 attached to the witness's  
11 rebuttal testimony is a confidential exhibit, and that will be  
12 identified as Exhibit 80.

13 COMMISSIONER BRADLEY: BCO-1?

14 CHAIRMAN JABER: Right. BCO-1 in rebuttal is a  
15 confidential exhibit, and it's identified as Exhibit 80.

16 (Exhibit Number 80 marked for identification.)

17 BY MR. BECK:

18 Q Mr. Ostrander, does that complete the changes to all  
19 of your testimony?

20 A Yes.

21 Q If I were to ask you the same questions that are  
22 asked in your testimonies today, would your answers be the  
23 same?

24 A Yes.

25 MR. BECK: Madam Chairman, I'd ask that his, four

1 pieces of testimony be moved into the record as though read.

2 CHAIRMAN JABER: All of the prefiled direct testimony  
3 of -- is it Bion --

4 MR. BECK: Yes.

5 CHAIRMAN JABER: -- C. Ostrander shall be inserted  
6 into the record as though read.

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**I. CREDENTIALS:**

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2 **Q. WOULD YOU STATE YOUR NAME, TITLE AND BUSINESS**  
3 **ADDRESS?**

4 A. My name is Bion C. Ostrander. I am the President of Ostrander  
5 Consulting. My business address is 1121 S.W. Chetopa Trail, Topeka,  
6 Kansas.

7

8 **Q. WHO ARE YOU REPRESENTING IN THIS PROCEEDING?**

9 A. I am testifying on behalf of the Office of Public Counsel.

10

11 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND**  
12 **PROFESSIONAL EXPERIENCE?**

13 A. I am an independent regulatory consultant and a practicing Certified  
14 Public Accountant, with a specialization in telecommunications financial,  
15 costing, and policy issues. I have over twenty-four years of regulatory and  
16 accounting experience. I previously served as the Chief of  
17 Telecommunications for the Kansas Corporation Commission ("KCC" or  
18 "Commission") from 1986 to 1990, when I left to start my own consulting  
19 firm. During that time, and prior to 1986, I also addressed cases and  
20 issues related to electric and gas utilities on behalf of the KCC. In  
21 addition, I have worked for national and regional accounting firms,  
22 including Deloitte, Haskin and Sells (now Deloitte & Touche).

1

2 **Q. WHAT TYPE OF ISSUES HAVE YOU ADDRESSED?**

3 A. My experience includes addressing issues related to reviews of revenue  
4 requirements, alternative regulation/price cap plans, 271 applications,  
5 management audits, audit of universal service fund and audits of relay  
6 centers for the speech and hearing impaired. I have addressed a broad  
7 range of telecommunication and regulatory issues related to accounting,  
8 rate design, costing, FCC separations, quality of service, universal  
9 service, affordable local service, Lifeline, affiliate interest, cost allocation  
10 manuals ("CAM"), cross-subsidization, competition policy, UNE cost  
11 studies, universal service cost studies, depreciation, slamming policy,  
12 infrastructure development, access charge restructure and other matters.  
13 Please see Exhibit BCO-1 for more detailed information regarding my  
14 education background and professional experience.

15

16 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC  
17 SERVICE COMMISSION ("COMMISSION" OR "PSC")?**

18 A. No. However, Exhibit BCO-1 shows that I have testified in numerous  
19 jurisdictions on various telecommunications policy issues.

20

21 ***II. PURPOSE AND SUMMARY OF TESTIMONY FINDINGS:***

22

23 **Q. WOULD YOU DESCRIBE THE PURPOSE OF YOUR TESTIMONY?**

1 A. The purpose of my testimony is to address the Petitions of Sprint, Verizon  
2 and BellSouth (hereinafter collectively referred to as the "LECs") to  
3 determine if they meet the criteria of new section 364.164 of Florida  
4 statutes. If the Petitions do not meet the criteria then they should be  
5 denied. I will primarily focus on statute criteria that requires there to be a  
6 "benefit to residential customers." Also, I will determine if the LECs have  
7 complied with other statute criteria regarding the reduction of intrastate  
8 switched network access rate reductions to parity over a period of not less  
9 than 2 years or more than 4 years, and if the LEC proposals are revenue  
10 neutral.

11 In addition, Dr. Gabel will address other issues, and will complement some  
12 of the same issues that I address.

13

14 **Q. WOULD YOU SUMMARIZE YOUR TESTIMONY?**

15 A. The LECs were unable to identify or provide documentation which  
16 supports a finding that their proposals result in tangible net benefits to  
17 residential customers. Virtually all of the benefits of the rate rebalancing  
18 plans accrue to the LECs at the expense of residential customers, and at  
19 the expense of competitors to some degree. The rate rebalancing plans  
20 represent a "best of all possible worlds" scenario for the LECs. The LECs  
21 trade-off at-risk access revenues for increases in inelastic revenues of  
22 residential basic local service customers.<sup>1</sup> The LECs have been unable or  
23 unwilling to quantify tangible and specific net benefits to residential

1 customers from their proposals. Instead, the LECs rely on arguments  
2 consisting of speculative information or vague assertions. I will show  
3 through my calculations that the proposed increases in basic local rates  
4 exceed any potential reductions in toll rates. For subjective issues, there  
5 is no information to prove that the LEC's rebalancing plan will produce  
6 greater benefits versus maintaining the status quo as it relates to the  
7 introduction of new services, increasing capital expenditures, or improving  
8 service quality. Those areas where the LEC proposals cannot prove that  
9 residential customers will gain a net benefit, include:

10  
11 No enhanced competition - Competition will not be enhanced to the  
12 residential customer's benefit, although the LEC's inelastic basic local  
13 revenues will be enhanced and the respective LEC's market share will  
14 increase using revenues as a basis of measurement.

15  
16 Local rate increases exceed toll rate reductions for the average  
17 customer - The proposed increases in basic local rates will exceed toll rate  
18 reductions, and even any toll rate reductions may be short-lived while the  
19 increases in local rates are permanent.

20  
21 No new or unique service introductions - The companies have not  
22 be proven that their proposals will produce better results than the status  
23 quo in introducing new services, and they have not proven that their

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<sup>1</sup> A minor portion of the rebalance increases basic local rates of business customers of the LECs.

1 proposals will result in new services which are unique to Florida and not  
2 available in other states.

3  
4 No uniquely associated benefits of capital investment - The  
5 companies have not be proven that their proposals will produce better  
6 results than the status quo regarding accelerated modernization or  
7 increased capital investment.

8  
9 No uniquely improved service quality – The LECs have not proven  
10 that their proposals will produce a better result than the status quo  
11 regarding improved service quality, while current service quality levels are  
12 not guaranteed in the future.

13

14 For these reasons, the LEC's filings should be denied.

15

16

17 **III. CRITERIA OF NEW SECTION 364.164 FLORIDA STATUTES:**

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19

20 **Q. CAN YOU SUMMARIZE THE CRITERIA IN NEW SECTION 364.164,**  
21 **FLORIDA STATUTES (PART OF THE TELE-COMPETITION ACT), TO**  
22 **BE CONSIDERED IN DETERMINING WHETHER TO GRANT THE**  
23 **PETITIONS OF BELL SOUTH, VERIZON AND SPRINT?**

1

2 A. Yes. The criteria are:

3 (a) Remove current support for basic local telecommunications  
4 services that prevents the creation of a more attractive competitive  
5 local exchange market for the benefit of residential customers;

6

7 (b) Induce enhanced market entry;

8

9 (c) Require intrastate switched network access rate reductions to parity  
10 over a period of not less than 2 years or more than 4 years; and

11

12 (d) Be revenue neutral.

13

14

15 **Q. WILL YOU BE USING THIS CRITERIA OF NEW SECTION 364.164 TO**  
16 **EVALUATE THE PETITIONS OF THE LECs?**

17 A. Yes. I will especially focus on the language of item (a) to determine if the  
18 LEC Petitions provide for the "benefit of residential consumers." However,  
19 I will address some of the other criteria and show that the LECs' Petitions  
20 do not meet this criteria. For these reasons, the LECs' Petitions should be  
21 denied.

22



1 Q. DOES THE COMMISSION HAVE THE AUTHORITY TO DENY LEC  
2 PETITIONS IF ANY OF THE STATUTORY CRITERIA ARE NOT MET?

3 A. Yes, I believe this is true, and BellSouth agrees with this position.  
4 BellSouth's response to the OPC's first request for production of  
5 documents, item no. 2, states<sup>2</sup>:

6 "The bill mandates that the PSC must find that  
7 granting petition will:

8

9 a) make local residential competition more  
10 attractive

11 b) benefit residential consumers

12 c) induce market entry

13 d) move access charges to parity

14 e) occur over a period of 2 to 4 years

15 f) be revenue neutral.

16

17 This bill clearly give the PSC the authority to deny  
18 petitions if any of the above criteria are not met."

19

20 The emphasis, via the underscore above, is provided by BellSouth in this  
21 document. Furthermore, at bates page number 19 of this same  
22 document, BellSouth states:

---

<sup>2</sup> See Attachment 2, bates page 17 of the BellSouth *Executive Summary* of its report titled, *Tele-competition, Innovation and Infrastructure Act of 2003*.

1

2

“Unlike proposed telecommunications legislation in previous years, there are no automatic rate increases.

3

4

The Public Service Commission (PSC) has absolute authority to make sure that the consumer is protected.”

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**Q. WHEN DETERMINING WHETHER THERE IS A BENEFIT TO RESIDENTIAL CONSUMERS FOR VARIOUS ASSERTIONS BY THE LECS, HOW WILL YOU EVALUATE THIS?**

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**A.** First, I will evaluate the LEC proposals to determine if there is a “net benefit” to the residential consumer. This means that I will offset the “benefits” and “detriments”, to determine if the benefits exceed the detriments. In addition, I will evaluate the LEC proposals for rate rebalancing to make sure they are supported by specific and quantifiable documentation. I will also evaluate the LEC proposals to see if they will produce greater benefits versus maintaining the status quo with no rate rebalancing. The LECs should not be able to rely on assertions that are broad, speculative, and without supporting documentation.

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**Q. HAS DR. GABEL SHOWN THAT THE LECS FAILED TO SHOW THAT RESIDENTIAL LOCAL RATES ARE NOT SUPPORTED OR SUBSIDIZED?**

22

23

1 A. Yes. This determination alone provides justification for denying the LEC  
2 Petitions. I will provide additional justification for denying the LEC  
3 Petitions.

4  
5 **Q. DOES THE LEGISLATION MANDATE ANY RATE INCREASES OR**  
6 **DECREASES IN ACCESS CHARGES OR BASIC LOCAL RATES?**

7 A. No. BellSouth agrees that the legislation does not mandate any rate  
8 change, increase or decrease, in access or basic local rates, but instead  
9 reserves this absolute authority for the Commission. This also means that  
10 Dr. Gabel's finding that the LECs have not proven that basic local rates  
11 are supported or subsidized, would not require the Commission to  
12 authorize an increase in basic local rates. BellSouth's response to the  
13 OPC's first request for production of documents, item no. 2., states<sup>3</sup>:

14 "This legislation does not mandate any rate change,  
15 increase or decrease, in access charges or basic  
16 local rates. Instead it gives the PSC the absolute  
17 authority to make rate decisions."

18  
19 The emphasis, via the underscore above, is provided by BellSouth in this  
20 document.

21

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<sup>3</sup> See Attachment 2, bates page 16, of the BellSouth *Executive Summary* of its report titled, *Tele-competition, Innovation and Infrastructure Act of 2003*.

1       **IV.    LEC PETITIONS SHOULD BE DENYED BECAUSE BASIC LOCAL**  
2       **RATE INCREASES EXCEED TOLL SAVINGS AND DO NOT PROVIDE**  
3       **A NET BENEFIT FOR MOST RESIDENTIAL CUSTOMERS:**

4  
5  
6       **Q.    WILL YOU BRIEFLY DESCRIBE THE RATE REBALANCING**  
7       **PROPOSAL OF SPRINT, VERIZON AND BELLSOUTH?**

8       **A.    Sprint Rate Rebalancing:**

9       Sprint basic local rate increases – Sprint proposes to increase local rates  
10      by \$142.1 million, and reduce access rates by the same amount. Sprint  
11      proposes to increase residential basic recurring local rates by \$117.4  
12      million, in three increments over a two-year period. The residential basic  
13      local rate will increase an average of \$6.86/month per customer, with rates  
14      increasing by \$2.95/month in 2004, \$2.75/month in 2005, and  
15      \$1.16/month in 2006. In addition, Sprint proposes to increase business  
16      basic recurring local rates by \$17 million, also in three increments over  
17      two years. Business basic local rates will increase an average of  
18      \$6.00/month per customer, with rates increasing by \$2.70/month in 2004,  
19      \$2.40/month in 2005, and \$.90/month in 2006.

20  
21      Sprint rate reductions – Sprint is the only LEC that proposes to reduce  
22      some basic local rates (although these amounts are recaptured through  
23      higher increases to other residential customers). Sprint proposes to

1 reduce the amount residential customers pay for extended local calling by  
2 providing a free allowance of five calls per month for routes charged on a  
3 per message basis, and this could amount to savings of \$1.00 to \$1.25  
4 per month for these customers which make-up 82% of the residential  
5 base.

6

7 Lifeline – Sprint testimony says it will extend its Lifeline credit (exempting  
8 Lifeline subscribers from local rate increases) for an additional year  
9 beyond the two-year rebalancing period.

10

11 Sprint access rate reductions - Sprint proposes to reduce intrastate  
12 weighted access rates from \$.104/minute, to the asserted interstate  
13 weighted parity rate of \$.013/minute, a reduction of \$.091/minute (about a  
14 9 cent reduction). Sprint's access reductions will be in three increments  
15 over a two-year period, from 2004 to 2006.

16

17 Sprint other rate increases - Sprint proposes to increase various residence  
18 and business nonrecurring rates by \$7.6 million, and some of these  
19 increases are very significant. For example, Sprint proposes increases in  
20 Premise Visit charges of \$39.80 (387% increase, from \$10.20 to \$50.00)  
21 for United, and for Centel, these same charges will increase \$28.50 (133%  
22 increase, from \$21.50 to \$50.00). Various other service charges for

1 Restoral of Service, Number Change, Record Change, Primary/Secondary  
2 Service Charges will increase from \$4.55 to \$9.65.

3  
4 I will address concerns with LEC rate rebalancing calculations, the phase-  
5 in period, rate design issues, and Lifeline proposals, later in this testimony.

6

7 **Q. WILL YOU CONTINUE BY SUMMARIZING VERIZON'S RATE**  
8 **REBALANCING PLAN?**

9 **A. Verizon's Rate Rebalancing:**

10 Verizon basic local rate increases – Verizon proposes to increase basic  
11 local rates by about \$76.2 million, and reduce access rates by about the  
12 same amount. Residential basic recurring and other local rates will  
13 increase by \$70.9 million, in three increments over a two-year period.  
14 Residential basic local rates will increase by an average of \$4.73/month  
15 per customer, with rates increasing by \$1.58/month initially (probably in  
16 2004), \$1.58/month in 2005, and \$1.57/month in 2006. In addition, Verizon  
17 proposes to increase business basic local rates by \$5.3 million, in three  
18 increments over two years. Business basic recurring and other local rates  
19 will increase to \$32 for all five rate groups, an increase ranging from  
20 \$1.65/month to \$7.53/month per customer. The \$1.65 increase for rate  
21 group 5 will take place in the second and third increments, and the \$7.53  
22 increase will take place in all three increments.

23

1        Lifeline – Local rate increases will not be imposed on Lifeline customers  
2        as required by statute, and it is not clear if Verizon identifies this  
3        exemption as permanent, or until the customer no longer qualifies for  
4        Lifeline. (Verizon Petition, p. 4, per Section 364.10(3)(c).

5  
6        Verizon access rate reductions - Verizon proposes to reduce access rates  
7        from \$.0485441/average revenue per minute (“ARPM”) to the asserted  
8        parity rate of \$.0117043/ARPM, a reduction of \$.0368398/ARPM (a  
9        reduction of about 3.7 cents). Verizon’s proposal will increase local  
10       revenues \$76.2 million and reduce access revenues by the same asserted  
11       amount to achieve interstate parity. Access reductions will take place in  
12       three increments over two years.

13  
14       Verizon other rate increases - In addition, Verizon proposes to increase  
15       various residential and business nonrecurring rates, including an increase  
16       of \$5.00 (from \$20 to \$25) for residential network establishment charges,  
17       and an increase of \$5.00 (from \$35 to \$40) for residential central office  
18       connection charges. The business network access establishment charge  
19       will increase by \$.10. These increases will take place in the first year.

20  
21       I will address concerns with LEC rate rebalancing calculations, the phase-  
22       in period, rate design issues, and Lifeline proposals, later in this testimony.

23

1 Q. WILL YOU CONCLUDE BY SUMMARIZING BELLSOUTH'S RATE  
2 REBALANCING PLAN?

3 A. BellSouth's Rate Rebalancing:

4 BellSouth basic local rate increases – BellSouth proposes two potential  
5 methods for access reduction and rate rebalancing. Under the “mirroring  
6 method”, BellSouth proposes to increase total local rates by \$136.4  
7 million, and reduce access rates by the same amount. BellSouth  
8 proposes to increase residential basic recurring local rates by \$118.9  
9 million, in three increments over a two-year period. Residential basic local  
10 rates will increase an average of \$3.86/month per customer, with rates  
11 increasing by \$1.39/month in the first quarter of 2004, \$1.38/month in the  
12 first quarter of 2005, and \$1.09/month in the first quarter of 2006. In  
13 addition, BellSouth proposes to increase business basic local rates by  
14 \$1.1 million, in three increments over a two-year period. Business basic  
15 local rates will increase an average of \$1.75/month per customer, rate  
16 groups 1, 2 and 5 will increase from \$2.28 to \$4.45 in two equal  
17 increments and rate groups 4, 5 and 6 will increase \$2.16 to \$3.25 in two  
18 equal installments, and rate groups 7 to 11 will increase \$.52 to \$3.48 in  
19 two equal installments.

20  
21 Under the “typical network composite method”, BellSouth proposes to  
22 increase total local rates by \$125.2 million, and reduce access rates by  
23 the same amount. BellSouth proposes to increase residential basic



1 recurring local rates by \$107.8 million, in three increments over a two-year  
2 period. Residential basic local rates will increase an average of  
3 \$3.50/month per customer, with rates increasing by \$1.25/month in the  
4 first quarter of 2004 and 2005, and rates increasing \$1.00/month in the  
5 first quarter of 2006. In addition, BellSouth proposes to increase business  
6 basic local rates by \$1.1 million, in three increments over a two-year  
7 period. For business rates, the rebalance is the same as under the  
8 "mirroring method".

9  
10 Lifeline – BellSouth indicates that Lifeline customers are protected from  
11 rate increases for the full four year period available under the statute,  
12 unless the customer no longer qualifies for Lifeline. So BellSouth's  
13 Lifeline policy is definitely different than Sprint's policy, and Verizon's  
14 specific policy is unclear.

15  
16 BellSouth access rate reductions – BellSouth proposes two potential  
17 methods for access reduction and rate rebalancing. Under the "mirroring  
18 method", BellSouth proposes to reduce intrastate weighted access rates  
19 from \$.028109/minute (or \$.056219 composite ARPM), to the asserted  
20 interstate weighted parity rate of \$.008419/minute (or \$.016839 composite  
21 ARPM), a reduction of \$.01969/minute (a reduction of about 1.97 cents),  
22 or \$.03938 composite ARPM. This method will increase local revenues  
23 \$136.4 million and reduce access revenues by the same asserted amount

1 to achieve interstate parity. Access reductions will take place in three  
2 increments over two years from 2005 to 2006.

3  
4 Under the "typical network composite methodology", BellSouth proposes  
5 to reduce intrastate weighted access rates from \$.0459845/minute, to the  
6 asserted interstate weighted parity rate of \$.0098420/minute, a reduction  
7 of \$.0361425/minute (a reduction of about 3.6 cents). This method will  
8 increase local revenues \$125.2 million and reduce access revenues by  
9 the same asserted amount to achieve interstate parity. Access reductions  
10 will be phased-in effective January 1, 2004, and January 1, 2005, under  
11 either method. Access reductions will take place in three increments over  
12 two years from 2005 to 2006.

13  
14 BellSouth other rate increases - In addition, BellSouth proposes to  
15 increase various nonrecurring rates by \$16.3 million. For residential  
16 customers, the Line Connection Charge – 1<sup>st</sup> line, will increase \$5.81  
17 (from \$40.88 to \$46.69), the Line Change Charge – 1<sup>st</sup> line, will increase  
18 \$5.05 (from \$23.50 to \$28.55), plus some other increases for additional  
19 lines associated with these services. For business customers, the Line  
20 Connection Charge – 1<sup>st</sup> line, increases \$8.76, (from \$56.24 to \$65), and  
21 the Line Change Charge – 1<sup>st</sup> line, increases \$5.79 (from \$38.16 to  
22 \$43.95).

23

1 I will address concerns with LEC rate rebalancing calculations, the phase-  
2 in period, rate design issues, and Lifeline proposals, later in this testimony.

3

4 **Q. DO VARIOUS LEC WITNESSES CLAIM THAT INCREASES IN BASIC**  
5 **LOCAL RATES WILL BE OFFSET BY TOLL RATE REDUCTIONS TO**  
6 **THE BENEFIT OF CUSTOMERS?**

7 A. Yes. Various LEC witnesses make this claim. Mr. Felz, on behalf of  
8 Sprint, states:

9 "The reductions that customers experience in the rates for  
10 long distance calling will serve to offset the increases they  
11 will experience for basic local services. This offset will  
12 consist of eliminating by January 1, 2006, any "instate  
13 connection fee" which for the "big three" IXCs is currently  
14 \$1.90 per month, and flowing through any residual switched  
15 network access charge reduction amount in the form of  
16 lower rates."<sup>4</sup>

17

18 In addition, Dr. Kenneth Gordon, on behalf of Sprint, Verizon and  
19 BellSouth, states:

20

21 "Importantly, the companies rebalancing plans will lead to  
22 lower intrastate toll prices for all consumers. At the end of

1 the day, the mix of services that consumers purchase as a  
2 result of the companies' plans will make consumers better  
3 off overall."<sup>5</sup>

4

5 In addition, Mr. Danner, on behalf of Verizon, states:

6

7 "Q. Under Verizon's rate rebalancing plan, the increase in  
8 basic local rates will be offset by a decrease in intrastate  
9 access rates, and corresponding reductions in intrastate long  
10 distance prices. In light of this fact, is it reasonable to  
11 conclude that reforming prices will induce enhanced market  
12 entry?"<sup>6</sup>

13

14

15 **Q. DID THE LECS PROVIDE DOCUMENTATION TO SHOW THAT**  
16 **INCREASES IN RESIDENTIAL BASIC LOCAL RATES WOULD BE**  
17 **OFFSET BY TOLL REDUCTIONS?**

18 **A.** No. The LECs have objected to providing this information, and  
19 have not made any meaningful information available for review

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<sup>4</sup> John M. Felz, Amended Direct Testimony on Behalf of Sprint Florida Inc. Before the Florida Public Service Commission, Petition of Sprint Florida Inc. to Reduce Access Rates, October 2, 2003, Page 26, Lines 16-21.

<sup>5</sup> Kenneth Gordon, Amended Direct Testimony on Behalf of Verizon Florida, Inc.; BellSouth Telecommunications, Inc.; and Sprint Florida Inc. Before the Florida Public Service Commission, Petition of Sprint Florida Inc. to Reduce Access Rates, October 2, 2003, Page 5, Lines 19-22.

<sup>6</sup> Carl Danner, Amended Direct Testimony on Behalf of Verizon Florida, Inc. Before the Florida Public Service Commission, Petition of Sprint Florida Inc. to Reduce Access Rates, October 2, 2003, Page 8, Lines 6-11.

1 (some information may be asserted as responsive by the LECs, but  
2 it is subject to the privilege log and has not been made available at  
3 the time of this testimony to determine if it is relevant). The LEC's  
4 statements are not supported by meaningful, specific, tangible, and  
5 quantifiable documentation. The LECs have not readily provided  
6 information to show that the increase in basic local rates will be  
7 offset by decreases in toll rates. The LECs have provided the  
8 amount of the increase in basic local rates, but they have not  
9 provided any meaningful documentation or estimates to show  
10 decreases in toll rates. It is not possible to conclude that local rates  
11 will be offset by decreases in toll rates without also having some  
12 estimate or calculation of the toll rate reduction. Nonetheless, the  
13 LECs conclude that residential local customers will be better off - -  
14 yet there is no meaningful documentation or calculations to support  
15 this conclusion. Therefore, the LECs' Petitions should be denied  
16 because they cannot prove there is a net benefit to residential  
17 consumers as required by the statutory criteria.

18  
19 **Q. CAN YOU EXPLAIN THE INFORMATION YOU REQUESTED TO TEST**  
20 **THE LEC CLAIMS THAT INCREASES IN LOCAL RATES WOULD BE**  
21 **OFFSET BY TOLL SAVINGS TO PRODUCE A BENEFIT TO**  
22 **CONSUMERS?**

1 A. Yes. Since the amount of the annual increases in residential basic  
2 local rates is known, it was necessary to determine the annual  
3 amount of offsetting toll savings to see if this amount exceeded the  
4 increases in local rates to produce a net benefit to most residential  
5 customers. Various information was requested from the LECs,  
6 including: all documents supporting the company assertions that  
7 local rates will be offset by toll savings; the amount and calculation  
8 of toll savings (or reduction in long distance rates); the average  
9 long distance bill of residential customers; the toll usage/volumes of  
10 residential customers under various long distance calling plans; the  
11 average toll revenues per minute produced from various long  
12 distance services; the number/percent of customers that do not  
13 make any long distance calls; and various other related information.

14

15 **Q. CAN YOU GENERALLY EXPLAIN THE LEC'S OBJECTIONS TO**  
16 **PROVIDING INFORMATION AND THE CURRENT STATUS?**

17 A. I will address this very briefly, since there is ample documentation  
18 in the record regarding the LEC's Objections to providing this  
19 information and the OPC's Motions to obtain this information. On  
20 October 20, 2003, Commissioner and Hearing Officer Mr. Bradley  
21 issued an order in this proceeding on OPC's First Motions to  
22 Compel and Verizon's Motion for Protective Order. The October  
23 20<sup>th</sup> order requires Verizon to provide various information to help

1 address and assess the company's claims that toll reductions will  
2 offset increases in basic local rates. Some of the relevant  
3 Production of Documents ("POD") which were addressed include  
4 POD No. 4, 5, 6, 8, 20, 21 and 22. The order finds on these PODs  
5 that<sup>7</sup>:

6  
7 "To the extent, if any, that the privilege log has not  
8 provided the response as required by Rule 1.280 (b)  
9 (5), Florida Rules of Civil Procedure, Verizon shall  
10 provide a response in accordance with this rule.  
11 Should this item remain in dispute, an in camera  
12 inspection may be conducted to further determine the  
13 applicability of the privilege claimed."

14  
15 At the time I was wrapping up my direct testimony, I had not  
16 inspected any of the previously identified PODs to make a  
17 determination whether Verizon had now complied with the  
18 Commissioner's order, or if Verizon had provided relevant  
19 information as noted in its privilege log. No other information  
20 outside the privileged log was available at the time was wrapping  
21 up my testimony. Since my testimony was to be mostly finalized on  
22 the day the Commissioner's decision was made on these matters  
23 (due to me being out of town on business through the testimony

---

Pages 23 to 27 for PODs 4, 5, 6 and 8; pages 33 and 34 for POD 20, 21 and 22.

1 date of October 31st), I have not had the opportunity to review any  
2 additional information regarding these matters.

3

4 **Q. BASED ON YOUR ANALYSIS, WILL THE INCREASES IN LOCAL**  
5 **RATES BE OFFSET BY TOLL SAVINGS, TO PRODUCE A NET**  
6 **BENEFIT FOR THE RESIDENTIAL CUSTOMER?**

7 A. No. Contrary to LEC claims, just the opposite will occur. Increases in  
8 local rates will exceed potential toll rate reductions for the average  
9 residential customers. For some scenarios the increase in local rates will  
10 significantly exceed the toll savings. My calculations are shown at Exhibit  
11 BCO-2. I have focused on the effect of rate rebalancing on "residential"  
12 customers, because criteria included in Florida statute new section  
13 364.164 requires addressing the "benefit of residential customers", as  
14 opposed to business customers. If the average residential customer will  
15 not benefit from the rate rebalancing proposals of the LECs, then I believe  
16 this warrants denial of the LECs' Petitions. However, my analysis shows  
17 that even many residential customers with greater than "average" toll  
18 usage will not benefit from the LEC proposal. This only serves to  
19 strengthen my conclusion to reject the LECs' Petitions as being  
20 unreasonable. There will be some residential customers with extremely  
21 high toll usage that could benefit from the LEC rebalancing proposals, but  
22 these customers should not be used as the barometer for measuring  
23 "benefits to residential customers" since they are in the minority and do



1 not represent the average residential customer. My analysis compared  
2 the incremental increase in residential basic local rates to the potential  
3 incremental reduction in toll rates. My analysis shows that for all three  
4 LECs, the proposed increase in local rates exceed the potential reduction  
5 in toll rates. I have incorporated conservative and worse case scenarios  
6 in my analysis (which error in favor of the LECs), and this still produces  
7 the same conclusion. In addition, my analysis is conservative since it only  
8 considers the increases in "recurring basic local rates", although the LECs  
9 propose certain increases for other "nonrecurring" basic local rates which  
10 could also negatively impact residential customers. Finally, any reduction  
11 in toll rates may be short-term since carriers could subsequently increase  
12 their toll rates. I have conservatively assumed that all toll reductions are  
13 long-term and will not be subsequently reversed - - although the LECs  
14 have not provided any indication that the toll reductions will be long-term.

15  
16 **Q. HOW DID YOU DETERMINE AVERAGE MONTHLY INTRASTATE TOLL**  
17 **USAGE MINUTES FOR RESIDENTIAL CUSTOMERS?**

18 A. The average monthly intrastate toll minutes information is from the Federal  
19 Communications Commission ("FCC") report titled, "Trends in Telephone  
20 Service" issued August 2003, Table 14.2 "Average Residential Monthly  
21 Toll Calls". This represents the nationwide average intrastate toll minutes  
22 used by residential customers in a month. This information relates to the  
23 year 2002 for residential customers. I used the combined Intrastate-

1           IntraLATA (28 minutes) and Intrastate-InterLATA (16 minutes) minutes,  
2           which equals 44 minutes. The FCC report shows that average intrastate  
3           monthly toll minutes have not changed much in the last few years,  
4           although it has been declining. It would not be appropriate to use  
5           interstate monthly toll call minutes in my analysis since the LEC Petitions  
6           do not propose to flow-through access reductions to interstate toll rates - -  
7           and interstate toll rates already reflect reduced access rate levels (which  
8           are being mirrored by the LEC proposals in this proceeding). Just in case  
9           residential customers in Florida use more intrastate toll minutes than the  
10          nationwide average of 44 minutes, I doubled toll usage to 88 minutes in  
11          one of my calculation scenarios at Exhibit BCO-2. Even if residential toll  
12          minutes are doubled, this does not change my conclusion. All scenarios  
13          still show that average residential customers will realize net increases in  
14          their bills, since increased basic local rates exceed any toll savings.

15

16       **Q.    CAN YOU EXPLAIN THE FORMAT OF YOUR ANALYSIS AT EXHIBIT**  
17       **BCO-2?**

18       A.    For each of the three LECs, I have provided two scenarios. Each of the  
19       two scenarios includes two different toll pricing calculations, plus a  
20       “breakeven” analysis. Scenario 1 is based on a residential customer with  
21       one-line that currently pays a \$1.90 in-state connections fees to their toll  
22       carrier. This is the most conservative of the two scenarios. Scenario 2 is  
23       based on a residential customer with two-lines that pays a \$1.90 in-state

1 connection fee to their toll carrier. In addition, I prepared a Third and  
2 Fourth scenario (which I did not include in testimony) that is based on  
3 residential customers with one-line and two-lines, except the customer  
4 does not currently pay a \$1.90 in-state connection fee to their toll carrier.<sup>8</sup>  
5 Not all toll carriers charge the in-state connection fee, but many of the  
6 larger carriers such as AT&T, MCI, and Sprint charge the \$1.90 in-state  
7 connection fee. Within Scenario 1 and Scenario 2, I have shown the  
8 following regarding toll reductions for residential customers:

9  
10 1) Two-cent reduction based on 44 minutes of toll usage – This  
11 scenario shows a two-cent toll reduction based on 44 minutes of  
12 monthly average toll usage. A two-cent toll reduction to toll users is  
13 meaningless in many cases, as I will address later in more detail. I  
14 am providing this scenario to provide an illustration of the relatively  
15 insignificant toll reduction impact as an offset to basic local rate  
16 increases.

17  
18 2) Two-cent reduction based on 88 minutes of toll usage – This  
19 scenario shows a two-cent reduction based on 88 minutes (double  
20 the average toll usage) of monthly average toll usage. A two-cent  
21 toll reduction to toll users is meaningless in many cases, as I will  
22 address later in more detail. I am providing this scenario to provide

---

<sup>8</sup> These last two scenarios produced results that are even more persuasive than the first two scenarios, and which would arguably require even greater toll reductions for breakeven.

1 an illustration of the relatively insignificant toll reduction impact as  
2 an offset to basic local rate increases.

3

4 3) Breakeven - The per minute reduction in toll rates that would be  
5 necessary for the customer to "breakeven", where breakeven  
6 means that the decrease in toll rates would equal the increase in  
7 local rates. This "breakeven" analysis is probably the most  
8 important analysis because it shows that the average reduction in  
9 toll minutes would have to be in the range of 4 to 11 cents/minute  
10 (depending upon the specific LEC) in order for toll reductions to  
11 equal the increase in basic local rates.

12

13 In all scenarios and examples for all LECs, the increase in local rates  
14 always exceeded the projected savings in toll.

15

16 **Q. CAN YOU SUMMARIZE YOUR FINDINGS THAT SHOW LOCAL RATE**  
17 **INCREASES WILL EXCEED TOLL RATE REDUCTIONS FOR THE**  
18 **AVERAGE RESIDENTIAL CUSTOMER?**

19 **A. Overall:**

20 These findings are based on information from Exhibit BCO-2. Average  
21 residential customers of all three LECs, under all scenarios, will be worse  
22 off and realize net losses from the rate rebalancing proposals because  
23 increases in local rates will not be offset by toll reductions. In most cases

1 it will be extremely difficult for all long distance carriers to reduce toll rates  
2 across-the-board to residential customers in the magnitude required to  
3 achieve breakeven for residential customers, and this is because of the  
4 significant increases in basic local rates.

5  
6 **Breakeven Scenario 1 and 2 for LECs:**

7 Scenario 1 assumes a residential one-line customer that is currently  
8 paying the \$1.90/month in-state connection fee (ISCF) to a toll service  
9 provider, and Scenario 2 assumes a residential two-line customer  
10 currently paying the \$1.90/month ISCF. This analysis is conservative,  
11 because it assumes the customer will have savings from elimination of the  
12 \$1.90/month ISCF - - although not all long distance carriers bill the  
13 customer for the ISCF. The breakeven analysis is most important  
14 because it shows the average reduction in the per minute toll rate which  
15 would be required to offset the increases in basic local rates.

16  
17 **Sprint Breakeven:** Sprint's breakeven under Scenario 1 and 2  
18 shows that toll rates would have to decrease by 11 cents/minute for 44  
19 minutes toll usage, (or 5.5 cents/minute for 88 minutes toll usage).  
20 Sprint's breakeven is the highest of all three LECs, because it proposes  
21 the highest increase in residential basic local rates (and it would have the  
22 highest average local rates among the three carriers if its proposal was  
23 implemented). It would be extremely difficult for long distance service

1 providers serving Sprint local customers to implement a 5.5 to 11/cent per  
2 minute toll rate reduction across-the-board to residential customers. A per  
3 minute toll reduction of 5.5 to 11/cents per minute would require some toll  
4 providers to reduce their intrastate toll rates below existing interstate rates  
5 (and these interstate rates already reflect lower access costs), or to  
6 extreme levels, since the nationwide average toll rate is 8 cents<sup>9</sup>. The  
7 only way to achieve a toll reduction of this magnitude would be to require  
8 significant reductions in minimum monthly charges associated with various  
9 toll calling plans, significant reductions in rates for specific calling plans,  
10 and significant reductions for rates of Message Toll Service ("MTS").  
11 Reductions of this magnitude will be difficult to achieve, across-the-board,  
12 for residential customers.

13  
14 **Verizon Breakeven:** Verizon's breakeven under Scenario 1 and 2  
15 shows that toll rates would have to decrease by 6 cents/minute for 44  
16 minutes toll usage, (or 3 cents/minute for 88 minutes toll usage).  
17 Verizon's breakeven is the second highest of all three LECs, because it  
18 proposes the second highest increase in residential basic local rates. It  
19 would be difficult for long distance service providers serving Verizon local  
20 customers to implement a 6/cent per minute toll rate reduction across-the-  
21 board to residential customers. This would require some toll providers to  
22 reduce their intrastate toll rates below existing interstate rates (and these

---

<sup>9</sup> Per the FCC's *Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service*, released July 2003, based on 2001 information.

1 interstate rates already reflect lower access costs), or to extreme levels,  
2 since the nationwide average toll rate is 8 cents<sup>10</sup>. The primary way to  
3 achieve a toll reduction of this magnitude would require reductions in  
4 minimum monthly charges associated with specific toll calling plans, rate  
5 reduction in calling plan, and significant reductions in MTS rates.  
6 Reductions of this magnitude would be difficult to achieve, across-the-  
7 board, for residential customers.

8  
9 **BellSouth Breakeven:** BellSouth's breakeven under Scenario 1  
10 and 2 shows that toll rates would have to decrease by 4.5 cents/minute for  
11 44 minutes toll usage, (or 2.25 cents/minute for 88 minutes toll usage).  
12 BellSouth's breakeven is the lowest of all three LECs, because it proposes  
13 the lowest increase in residential basic local rates. It would still be difficult  
14 for all long distance service providers serving BellSouth local customers to  
15 implement a 2.25 to 4.5/cent per minute toll rate reduction across-the-  
16 board to residential customers, but the hurdle is not as high compared to  
17 Sprint and Verizon. A per minute toll reduction of 2.25 to 4.5/cents per  
18 minute may require some toll providers to reduce their intrastate toll rates  
19 below existing interstate rates (and these interstate rates already reflect  
20 lower access costs), since the nationwide average toll rate is 8 cents<sup>11</sup>.  
21 These reductions could be achieved by a combination of reductions in  
22 minimum monthly charges associated with toll calling plans, reductions in

---

<sup>10</sup> *IBID.*

1 per minute rates of specific calling plans, and reductions in MTS rates.  
2 Reductions of these magnitudes across-the-board to all residential  
3 customers will still be difficult to achieve for all long distance providers  
4

5 **Sprint 2 Cents/Minute Toll Reductions:** For Sprint, a 2  
6 cent/minute toll reduction under Scenario 1 for a one-line customer,  
7 results in basic local rates exceeding toll reductions by \$38.40 (88  
8 minutes of usage) to \$48.96 (44 minutes of usage) on an annual basis.  
9 For Sprint, a 2 cent/minute toll reduction under Scenario 2 for a two-line  
10 customer, results in basic local rates exceeding toll reductions by \$76.80  
11 (88 minutes toll usage) to \$97.92 on an annual basis. Residential  
12 customers are significantly disadvantaged by Sprint's proposed local rate  
13 increase.  
14

15 **Verizon 2 Cents/Minute Toll Reductions:** For Verizon, a 2  
16 cent/minute toll reduction under Scenario 1 for a one-line customer,  
17 results in basic local rates exceeding toll reductions by \$12.84 (88  
18 minutes of usage) to 23.40 (44 minutes of usage) on an annual basis. For  
19 Verizon, a 2 cent/minute toll reduction under Scenario 2 for a two-line  
20 customer, results in basic local rates exceeding toll reductions by \$25.68  
21 (88 minutes toll usage) to \$46.80 on an annual basis.  
22

---

<sup>11</sup> Per the *FCC's Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service*, released July 2003, based on 2001 information.



1            **BellSouth 2 Cents/Minute Toll Reductions:** For BellSouth, a 2  
2 cent/minute toll reduction under Scenario 1 for a one-line customer,  
3 results in basic local rates exceeding toll reductions by \$2.40 (88 minutes  
4 of usage) to 12.96 (44 minutes of usage) on an annual basis. For  
5 BellSouth, a 2 cent/minute toll reduction under Scenario 2 for a two-line  
6 customer, results in basic local rates exceeding toll reductions by \$4.80  
7 (88 minutes toll usage) to \$25.92 on an annual basis.

8

9    **Q.    WOULD THE LECS PROVIDE ANY ASSURANCE THAT TOLL RATE**  
10    **REDUCTIONS FROM THIS PROCEEDING WOULD BE LONG-TERM**  
11    **VERSUS SHORT-TERM?**

12    A.    No. I am not aware that any LEC witness indicates that toll rate  
13    reductions will tend to be long-term versus short-term, and the witnesses  
14    don't explain how the long distance carrier affiliated with their LEC will  
15    handle this situation. The LECs were asked in data requests if these  
16    proposed toll rate reductions would be permanent, or for how long the toll  
17    rate reductions would be in place. The LECs objected to specifically  
18    answering these data requests because they indicated that their long  
19    distance affiliates were not a party to this proceeding, and they merely  
20    indicated that the statute requires access reductions to be flowed-through  
21    (but they wouldn't specify the period). If these toll reductions are  
22    temporary, then the average residential customer stands to lose even any  
23    minor toll offsets to the proposed increases in basic local rates. My

1 analysis shows that basic local rate increases will exceed toll reductions,  
2 and this assumes that toll reductions are permanent. If toll reductions are  
3 temporarily reduced, but then subsequently increased to prior rate levels  
4 or higher, then LECs and their affiliated long distance carriers stand to  
5 reap significant windfalls due to the permanent increase in basic local  
6 rates.

7  
8 **Q. IS A TWO TO THREE CENT REDUCTION IN TOLL RATES VIRTUALLY**  
9 **MEANINGLESS BECAUSE THESE TOLL RATES CAN BE INCREASED**  
10 **IN THE NEXT PRICE CAP CASE?**

11 A. Yes. In most cases a toll reduction limited to two to three cents/minute for  
12 residential customers is insignificant and unfair to residential customers  
13 because it could easily be eliminated by offsetting increases of the same  
14 amount, or more, in the very next price cap case for various toll services.  
15 As I will show, Sprint's recent price cap plan increased toll rates two  
16 cents/minute for MTS, and increased monthly recurring rates by \$1.95 for  
17 some toll calling plans. It would be unfair for residential consumers to  
18 incur significant permanent increases in local rates, yet only receive toll  
19 reductions of two to three cents/minute for about one year, or until the next  
20 price cap plan. This problem becomes much more significant if a LEC  
21 subsequently increases its monthly recurring rate for a toll calling plan by  
22 \$1.95 under a subsequent price cap plan change, such as under the  
23 Sprint example. Subsequent toll rate increases in price cap plans would

1 provide a significant windfall to the LEC, the LECs affiliated long distance  
2 provider, and all toll providers generally. Because of price cap flexibility,  
3 the LEC would still keep its significant increase in basic local rates. In  
4 addition, the LEC or its long distance affiliate could also increase its per  
5 minute toll rates and its monthly recurring toll rate charge to recoup  
6 previous toll revenues it had lost in the short-term due to the access flow-  
7 through process of this proceeding. Also, other unaffiliated long distance  
8 providers could subsequently increase their toll rates to recover any  
9 temporary rate reductions from this proceeding. If LECs, or their long  
10 distance affiliates, have the ability to subsequently increase toll rates  
11 under price caps, it may be difficult to tell other long distance providers  
12 that they cannot respond accordingly and increase their toll rates. It is  
13 unclear if the Commission has regulatory authority to require toll rates of  
14 all carriers (or any carrier) to be reduced on a long-term basis, especially if  
15 toll rates are considered to be detariffed or unregulated. This whole  
16 process that we are going through could be rendered virtually  
17 meaningless by subsequent increases in toll rates within a year under  
18 price caps, and the only winners will be the local and long distance  
19 providers.

20  
21 **Q. HAVE YOU SEEN EXAMPLES IN RECENT YEARS WHERE PRICE**  
22 **CAPS HAVE RESULTED IN INCREASED TOLL RATES ?**

1 A. Yes. I requested copies of the three LEC's price cap filings for the most  
2 recent two-year period. I will use Sprint's price cap filing information as an  
3 example. The Sprint price cap filings did not have cover pages on them to  
4 identify if they related to October 2001, or October 2002, and I do not have  
5 copies of any final Commission orders implementing these price cap  
6 plans. However, based on the marked-up tariffs which Sprint provided, it  
7 appears that the 2002 price cap filing increased the toll rates (local toll  
8 included) of the following Sprint plans<sup>12</sup>:

9 1) Sprint residential MTS - MTS rates increased by two cents/minute  
10 for the evening and night calling periods, and by one cent for the  
11 daytime period.

12  
13 2) Sprint residential Solutions Packages – Monthly rates increased by  
14 up to \$1.95/month for these local toll packages.

15  
16  
17 **Q. DO YOU CONSIDER RELATIVELY MINOR REDUCTIONS IN TOLL**  
18 **RATES FROM THESE PROCEEDINGS TO BE INSIGNIFICANT TO**  
19 **RESIDENTIAL CUSTOMERS?**

20 A. Yes. Minor reductions in toll rates of two to three cents per minute will not  
21 offset increases in proposed local rates by Sprint, Verizon, and BellSouth  
22 in this proceeding, or subsequent increases in price cap filings - - so these

---

<sup>12</sup> Sprint Production of Documents, Item 24.

1 minute rates were combined with more significant reductions in monthly  
2 recurring rates for certain toll rate plans, then the impact may be  
3 significant as long as it is not subject to being eliminated or largely offset  
4 in price cap plans or by the increases in local rates in this proceeding.  
5 Finally, toll rate reductions should primarily impact "average" residential  
6 customers. The toll rate reductions should definitely not be skewed  
7 towards calling plans used by large volume residential toll customers, the  
8 toll rate reductions should impact those plans used by the average  
9 residential toll customer.

10

11 **Q. IS IT POSSIBLE THAT SOME RESIDENTIAL CUSTOMERS WOULD**  
12 **INCUR BASIC LOCAL RATE INCREASES, BUT NOT RECEIVE ANY**  
13 **TOLL REDUCTIONS?**

14 A. Yes. Toll rate reductions should not be applied to just one type of toll  
15 calling plan, and certainly not to a toll calling plan limited to high usage  
16 residential customers. Toll reductions should be applied equitably across-  
17 the-board to all long distance services used by the "average" residential  
18 toll user. However, long distance carriers may prefer to pass through toll  
19 rate reductions to preferred calling plans, probably those which are most  
20 competitive or for high usage toll customers. However, if a carrier is  
21 allowed to pick and choose which toll calling plan they want to reduce  
22 rates, this may exclude certain average residential toll usage customers  
23 that are using other calling plans or basic MTS.

1

2 **Q. IS IT POSSIBLE THAT TOLL RATE REDUCTIONS COULD BE**  
3 **MANIPULATED TO LEAVE THE RESIDENTIAL CUSTOMER IN NO**  
4 **BETTER STANDING THAN A YEAR AGO?**

5 A. Yes. This occurs if toll rates were increased in the past year through price  
6 caps, and if potential toll reductions in this proceeding merely offset these  
7 previous increases in toll rates. Also, there could be a situation where a  
8 long distance provider has increased its long distance rates in the past six  
9 months or a year for reasons other than price caps, or in anticipation of  
10 the toll rate reductions coming out of this proceeding. The subsequent toll  
11 rate reductions in this case merely bring the customer back to toll rate  
12 levels of six months or a year ago and customers are in no better standing  
13 as a result.

14

15 **Q. WON'T THE LEC'S PROPOSED INCREASES IN BASIC LOCAL RATES**  
16 **FALL DISPROPORTIONATELY ON RESIDENTIAL CUSTOMERS OF**  
17 **PLAIN OLD TELEPHONE SERVICE ("POTS")?**

18 A. Yes. The POTs customers are being asked to pay for some of the access  
19 rate reductions associated with business customers and the estimated  
20 rate reduction associated with subscribers to bundled goods.

21

22 **Q. DO YOU HAVE CONCERNS REGARDING HOW THE APPROPRIATE**  
23 **FLOW-THROUGH OF TOLL RATE REDUCTIONS FOR ALL LONG**

1           **DISTANCE CARRIERS WILL BE DETERMINED, OR HOW THE TOLL**  
2           **RATE REDUCTIONS WILL BE MONITORED?**

3       A.     Yes. If these toll rate reductions were implemented, I am not sure how the  
4           reductions would be monitored to insure that all toll providers implemented  
5           appropriate toll reductions, or how these reductions can be monitored to  
6           ensure that they are not subsequently increased in the short-term. These  
7           are some issues that will need to be addressed, and which will probably  
8           prove to be difficult to monitor and enforce.

9

10

11       **V.     *THE LEC'S PROPOSAL OFFERS NO UNIQUELY ASSOCIATED***  
12       ***BENEFITS REGARDING MODERNIZATION OR NEW SERVICE***  
13       ***OFFERINGS***

14

15

16       **Q.     HAVE THE LECS SHOWN HOW THEIR RATE REBALANCING**  
17       **PROPOSALS WILL UNIQUELY PROMOTE MODERNIZATION OR NEW**  
18       **SERVICE OFFERINGS COMPARED TO THE STATUS QUO?**

19       A.     No. The LECs have not provided any specific or tangible information  
20           which shows that their rate rebalancing proposals would have any  
21           meaningful impact on future modernization or new service offerings which  
22           are any different than the status quo without rate rebalancing. Verizon's

1           Petition<sup>13</sup> and some of the LEC witnesses<sup>14</sup> state that increases in basic  
2           local rates will result in new services, which could infer increased plant  
3           investment and modernization. I do agree that one of the commonly  
4           associated benefits of competition is increased or innovative services,  
5           lower prices, and other benefits. However, the LECs have not effectively  
6           demonstrated that increases in basic local rates will incrementally  
7           enhance competition levels to the degree it will produce accelerated plant  
8           investment or provide for new or different services above and beyond  
9           those provided in other states.

10  
11   **Q.   HAVE THE LECS PROVIDED ANY SPECIFIC AND TANGIBLE**  
12   **DOCUMENTATION TO SUPPORT THEIR CLAIMS THAT INCREASED**  
13   **BASIC LOCAL RATES WILL RESULT IN INCREASED**  
14   **MODERNIZATION?**

15   **A.**   No. The LECs were asked to provide documentation to support these  
16           claims. However, the LECs responses provided no additional  
17           documentation. A summary of some of the responses are shown below to  
18           information requests that asked the LECs to provide all documents that  
19           support the company's contention that the Company's plan will encourage  
20           investment in the telecommunications infrastructure:

---

<sup>13</sup> Verizon Amended Petition, October 2, 2003, page 11, states, "In sum, Verizon's rate rebalancing plan is in the public interest because it will encourage investment in the telecommunication infrastructure by new and existing competitors and it will provide significant benefits to subscribers."



1            Verizon Response to OPC First Request for POD, No. 30 - Verizon  
2 referred to witness testimony (but not to specific testimony), and merely  
3 repeats the Company's prior general assertions.

4  
5 **Q. HAVE THE LECS PROVIDED ANY SPECIFIC AND TANGIBLE**  
6 **DOCUMENTATION TO SUPPORT THEIR CLAIMS THAT INCREASED**  
7 **BASIC LOCAL RATES WILL RESULT IN NEW SERVICE**  
8 **INTRODUCTIONS IN FLORIDA, OR SERVICES THAT ARE NOT**  
9 **AVAILABLE IN OTHER JURISDICTIONS?**

10 A. No. The LECs were asked to provide documentation to support these  
11 claims. However, the LECs responses provided no additional  
12 documentation. A summary of some of the responses are shown below to  
13 information requests that asked the LECs to provide a list and description  
14 of all new services that will be introduced in Florida due to rate  
15 rebalancing, and explain if these services will be the first of their kind in  
16 Florida, or among the Company's operations in other states.

17  
18            Verizon Response to OPC Second Series of Interrogatories, No. 34  
19 – Verizon offers no additional meaningful information, indicates that the  
20 principal focus of the statute is on creating a more attractive market for  
21 Verizon's competitors, not on direct impacts on Verizon, and then Verizon  
22 admits that it has not identified specific service innovations that it intends

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<sup>14</sup> For example, see Dr. Brian K. Staihr, Direct Testimony on Behalf of Sprint Florida Inc. Before the Florida Public Service Commission, Petition of Sprint Florida Inc. to Reduce Access Rates,

1 to introduce in Florida if its Petition is approved - - although the Company  
2 indicates it will respond to competitor's innovations.

3

4 BellSouth's Response to OPC Second Set of Interrogatories, No.  
5 33 - BellSouth offers no additional meaningful information, and indicates  
6 that it has not developed a list of new services to be introduced in Florida  
7 as a result of rate rebalancing. BellSouth also refers to its response to No.  
8 32, where the Company provides no additional meaningful information.

9

10

11 **VI. ISSUES REGARDING PARITY, REVENUE NEUTRALITY AND RATE**

12

**DESIGN:**

13

14

15 **Q. WHY DID YOU REVIEW THE LECS ACCESS PARITY AND REVENUE**  
16 **NEUTRAL CALCULATIONS AND ASSUMPTIONS?**

17 **A.** I reviewed these documents to test compliance with the criteria in new  
18 section 364.164, which relate to access parity and revenue neutrality:

19

20 (c) Require intrastate switched network access rate reductions to parity  
21 over a period of not less than 2 years or more than 4 years; and

22

23 (d) Be revenue neutral.

1

2 Q. CAN YOU SUMMARIZE YOUR FINDINGS REGARDING ISSUES OF  
3 ACCESS PARITY AND REVENUE NEUTRALITY?

4 A Yes. I have summarized my filings below. Some of the findings justify  
5 denying the LEC Petitions, because of violations of the statute criteria. In  
6 addition, adequate documentation was not provided to support the  
7 calculations or test the volumes in many cases. My findings include:

8

9 1) Local rates are not subsidized - Since Dr. Gabel determined that  
10 local rates are not supported or subsidized, the entire issue of  
11 rebalancing and revenue neutrality as proposed by the LECs  
12 becomes moot. This supports denial of all LEC Petitions.

13

14 ~~2) Verizon overstates intrastate access revenues by \$12.9 million due~~  
15 ~~to the PIGG - Verizon was the only LEC that considered the \$1.90~~  
16 ~~PIGG to be a switched access rate element, so Verizon attempted~~  
17 ~~to recoup an additional \$12.9 million in PIGG revenues from other~~  
18 ~~intrastate access rates.~~

19

20

21 3) Concerns regarding LEC's "update" process - There are concerns  
22 regarding whether the LEC's update process is consistent with the  
23 statute and revenue neutrality provisions.

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4) Access rate rebalancing difficult to confirm – The rate rebalancing of BellSouth was particularly difficult to evaluate without electronic records due to 1,700 access rate elements. BellSouth's access rate rebalancing proposal could not be adequately reviewed.

~~Q. CAN YOU EXPLAIN VERIZON'S ATTEMPT TO RECOVER AN ADDITIONAL \$12.9 MILLION IN INTRASTATE ACCESS REVENUES BY REBALANCING THE PICC?~~

~~A Yes. It appears that Verizon seeks to recover an additional \$12,898,458 million in intrastate access revenues, by rebalancing the current \$1.90/month PICC to other intrastate access rates. Verizon admits this amount, and its treatment of the PICC, in response to Staff's first set of interrogatories, response number 14. Verizon also addresses this matter in response to Staff's first set of interrogatories, response numbers 2 and 7. It appears that this rebalance has overstated the amount of intrastate access revenues which Verizon should recover, which means that Verizon's proposed intrastate access rates are overstated. It does not appear that Verizon's treatment has affected the amount of revenues to be rebalanced to basic local rates. Verizon is the only LEC attempting to recover these PICC revenues in its proposed intrastate access revenues and rates.~~

1 ~~Q. CAN YOU EXPLAIN WHY BELLSOUTH AND SPRINT DO NOT SEEK~~  
2 ~~RECOVERY OF THE PICC, UNLIKE VERIZON?~~

3 A ~~Yes. In response to Staff's first set of interrogatories, response number 2,~~  
4 ~~BellSouth indicates the interstate PICC was eliminated July 1, 2003 so it~~  
5 ~~was not included in its calculations. Also, BellSouth admits at response~~  
6 ~~number 1, that the subscriber line charge is not an "intrastate switched~~  
7 ~~network access rate", so current legislation does not allow these amounts~~  
8 ~~to be included in access revenues. Also, BellSouth indicates that a~~  
9 ~~subscriber line charge is collected from end users and not IXCs, which~~  
10 ~~appears to be further justification for not including these amounts as~~  
11 ~~switched access rates. Since the subscriber line charge is similar to the~~  
12 ~~PICC, the PICC should not be recovered in intrastate access rates by~~  
13 ~~using BellSouth's rationale. Both the subscriber line charge and the PICC~~  
14 ~~are collected from end users and not IXCs, and the PICC is not~~  
15 ~~specifically set forth as a switched access rate by legislation. In addition,~~  
16 ~~Sprint admits it does not seek to recover the PICC in intrastate access~~  
17 ~~revenues and rates. In response to Staff's first set of interrogatories,~~  
18 ~~response number 8, Sprint indicates that the PICC is not a "switched~~  
19 ~~network access rate element."~~

20  
21 ~~Q. WHAT RATIONALE DOES VERIZON OFFER FOR ITS PROPOSAL TO~~  
22 ~~REFLECT AN EQUIVALENT INTERSTATE PICC IN BASIC LOCAL~~  
23 ~~RATES?~~

1 A ~~Mr. Fulp states:~~

2 ~~"Q. Why does Verizon's interstate access ARPM include PICC~~  
3 ~~revenues?"~~

4 A. ~~Interstate access rates contain both traffic sensitive and non-~~  
5 ~~traffic sensitive charges. The PICC is the non-traffic~~  
6 ~~sensitive charge and the revenues derived from this rate~~  
7 ~~element are therefore appropriately included in the interstate~~  
8 ~~access ARPM. Moreover, including the PICC in Verizon's~~  
9 ~~interstate access rate is consistent with the Act. As stated~~  
10 ~~above, the Act defines the term "intrastate switched network~~  
11 ~~access rate" to include common line charges, but does not~~  
12 ~~define the term "interstate switched network access rate.~~  
13 ~~The PICC is a federal common line charge. Because the Act~~  
14 ~~includes common line charges in Verizon's intrastate access~~  
15 ~~rate, the analogous PICC federal common line charge must~~  
16 ~~be included in Verizon's calculation of the interstate ARPM~~  
17 ~~for a consistent comparison."~~<sup>15</sup>

18

19 Q. ~~DO YOU AGREE WITH MR. FULP?~~

20 A. ~~No. My position is consistent with the previous responses of both~~  
21 ~~BellSouth and Sprint, the PICC is not specifically set forth in the statute as~~  
22 ~~a "switched access element" and it is recovered from end users and not~~

1 ~~IXCs, which also distinguishes this access element from switched access~~  
2 ~~rates. Mr. Fulp's proposal would effectively rebalance the \$1.90/month~~  
3 ~~PICC to other intrastate access rate elements and essentially continue the~~  
4 ~~recovery of PICC revenues. I believe it would take an explicit decision by~~  
5 ~~the Commission to require that the PICC be carried over in the proposed~~  
6 ~~"switched" intrastate access rates. In addition, the PICC is intended to~~  
7 ~~cover non-traffic sensitive ("NTS") charges. To rebalance PICC revenues~~  
8 ~~to other access rate elements still effectively continues this recovery of~~  
9 ~~"NTS" charges. However, this Commission has not made a specific finding~~  
10 ~~in this proceeding that there are additional or new NTS loop costs in the~~  
11 ~~intrastate jurisdiction that the basic local customers should pay for. In fact,~~  
12 ~~Dr. Gabel indicates that basic local rates are not supported or subsidized,~~  
13 ~~so no additional PICC disguised as a switched access rate element is~~  
14 ~~justified. Mr. Fulp indicates that the Act defines the term "intrastate~~  
15 ~~switched network access rate" to include common line charges. However,~~  
16 ~~Mr. Fulp is merely playing off semantics of the definition in the Act,~~  
17 ~~because there are no other actual, tangible and determinable NTS loop~~  
18 ~~costs/common line charges in the intrastate jurisdiction. Mr. Fulps'~~  
19 ~~common line charges are phantom amounts for which he provides no~~  
20 ~~specific cost study, no calculations, and no support.~~

21

---

<sup>15</sup> Orville D. Fulp, Amended Direct Testimony on Behalf of Sprint Florida Inc. Before the Florida Public Service Commission, Petition of Sprint Florida Inc. to Reduce Access Rates, October 2, 2003, Page 11, lines 9-19, and page 12, lines 1-4.

1 Q. ~~DO YOU BELIEVE THAT VERIZON'S ATTEMPT TO RECOVER PICC~~  
2 ~~REVENUES IN INTRASTATE SWITCHED ACCESS RATES JUSTIFIES~~  
3 ~~DENIAL OF THEIR PETITION?~~

4 A. ~~Yes. This is not consistent with the statute and does not result in~~  
5 ~~pure revenue neutrality or proper rate rebalancing, since the~~  
6 ~~amounts seeking to be recovered through intrastate access rates~~  
7 ~~have been overstated. This means that neither "parity" nor "revenue~~  
8 ~~neutrality" are properly achieved by the Verizon proposal. Also,~~  
9 ~~Sprint and BellSouth did not attempt to recover similar amounts in~~  
10 ~~their rate rebalancing proposals.~~

11  
12 Q. DO YOU HAVE CONCERNS WITH THE LEC'S PROPOSAL TO  
13 "UPDATE" THEIR FILINGS THROUGHOUT THEIR PROPOSED TWO  
14 YEAR REBALANCING PERIOD?

15 A. Yes. I am not sure that the statute is clear on this matter, and that it was  
16 intended to allow LECs to "update" all their volumes and calculations for  
17 various "phases" of the LEC's initial filing. I do agree that the initial filing is  
18 subject to using the most recent 12 months' pricing units, and that revenue  
19 neutrality does need to occur at the time of the initial filing per Section  
20 364.164(3). However, I'm not sure that each "update" or "phase-in" of a  
21 proposed rate increase constitutes a "filing" for which most recent pricing  
22 units need to be used and updated. A "filing" may represent the one and  
23 only initial filing where the most recent 12 months' pricing units are used to



1 achieve revenue neutrality. The Commission should be wary of any  
2 updates, since they will likely be used by the LECs to seek additional rate  
3 increases. I believe the LEC's "update" is intended to be used to seek  
4 additional rate increases, since access volumes are declining and local  
5 lines may be lost to competitors. Each filing of the LEC, should be  
6 considered a separate stand-alone filing which requires that the statute  
7 criteria be met each time - - there should not be any "true-up" or "update"  
8 proceedings.

9

10 **Q. FROM THE PERSPECTIVE OF THE STATUTE, WHY DOESN'T AN**  
11 **"UPDATE" PROCESS MAKE SENSE?**

12 **A** One of the purposes of the statute is to encourage competition such that  
13 residential local customers will benefit. The LEC's proposed "update"  
14 process could be harmful to competition and will not benefit the residential  
15 local customer. In fact, if the "update" process results in additional local  
16 rate increases then this arguably triggers a full scale review of how these  
17 "additional" rate increases are: 1) beneficial to residential local customers;  
18 2) how the additional local increases affect competition; 3) how the  
19 additional local increases affect the "subsidy" issue if the initial rate  
20 increase was already intended to cure any local service subsidy issues;  
21 and 4) how the increases affect universal service and penetration rates.  
22 Also, if the "update" causes an additional increase in local rates due to  
23 declines in access volumes lost to competitors and due to declines in local

1 loops lost to competitors - - then the "update" can serve to insulate the  
2 company from competitive losses in this respect (or cause an  
3 unnecessary shift to inelastic basic local service). I don't believe the intent  
4 of the statute's revenue neutrality clause was to protect the LEC from  
5 competitive losses - - since this would be inconsistent with the statutes  
6 intent to promote competition. This results in the worse kind of  
7 "regulation", because it virtually guarantees a LEC in a growing  
8 competitive market that its revenues lost to competitors will be rewarded  
9 by rebalanced increases to local rates.

10  
11 **Q. WOULD YOU EXPLAIN THE TYPE OF INFORMATION MISSING FROM**  
12 **THE RATE REBALANCING CALCULATIONS OF THE LECS, OR THE**  
13 **ADDITIONAL INFORMATION THAT WOULD BE HELPFUL FOR**  
14 **REVIEW?**

15 A. BellSouth provided a document with many pages in support of its access  
16 and parity rate rebalancing proposal. Mr. Hendrix admits in his testimony  
17 that BellSouth has over 1,700 rate elements associated with intrastate  
18 access, therefore the voluminous document was provided in support of  
19 these access amounts. However, the format of the voluminous document  
20 makes it extremely difficult to identify volumes for each of these access  
21 rate elements for tracing them to a summary page provided by BellSouth.  
22 The voluminous document does not provide subtotal of the volumes  
23 related to each of the 1,700 access rate elements. Therefore, it is

1 extremely difficult to identify specific volumes included at the summary  
2 page. I was not able to fully test BellSouth's calculations because of the  
3 format of its workpapers. Based on BellSouth's response to Staff's first  
4 POD, response number 2, it does not appear that BellSouth has an  
5 electronic version of its spreadsheet calculations for its access charge  
6 reduction - - although this appears very unusual. Because of the volume  
7 and complexity of BellSouth's calculation, I was not able to confirm the  
8 calculation is correct. Other reconciliation problems exist with the other  
9 LECs.

10

11 **Q. DO THE LEC'S HAVE DIFFERENT POLICIES REGARDING THE NEW**  
12 **LIFELINE STATUTE?**

13 A. Yes, the LECs appear to have different policies regarding the new Lifeline  
14 statute.. Also, the Commission should clarify the proper Lifeline policy.  
15 The new Lifeline statute, per Section 364.10, is intended to protect low  
16 income customers from residential local rate increases until the LEC  
17 reaches parity, or until the customer does not qualify for Lifeline benefits,  
18 or unless otherwise determined by the Commission. The LECs are  
19 applying this language differently in their Petitions. Regarding Section  
20 364.10(3)(c), Sprint says that Lifeline customers are held harmless from  
21 rate increases for the first two years of their phased-in price increases,

1 plus Sprint will allow another 1 year period for a total of three years.<sup>16</sup>  
2 BellSouth says Lifeline customers are immune from rate increases for the  
3 four years of the Plan. Verizon's position on this issue is not clear,  
4 because they merely refer to the statute.

5

6

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

8 **A. Yes.**

9

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<sup>16</sup> John M. Felz, Amended Direct Testimony on Behalf of Sprint Florida Inc. Before the Florida Public Service Commission, "Petition of Sprint Florida Inc. to Reduce Access Rates, October 2, 2003, page 27, Lines 11-13.

1

2 **Q. WOULD YOU STATE YOUR NAME, TITLE AND BUSINESS**  
3 **ADDRESS?**

4 A. My name is Bion C. Ostrander. I am the President of Ostrander  
5 Consulting. My business address is 1121 S.W. Chetopa Trail, Topeka,  
6 Kansas.

7

8 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS**  
9 **PROCEEDING ON BEHALF OF THE OFFICE OF PUBLIC COUNSEL?**

10 A. Yes, I filed direct testimony on October 31, 2003.

11

12 **Q. WOULD YOU DESCRIBE THE PURPOSE OF YOUR REBUTTAL**  
13 **TESTIMONY?**

14 A. I will rebut certain issues raised by Florida Public Service Commission  
15 Staff witness Mr. Shafer.

16

17 **Q. WOULD YOU SUMMARIZE YOUR REBUTTAL TESTIMONY?**

18 A. Mr. Shafer's testimony does not include any analysis or documentation to  
19 support the conclusions he reaches on numerous issues, including:

20 • There is documentation to support his conclusion that the LEC  
21 Petitions will cause "enhanced market entry." Also it appears that  
22 Mr. Shafer's recommendation would evaluate LEC Petitions "after-  
23 the-fact" to see if enhanced market entry is achieved, but no

1 remedy is available to consumers after Petitions are approved and  
2 enhanced market entry fails to occur.

3 • There is no documentation to support his conclusion that cellular  
4 carriers will reduce their access rates on a state-specific basis for  
5 Florida intrastate access charges.

6 • There is no documentation to support his conclusion that rate  
7 rebalancing will result in a significant number of residential  
8 consumers receiving benefits of expanded choice and new and  
9 innovative services.

10

11 **Q. DOES MR. SHAFER PROVIDE INFORMATION TO SHOW THAT THE**  
12 **LEC PETITIONS WILL CAUSE “ENHANCED MARKET ENTRY”?**

13

14 A. No. Mr. Shafer’s recommendation is troublesome because it appears to  
15 place the “cart before the horse” by suggesting that the LEC Petitions be  
16 approved first, and then evaluated secondly, to see if they cause the  
17 statutory requirement of “enhanced market entry.” If Mr. Shafer or the  
18 ILECs cannot affirmatively show at this time that the LEC Petitions will  
19 result in “enhanced market entry”, then the Petitions should be denied. Of  
20 course, violations of any other single criteria also qualifies for denying the  
21 Petitions. If “enhanced market entry” is evaluated after the LEC Petitions  
22 are approved, as suggested by Mr. Shafer, then there is no reasonable

1 remedy for consumers if enhanced market entry does not occur since it  
2 would not be possible to reverse the LEC Petitions after-the-fact.

3

4 **Q. CAN YOU CITE THE LANGUAGE IN MR. SHAFER'S TESTIMONY**  
5 **THAT CAUSES YOUR CONCERNS?**

6 A. Yes. Mr. Shafer's position appears to suggest that LEC Petitions be  
7 approved first, and then evaluated secondly to see if they result in  
8 "enhanced market entry." Mr. Shafer states:

9 "I believe there are a number of ways to evaluate whether  
10 the petitions filed by BellSouth, Sprint, and Verizon will lead  
11 to enhanced market entry. The obvious first indication of  
12 induced market entry would be an increase in the number of  
13 market participants in any given market area. Another  
14 possible standard would be an expansion of consumer  
15 choice."<sup>1</sup>

16

17 **Q. DOES THE INITIAL PART OF MR. SHAFER'S RECOMMENDATION**  
18 **APPEAR PROPER, PRIOR TO THE PROBLEMATIC CONCLUSION?**

19 A. Yes. Mr. Shafer appears to be headed in the proper direction when he  
20 states that, "there are a number of ways to evaluate whether the petitions  
21 filed by BellSouth, Sprint, and Verizon will lead to enhanced market entry."

22 Emphasis.

---

<sup>1</sup> Gregory L. Shafer, direct testimony, page 6, lines 22 to 25, and page 7, lines 1 to 2.

1 Then the problematic conclusion occurs, because Mr. Shafer does not  
2 affirmatively state or show that the LEC Petitions will lead to “enhanced  
3 market entry” based on his current evaluation. Instead, he says, “The  
4 obvious first indication of induced market entry would be an increase in  
5 the number of market participants in any given market area.”

6 According to the criteria that Mr. Shafer establishes, it will not be possible  
7 to see if there is an increase in market participants until after the LEC  
8 Petitions are approved, since he never affirmatively states or shows that  
9 the LEC Petitions will cause “enhanced market entry.”

10

11 **Q. SHOULD MR. SHAFER’S POSITION BE REJECTED AS**  
12 **UNWORKABLE AND INCONSISTENT WITH THE STATUTE?**

13 A. Yes. For those parties that recommend approval of the LEC Petitions, I  
14 believe the burden rests with these parties to provide some reasonable  
15 supporting documentation that the statute criteria of “enhanced market  
16 entry” will occur if the LEC Petitions are approved. I don’t believe the  
17 statute contemplated that LEC Petitions be approved first, and evaluated  
18 secondly to determine compliance with the statute. Since Mr. Shafer has  
19 not shown that “enhanced market entry” will occur because of the LEC  
20 Petitions, this position does not favor approval of the LEC Petitions.

21



1 Q. IS THE POSITION THAT MR. SHAFER TAKES ON ALLEGED BASIC  
2 LOCAL SERVICE SUBSIDIES IN LESS DENSELY POPULATED  
3 AREAS CLEAR TO YOU?

4 A. No. For these reasons I will raise some concerns with the possible  
5 interpretations of Mr. Shafer's testimony. Mr. Shafer's testimony states:

6 "I would not view the petitions as deficient or necessarily  
7 ineffective on the basis that the entire alleged subsidy of  
8 basic local service has not been eliminated by the  
9 proposals."<sup>2</sup>

10 Also, Mr. Shafer states:

11 "There will very likely be exchange areas in each company's  
12 service territory where the cost to provide basic local service  
13 is still significantly above its price and this will remain a  
14 barrier to entry in those exchange areas. I would expect this  
15 to be true in the least densely populated exchanges in  
16 particular."<sup>3</sup>

17  
18 Q. CAN YOU EXPLAIN WHY MR. SHAFER'S STATEMENTS ARE NOT  
19 CLEAR TO YOU?

20 A. Based on these prior statements, I am not sure if Mr.  
21 Shafer's point is:

---

<sup>2</sup> Gregory L. Shafer, direct testimony, page 9, lines 20 to 23.

<sup>3</sup> Gregory L. Shafer, direct testimony, page 10, lines 9 to 14.

1           1)    Not all alleged basic local service subsidies have  
2                    been identified by the LECs.  However, all of these  
3                    subsidies should eventually be subject to rate  
4                    rebalancing in future petitions, including those in rural/  
5                    less populated areas and those on a detailed granular  
6                    basis; or

7           2)    It is not necessary to identify or rebalance all alleged  
8                    basic local service subsidies, including those in  
9                    rural/less populated areas and those on a detailed  
10                   granular basis.

11

12   **Q.    CAN YOU EXPLAIN YOUR CONCERNS WITH MR. SHAFER'S**  
13   **TESTIMONY UNDER THE FIRST INTERPRETATION?**

14   A.    Yes.  I am most concerned if Mr. Shafer's testimony is intended to indicate  
15           that all basic local subsidies should be identified (and rebalanced) for all  
16           less densely populated areas (including all rural customers), and those  
17           that exist on a very detailed granular basis.  I still agree with Mr. Gabel's  
18           testimony, that no subsidy of basic local service has been demonstrated.  
19           However, I will address Mr. Shafer's testimony as if subsidies exist, at  
20           least on a detailed granular basis.  It is not reasonable or necessary to  
21           identify and rebalance every single dollar of alleged subsidy for basic local  
22           service, down to a detailed granular basis.  It would not be reasonable to  
23           identify alleged basic local subsidies for every rural customer, since

1 competitors do not price services based on this detailed granular basis.  
2 There is no reason that basic local service should be held to a higher  
3 standard than all other services regarding the elimination of possible  
4 subsidies. If local service is put under the microscope, then all other  
5 services should be comprehensively reviewed in a similar manner to  
6 identify and eliminate all possible subsidies at a detailed granular basis.  
7 Since basic local service is such a critical service to many consumers,<sup>4</sup>  
8 and there are social and universal service implications for this inelastic  
9 service, the Commission would be better served by first focusing on  
10 eliminating subsidies for all other services (and especially focusing on  
11 those competitive services which might be subsidized by other services). I  
12 believe that almost any service can be shown to have subsidies at a very  
13 detailed and granular basis, such as subsidies on an intra-service basis,  
14 inter-service basis, or between specific customer groups of the same  
15 service. Some level of rate averaging is important to both the company  
16 providing the service and to the customer, so excessive focus on  
17 elimination of all subsidies is not efficient or justified.

18

19 **Q. DO YOU AGREE WITH MR. SHAFER, THAT WIRELESS/CELLULAR**  
20 **COMPANIES WILL REDUCE THEIR RATES IN FLORIDA DUE TO**  
21 **REDUCTIONS IN FLORIDA INTRASTATE ACCESS CHARGES?**

---

<sup>4</sup> The FCC supported the Joint Board's decision that "telephone service is considered a modern necessity", per the FCC's Order on Universal Service, released May 8, 1997, CC Docket No. 96-45, para. 110.

1 A. No, I do not agree with Mr. Shafer. At page 13, lines 18 to 25, Mr. Shafer  
2 indicates that most wireless carriers (i.e., cellular) pay interstate and  
3 intrastate access charges. He also indicates that bundled services are the  
4 mainstay of wireless pricing and have a competitive influence on wireline  
5 pricing. Mr. Shafer then concludes that this access cost reduction in  
6 Florida will result in wireless carriers reducing their rates, and BellSouth,  
7 Sprint, Verizon, and the IXCs will respond in a like manner.

8

9 **Q. WHY DON'T YOU AGREE WITH MR. SHAFER, THAT**  
10 **WIRELESS/CELLULAR CARRIERS WILL REDUCE THEIR RATES IN**  
11 **FLORIDA DUE TO REDUCTIONS IN FLORIDA INTRASTATE ACCESS**  
12 **RATES?**

13 A. Wireless carriers offer rates under "national" and "local/regional" plans that  
14 have a fairly consistent range of prices across geographic regions for  
15 monthly access, monthly airtime minutes, and per minute rates after the  
16 allowance. There is some variation between states, and within regions in  
17 a state, regarding prices and minutes within these ranges. However, I  
18 don't believe that wireless carriers will respond to the Florida intrastate  
19 access rate reductions with reduced rates or a higher number of airtime  
20 minutes in their Florida cellular plans. First, it is questionable whether the  
21 access rate reduction is significant enough to warrant a change in rates or  
22 airtime minutes for Florida in-state rates of wireless carriers. I am not  
23 aware that wireless carriers have changed their in-state wireless rates or

1           airtime minutes due to changes in intrastate access rates. It would likely  
2           require a significant reduction in access charges on a national basis  
3           (among most or all states), or a major change in price or minutes provided  
4           by a competitor, before a large wireless carrier would re-price their  
5           service. Also, if one believes that cellular service is a substitute for  
6           landline local service, the cellular carrier wouldn't have an incentive to  
7           decrease its rates in Florida because landline local rates are being  
8           increased by the rate rebalancing. The increase in price of the landline  
9           local rates in Florida by itself would not require an additional response by  
10          the Florida wireless carrier to reduce the monthly access rates or change  
11          the allowable minutes. Verizon is the largest wireless carrier in the nation.  
12          BellSouth and Sprint are also large providers of cellular service across the  
13          nation. Verizon, BellSouth and Sprint propose to increase their Florida  
14          landline basic local rates, but I don't think they would respond by reducing  
15          their cellular rates in Florida and cannibalizing the positive impact of the  
16          local rate increase on a total company basis. There may be some  
17          exceptions to this for small cellular carriers. However, Mr. Shafer  
18          indicates that large carriers like BellSouth, Sprint, and Verizon will respond  
19          competitively to changes in rates of wireless carriers (supposedly caused  
20          by reductions in Florida intrastate access rates), so it is clear that Mr.  
21          Shafer's scenario is intended to apply to large wireless carriers.

22

1 Q. ARE YOU AWARE OF ANY CASES WHERE A STATE HAS REDUCED  
2 ITS INTRASTATE ACCESS CHARGES, AND WIRELESS CARRIERS  
3 HAVE RESPONDED WITH STATE-SPECIFIC REDUCTIONS IN  
4 CELLULAR RATES?

5 A. No. I am not aware that this situation has occurred. I don't believe  
6 Mr. Shafer is intending to mislead the Commission, but I believe his  
7 testimony oversells the impact and magnitude of the proposed  
8 reductions in Florida intrastate access rates by asserting that  
9 cellular carriers will reduce their rates in Florida, or by inferring that  
10 these carriers may introduce state-specific cellular rates in Florida  
11 due to the intrastate access reduction.

12

13 Q. MR. SHAFER INDICATES THAT RATE REBALANCING WILL RESULT  
14 IN A SIGNIFICANT NUMBER OF RESIDENTIAL CUSTOMERS  
15 RECEIVING BENEFITS OF EXPANDED CHOICE AND NEW AND  
16 INNOVATIVE SERVICES. DOES HE PROVIDE ANY  
17 DOCUMENTATION OR ANALYSIS TO SUPPORT THIS CONCLUSION?

18 A. No. Mr. Shafer makes this allegation at page 14, lines 19 to 22.  
19 However, Mr. Shafer provides no documentation and no  
20 independent analysis to support his conclusion that a "significant"  
21 number of residential customers will benefit from "expanded choice"  
22 and "new and innovative services." Mr. Shafer does not define or  
23 identify how many residential customers constitute a "significant"

1 number in his opinion. This number cannot be defined or identified,  
2 because there is no study or documentation to support Mr. Shafer's  
3 conclusions. Also, Mr. Shafer does not perform an analysis to  
4 weigh the negative impacts of the known local rate increase against  
5 the unknown or speculative benefits related to alleged "expanded  
6 choice" or "new and innovative services." Mr. Shafer only looks at  
7 once side of the equation, but he never conducts any analysis to  
8 support his one-sided conclusion.

9 **Q. IS THERE ANY LINK OR CORRELATION BETWEEN THE SURVEY**  
10 **MR. SHAFER REFERENCES AND THE CONCLUSION HE REACHES**  
11 **REGARDING THE BENEFITS OF EXPANDED CHOICES FOR A**  
12 **SIGNIFICANT NUMBER OF RESIDENTIAL CONSUMERS?**

13 A. No. Mr. Shafer refers to a survey conducted for the Commission  
14 which indicates that 30% of residential consumers often used a  
15 wireless phone for long distance calling, and that 88% of residential  
16 consumers had bought some type of lower cost long distance  
17 alternative (prepaid calling card, dial around, etc.). However, there  
18 is no direct link or correlation between the survey of residential  
19 consumers (and the issues which were surveyed), and Mr. Shafer's  
20 conclusion that a significant number of residential consumers will  
21 realize benefits of expanded choice and new and innovative  
22 services due to the Florida access charge reductions. The

1 Commission should not rely on Mr. Shafer's conclusions because  
2 his testimony did not provide documentation to support his findings.

3

4 **Q. MR. SHAFER INDICATES THAT A SIGNIFICANT NUMBER OF**  
5 **RESIDENTIAL CONSUMERS WILL SEE BENEFITS OF EXPANDED**  
6 **CHOICE AND INNOVATIVE SERVICES. DID HE PERFORM ANY**  
7 **ANALYSIS TO DETERMINE IF CUSTOMERS WILL RECEIVE A "NET**  
8 **BENEFIT" FROM ACCESS REDUCTIONS AND RATE REBALANCING**  
9 **WHICH IS "KNOWN AND TANGIBLE"?**

10 A. Mr. Shafer did not provide any analysis to support his conclusion.

11 In contrast, my testimony does include an analysis which shows  
12 that increases in basic local rates will exceed reductions in toll rates  
13 for residential customers. Therefore, I was able to conclude that  
14 residential consumers will not realize a "net tangible and known  
15 benefit" from access reductions and rate rebalancing. Mr. Shafer's  
16 assertions regarding benefits of "expanded choice" and "new and  
17 innovative services" are speculative, and are not known or tangible.  
18 Mr. Shafer did not identify examples of access reductions in Florida  
19 or other states where access reductions and rate rebalancing  
20 resulted in unique and specific services introduced in that  
21 jurisdiction.

22

23 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**



1 A. Yes.

2

**I. CREDENTIALS:**

1

2 **Q. WOULD YOU STATE YOUR NAME, TITLE AND BUSINESS**  
3 **ADDRESS?**

4 A. My name is Bion C. Ostrander. I am the President of Ostrander  
5 Consulting. My business address is 1121 S.W. Chetopa Trail, Topeka,  
6 Kansas.

7

8 **Q. WHO ARE YOU REPRESENTING IN THIS PROCEEDING?**

9 A. I am testifying on behalf of the Office of Public Counsel ("OPC").

10

11 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND**  
12 **PROFESSIONAL EXPERIENCE?**

13 A. I am an independent regulatory consultant and a practicing Certified  
14 Public Accountant, with a specialization in telecommunications financial,  
15 costing, and policy issues. I have over twenty-four years of regulatory and  
16 accounting experience. I previously served as the Chief of  
17 Telecommunications for the Kansas Corporation Commission ("KCC" or  
18 "Commission") from 1986 to 1990, when I left to start my own consulting  
19 firm. During that time, and prior to 1986, I also addressed cases and  
20 issues related to electric and gas utilities on behalf of the KCC. In  
21 addition, I have worked for national and regional accounting firms,  
22 including Deloitte, Haskin and Sells (now Deloitte & Touche).

1

2 **Q. WHAT TYPE OF ISSUES HAVE YOU ADDRESSED?**

3 A. My experience includes addressing issues related to reviews of revenue  
4 requirements, alternative regulation/price cap plans, 271 applications,  
5 management audits, audit of universal service fund and audits of relay  
6 centers for the speech and hearing impaired. I have addressed a broad  
7 range of telecommunication and regulatory issues related to accounting,  
8 rate design, costing, FCC separations, quality of service, universal  
9 service, affordable local service, Lifeline, affiliate interest, cost allocation  
10 manuals ("CAM"), cross-subsidization, competition policy, UNE cost  
11 studies, universal service cost studies, depreciation, slamming policy,  
12 infrastructure development, access charge restructure and other matters.  
13 Please see Exhibit BCO-1 for more detailed information regarding my  
14 education background and professional experience.

15

16 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC  
17 SERVICE COMMISSION ("COMMISSION" OR "PSC")?**

18 A. No. However, Exhibit BCO-1 shows that I have testified in numerous  
19 jurisdictions on various telecommunications policy issues.

20

21 ***II. PURPOSE AND SUMMARY OF TESTIMONY FINDINGS:***

22

23 **Q. WOULD YOU DESCRIBE THE PURPOSE OF YOUR TESTIMONY?**

1 A. The purpose of my testimony is to address the flow-through of BellSouth,  
2 Verizon, and Sprint-Florida switched access reductions to Florida  
3 intrastate long distance/toll rates. I will address issues six to ten as set  
4 forth by the Florida Public Service Commission ("FPSC") in its November  
5 10, 2003, order in this proceeding and related consolidated dockets. I will  
6 also address other issues that are relevant.

7

8 **Q. WOULD YOU SUMMARIZE YOUR TESTIMONY?**

9 A. Issue Six - For the matters addressed under "Issue 6", I primarily agree  
10 with Staff's earlier recommendations. However, I do add further specificity  
11 and clarification to the type of information that IXCs should provide to the  
12 FPSC, both in advance of its tariff filing and at the completion of its long  
13 distance rate reductions. For example, for those IXCs that have to provide  
14 information to the FPSC, I require:

- 15 1) a calculation of the long distance rate reduction by specific service for  
16 residential and business customers;
- 17 2) a calculation of the average revenue per minute for residential and  
18 business customers; and
- 19 3) a calculation showing the amount and percent of long distance  
20 revenues applicable to residential and business customers; and 4)  
21 provide justification for any long distance rate reductions that are  
22 included with "bundled services."

23

1        **Issue 7** - All long distance reductions should be flowed-through to  
2 customers at the time that increases in basic local rates take place, there  
3 should not be a lag of time.

4  
5        **Issue 8** - IXC's should be required to cap and maintain their long distance  
6 rate reductions for a period of three years after parity is achieved, ~~as~~  
7 ~~required by Section 364.163(1)~~. Parity is not achieved until the final  
8 phase-in of all intrastate switched access reductions are flowed-through  
9 from ILECs to IXC's, so long distance rate reductions would remain in  
10 place for three years beyond this period. If IXC's do not maintain their long  
11 distance reductions for the required period, then they should: 1) be  
12 required to re-implement long distance reductions for at least three more  
13 years; 2) provide additional long distance reductions or refunds related to  
14 "interest" calculated over the period that rate reductions were not in effect,  
15 and; 3) be subject to additional penalties available to the FPSC.

16  
17        **Issue 9** - Since residential customers are bearing a significant portion of  
18 the increases in basic local rate increases, they should receive a  
19 proportionate offsetting benefit in long distance rates.

20  
21        **Issue 10** - All residential and business customers should experience a  
22 reduction in rates, unless they don't use long distance service much, or if

1 they subscribe to one of the smaller IXCs that won't be required to flow-  
2 through the rate reductions.

3

4 **Q. WHY ARE YOU BEGINNING WITH ISSUE SIX OF THE FPSC'S**  
5 **NOVEMBER 10, 2003, ORDER IN THIS DOCKET?**

6 A. This flow-through docket has been consolidated with the rate rebalancing  
7 dockets for which I have already filed direct testimony. Issues one to five  
8 of the FPSC's November 10<sup>th</sup> order are applicable to the rate rebalancing  
9 docket and have already been addressed in prior OPC testimony by Dr.  
10 Gabel or myself.

11

12 ***III. ISSUE SIX OF THE FPSC ORDER – WHICH IXCS SHOULD BE***  
13 ***REQUIRED TO FILE TARIFFS TO FLOW-THROUGH ACCESS***  
14 ***REDUCTIONS, AND WHAT INFORMATION SHOULD BE***  
15 ***INCLUDED IN THESE TARIFFS?***

16

17 **Q. WHICH IXCS SHOULD BE REQUIRED TO FILE TARIFFS TO FLOW-**  
18 **THROUGH BELLSOUTH'S, VERIZON'S, AND SPRINT-FLORIDA'S**  
19 **SWITCHED ACCESS REDUCTIONS?**

20 A. I agree with Staff's previous recommendation on this matter, which was  
21 included in an October 22, 2003, memorandum to the Director of the  
22 Division of the Commission Clerk & Administrative Services. All IXCs  
23 should be required to file tariffs and flow-through the impacts of access

1 reductions, except for those IXCs whose intrastate access expense  
2 reduction is \$100 or less per month. Those IXCs which are not required to  
3 flow-through should attest to such, via a letter filed with the Commission. I  
4 believe that these thresholds recommended by Staff are reasonable, and  
5 will tend to ensure that most of the access reductions are subject to being  
6 flowed-through to long distance rates, yet not burdening smaller IXCs  
7 whose rate reductions may be immaterial.

8

9 **Q. WHAT SHOULD BE INCLUDED IN THE TARIFF FILINGS OF THOSE**  
10 **CARRIERS THAT WILL BE REDUCING THEIR LONG DISTANCE**  
11 **RATES?**

12 A. I agree with Staff's previous recommendation on this matter which creates  
13 three different filing requirements for:

- 14 1) IXCs that paid \$1 million or more in intrastate switched access  
15 charges, versus;  
16 2) IXCs that paid less than \$1 million in intrastate switched access  
17 charges; and  
18 3) IXCs whose intrastate switched access expense reduction is \$100 or  
19 less per month.

20

21 In addition, I have made refinements to Staff's recommendations to  
22 identify "specific" information that should be provided in the tariff filings.  
23 My proposed refinements are consistent with Staff's recommendations;

1 they just add some further clarification to Staff's filing requirements. This  
2 further clarification will help insure that consistent information is filed by all  
3 carriers, and this can help eliminate future discovery and other problems.  
4 My recommendations will simplify the monitoring process by Staff and  
5 other parties. But most importantly, these refinements will help ensure  
6 that rate reductions are fairly and equitably flowed-through to customers.

7

8 **Q. WHAT FILING REQUIREMENTS DO YOU RECOMMEND FOR THE**  
9 **IXCS THAT PAID \$1 MILLION OR MORE IN INTRASTATE SWITCHED**  
10 **ACCESS CHARGES?**

11 A. The following should be provided with the tariff filings, and as a refinement  
12 to Staff's recommendation, this information should be provided in  
13 electronic format at the time of the filing:

14

15 1) A calculation of the dollar benefit associated with the ILEC's  
16 intrastate switched access rate reductions should be provided, as  
17 recommended by Staff.

18 a) It is not clear to me how the "benefit" differs from the amount of  
19 long distance rate reductions to be shown by IXCs, as required  
20 by Staff's recommendation in item (2) below. However, if there  
21 is a difference, I believe that Staff's recommendation should be  
22 more specific and require a calculation of the dollar benefit  
23 separately for residential and business customers, and by type



1 of service (i.e., MTS, reduction of recurring monthly rates,  
2 various calling plans, etc.).

3 b) Also, eliminating the provision of a certain long distance service  
4 should not be counted as part of the "benefit" or "revenue  
5 reduction" implemented by the IXC, and any impacts from this  
6 type of situation should be identified by the IXC.

7

8 2) Separate demonstrations that residential and business long  
9 distance rates have been reduced and the estimated annualized  
10 revenue effect for both residential and business customers,  
11 including a description of how those estimates were made, as  
12 recommended by Staff.

13 a) I believe that Staff's recommendation should be more specific  
14 and require a calculation of the long distance rate reduction of  
15 residential and business customers by type of service (i.e.,  
16 MTS, reduction of recurring monthly rates, various calling plans,  
17 long distance in bundled services of IXCs, etc.).

18 b) Also, the IXC should provide a calculation showing the average  
19 revenue per minute for residential and business customers  
20 before the rate reductions, and the estimated average revenue  
21 per minute with rate reductions.

22 c) Finally, the IXC should be required to show the current amount  
23 and percent of long distance revenues received from residential

1           customers versus business customers. This should be required  
2           in order to help address "Issue 9" raised by the FPSC, which  
3           asks how long distance rate reductions should be allocated  
4           between residential and business customers. This information  
5           will help determine whether there is a reasonable and equitable  
6           allocation of long distance rate reductions between residential  
7           and business customers.

8  
9           3) A demonstration that all reductions have been flowed through, as  
10          required by Staff's recommendation.

11          a) Staff's recommendation should be more specific and require  
12          that "actual" information now be substituted for the "estimated"  
13          information that was required in previous items (1) and (2), and  
14          all subparts. This includes actual rate reductions for residential  
15          and business customers, actual rate reductions by type of  
16          service, and the actual average revenue per minute for  
17          residential and business customers for the rate reduction  
18          periods.

19          b) Also, the IXC's should identify all "new" rate plans that they  
20          introduced for residential and business customers, and the  
21          revenue impact of these plans. This requirement will help  
22          address whether the access charge reductions actually  
23          encouraged or resulted in any new or innovative services.

1 c) The IXC should be required to show the final actual amount and  
2 percent of long distance rate reductions received by residential  
3 customers versus business customers. This can be compared  
4 to any previous FPSC requirements addressed under "Issue 9",  
5 which asks how long distance rate reductions should be  
6 allocated between residential and business customers.

7 d) Finally, one issue which has not been raised to date, is how to  
8 address long distance rate reductions included in bundled  
9 services. This issue may only be applicable if the IXC is offering  
10 the bundled service, versus another affiliate that is a CLEC or  
11 other entity. If an IXC is permitted to use these flow-through  
12 dollars to reduce "bundled services", they should be required to  
13 show that the long distance portion of the bundled service was  
14 the beneficiary of the flow-through (and that flow-through dollars  
15 were not used for other services in the bundle, such as  
16 internet/DSL, cellular, local, value-added services, and others).

17

18 **Q. WHAT FILING REQUIREMENTS DO YOU RECOMMEND FOR THE**  
19 **IXCS THAT PAID LESS THAN \$1 MILLION IN INTRASTATE**  
20 **SWITCHED ACCESS CHARGES?**

21 A. The following should be provided by these IXCs:

22

1) A letter certifying that they paid less than \$1 million in intrastate switched access charges in 2002 and that they have complied with each of the flow-through requirements as specified in Section 364.163(2) of the Florida statutes, as required by Staff's recommendation.

a) In addition, these IXCs should be able to provide minimal information that is fairly easy to calculate. These IXC should provide the average revenue per minute for residential and business both before and after the rate reductions.

11 **Q. WHAT FILING REQUIREMENTS DO YOU RECOMMEND FOR THE**  
12 **IXCS WHOSE INTRASTATE SWITCHED ACCESS EXPENSE**  
13 **REDUCTION IS \$100 OR LESS PER MONTH?**

14 A. I have no refinements to Staff's recommendation for these IXCs. Staff's  
15 recommendation requires that these IXCs file a letter with the FPSC  
16 attesting that their intrastate switched access expense reduction is \$100  
17 or less per month, as recommended by Staff. I believe that filing a letter  
18 with the FPSC is an adequate monitoring provision for these carriers. This  
19 will allow the FPSC, other parties, and the public, to know which IXCs will  
20 not be reducing their long distance rates due to the access reductions.  
21 This will be helpful in case there is some dispute regarding whether a  
22 particular IXC falls over or under the filing threshold of less than \$100 per  
23 month in intrastate access expense reductions.

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**IV. ISSUE SEVEN OF THE FPSC ORDER – SHOULD IXCS BE  
REQUIRED TO FLOW-THROUGH RATE REDUCTIONS  
SIMULTANEOUS WITH ILEC ACCESS RATE REDUCTIONS?**

**Q. SHOULD THE IXCS BE REQUIRED TO FLOW-THROUGH LONG  
DISTANCE RATE REDUCTIONS, VIA THE TARIFFS, SIMULTANEOUS  
WITH THE APPROVED ILEC ACCESS RATE REDUCTIONS?**

A. Yes. There should not be any lag in time between increases in ILEC local rates and IXC long distance rate reductions. The timing should be the same to ensure that the negative impacts of local rate increases are at least offset by some reductions in long distance rates. If IXCs delay their long distance rate reductions, this means that ILEC customers that are receiving increases in local rates will have permanently lost any incremental benefit from long distance rate reductions. If IXCs are not prepared to implement long distance reductions, then ILEC increases in local rates should also be delayed.

**V. ISSUE EIGHT OF THE FPSC ORDER – HOW LONG SHOULD  
THE IXC LONG DISTANCE RATE REDUCTIONS LAST?**

1 Q. FOR EACH ACCESS RATE REDUCTION THAT AN IXC RECEIVES,  
2 HOW LONG SHOULD THE ASSOCIATED LONG DISTANCE RATE  
3 REDUCTION LAST?

4 A. The IXCs should be required to cap and maintain their long distance rate  
5 reductions for a period of three years after parity is achieved, ~~as required~~  
6 ~~by Section 364.163(1)~~. The IXCs could reduce their long distance rates in  
7 greater amounts than the access rate reductions over this period, but they  
8 could not increase their rates, ~~because of the "cap", as required by Section~~  
9 ~~364.163(1)~~. Parity is not achieved until the final phase-in of all intrastate  
10 switched access reductions are flowed-through from ILECs to IXCs. This  
11 means that after the final flow-through of phased-in access reductions to  
12 IXCs is achieved, the long distance rate reductions would be in place for  
13 three more years.

14  
15 Sprint proposes to implement its basic local rate increases in three phases  
16 over a two-year period, with the final residential increase of \$1.16/month  
17 to take place in 2006. This means that IXCs receiving reductions in  
18 intrastate switched access rates from Sprint, would be required to  
19 maintain the related long distance rate reductions for a period from 2006  
20 through the same month in 2009.

21  
22 However, if the Sprint basic local rate increases (and related access  
23 reductions) are phased-in over a three to four-year period (especially due

1 to the significant amount of the rate increases<sup>1</sup>), as supported by the OPC,  
 2 this means that long distance rate reductions would be maintained for  
 3 three years after the final phase-in of access reduction flow-through is  
 4 passed through to IXCs by Sprint.

5  
 6 BellSouth and Verizon are implementing their basic local rate increases in  
 7 three phases over a two-year period, with the final residential increases to  
 8 take place in 2006. This means that IXCs receiving reductions in intrastate  
 9 switched access rates from BellSouth and Verizon, would be required to  
 10 maintain the related long distance rate reductions for a period from 2006  
 11 through the same month in 2009.

12  
 13 **Q. THIS ISSUE IS NOT SPECIFICALLY RAISED BY THE FPSC, BUT**  
 14 **WHAT SHOULD HAPPEN IF IXCS DO NOT MAINTAIN THEIR LONG**  
 15 **DISTANCE RATE REDUCTIONS FOR THE REQUIRED PERIOD?**

16 A. If IXCs do not maintain long distance reductions for the required  
 17 period, then the following should occur as a remedy:

18  
 19 1) IXCs should be required to re-implement the impact of long  
 20 distance rate reductions for at least three years beyond the  
 21 point when they failed to maintain compliance.

22

---

<sup>1</sup> Sprint's proposed total average residential local rate increase is \$6.86/month, compared to \$4.73/month for Verizon and \$3.86/month for BellSouth.

1           2)    The IXCs should be required to implement additional long  
 2           distance rate reductions, or refunds<sup>2</sup>, based on “interest”  
 3           calculated for the period that long distance rate reductions  
 4           were not in place. It is not fair that residential basic local  
 5           customers would still be paying increased basic local rates  
 6           to the ILEC, while the IXC receives a windfall benefit by not  
 7           implementing the required portion of the access flow-through  
 8           in long distance rates. Also, the penalty should be severe  
 9           enough to help ensure that IXCs maintain compliance with  
 10          long distance reductions over the required period.

11  
 12          3)    Finally, the FPSC should implement any additional penalties or  
 13          sanctions which are available, including “per day” or “per incident”  
 14          monetary fines that may be available.

15  
 16          **VI.    ISSUE NINE OF THE FPSC ORDER – HOW SHOULD IXC LONG**  
 17                **DISTANCE RATE REDUCTIONS BE ALLOCATED BETWEEN**  
 18                **RESIDENTIAL AND BUSINESS CUSTOMERS?**

19  
 20          **Q.    HOW SHOULD IXC LONG DISTANCE RATE REDUCTIONS BE**  
 21                **ALLOCATED BETWEEN RESIDENTIAL AND BUSINESS**  
 22                **CUSTOMERS?**

---

<sup>2</sup> Long distance rate reductions are favored over refunds since long distance customers are more transient and shift from carrier-to-carrier with more frequency, so it would be difficult to match the



1 A. Since residential basic local customers are receiving most of the proposed  
2 increases in basic local rates, they should receive a proportionate amount  
3 of the long distance rate reductions.<sup>3</sup>

4

5 **VII. ISSUE TEN OF THE FPSC ORDER – WILL ALL RESIDENTIAL**  
6 **AND BUSINESS CUSTOMERS EXPERIENCE A REDUCTION IN**  
7 **THEIR LONG DISTANCE BILLS?**

8

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

13 A. Based upon my comments related to “Issue 10”, all residential and  
14 business customers should experience a rate reduction unless: a) the  
15 customer subscribes to one of the small IXCs that pays less than \$100 per  
16 month in access expense and is not required to flow-through access  
17 reductions; or b) the customer does not make much, or any, long distance  
18 calls for the period that long distance rate reductions will be in effect.

19

20 Customers of all calling plans, including MTS, should experience some  
21 rate reduction as long as the plan includes usage by “average” residential

---

long distance rate refund with the specific customer that should have received the refund.

<sup>3</sup> However, my direct testimony in the rate rebalancing case shows that the increase in basic local service rates for the average residential customer will not be offset by long distance rate reductions.

1 customers." The "average residential user" of long distance service  
2 should be the primary beneficiary of these long distance rate reductions  
3 which should not be unduly restricted to large residential and business toll  
4 users.

5

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

7 **A. Yes.**

8

1 **Q. WOULD YOU STATE YOUR NAME, TITLE AND BUSINESS**  
2 **ADDRESS?**

3 A. My name is Bion C. Ostrander. I am the President of Ostrander  
4 Consulting. My business address is 1121 S.W. Chetopa Trail, Topeka,  
5 Kansas.

6  
7 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS**  
8 **PROCEEDING ON BEHALF OF THE OFFICE OF PUBLIC COUNSEL?**

9 A. Yes, I filed direct testimony on November 19, 2003.

10

11 **Q. WOULD YOU DESCRIBE THE PURPOSE OF YOUR REBUTTAL**  
12 **TESTIMONY?**

13 A. I will rebut certain issues raised by various parties regarding issue  
14 numbers six to ten as set forth in the Florida Public Service Commission's  
15 ("FPSC" or "Commission") November 10<sup>th</sup> order. I will rebut the direct  
16 testimony of Mr. Kapka, on behalf of Sprint Communications Company  
17 L.P., which will be referred to as Sprint Long Distance Company ("Sprint  
18 LD"), Mr. Broten, for Bell Atlantic Communications, Inc. d/b/a Verizon Long  
19 Distance, NYNEX Long Distance Company d/b/a Verizon Enterprise  
20 Solutions ("VES"), and Verizon Select Services, Inc ("VSSI"), (hereinafter,  
21 collectively referred to as "Verizon LD"), Mr. Henson, for BellSouth Long  
22 Distance ("BellSouth LD"), Mr. Guepe, for AT&T Communications of the

1 Southern States, LLC ("AT&T"), and Mr. Dunbar, on behalf of MCI  
2 WorldCom Communications, Inc. ("MCI").  
3

4 **Q. WOULD YOU SUMMARIZE YOUR REBUTTAL TESTIMONY?**

5 A. I will summarize these matters by "issue":  
6

7 **Issue 6** - The carriers appear to favor a more informal approach of  
8 discussing potential long distance rate reductions and impacts with Staff  
9 and avoiding an audit trail and the specific filing requirements that I  
10 propose (which are consistent with Staff's recommendation). The  
11 Commission should adopt my specific filing requirements for IXCs, so that  
12 actual rate reductions can be monitored and compared to expected  
13 amounts to ensure that all long distance rate reductions are properly and  
14 timely implemented.

15 **Issue 7** - Certain IXCs propose to file tariffs up to 60 days after the  
16 effective date of ILEC tariffs. Other IXCs propose advance notice of up to  
17 60 days in order to try and coordinate simultaneous filings with ILECs.  
18 Any lag between IXC and ILEC filings would result in a permanent loss of  
19 long distance rate reductions for customers and should be avoided. If  
20 there is some lag, it should be no more than 15 days. In the alternative,  
21 IXCs and ILECs should be given at least 60 to 90 days notice of when  
22 both IXC and ILEC tariffs will be effective on a simultaneous basis. This

1 advance notice will allow all carriers adequate time to provide tariffs to  
2 Staff for review, change their billing, and carry out other planning.

3 **Issue 8** - Certain IXCs do not believe that rate reductions should be  
4 mandated for any specific time period. Sprint LD believes that IXCs  
5 should be required to maintain long distance rate reductions for all three  
6 years of the access reductions, plus one additional year. Section  
7 364.163(1) requires that after ILEC access rates are reduced to or below  
8 parity, then intrastate switched access rates will remain capped for 3  
9 years. Consistent with Section 364.163(1), the IXCs should be  
10 encouraged to cap and maintain their long distance rate reductions for a  
11 period of three years after parity is achieved. Parity is not achieved until  
12 the final phase-in of all intrastate switched access reductions are flowed-  
13 through from ILECs to IXCs.

14 **Issue 9** – The percentage split between long distance rate reductions for  
15 residential and business customers is set forth at Rebuttal Exhibit BCO-1,  
16 for those carriers that provided information. Most carriers either do not  
17 provide information, xx xxxx xxxxxxxx xx xxxxxxxx x xxxxx xxxxxxxxxxxx xx  
18 xxxx xxxxxxxx xxxxxxxxxxxx xx xxxxxxxxxxxx xxxxxxxx. I am aware that  
19 Section 364.163 of the statute does not specify how IXCs should allocate  
20 long distance rate reductions between residential and business  
21 customers. However, I believe that IXCs should be encouraged to reduce  
22 residential and business rates in a reasonable and equitable manner.  
23 Since residential local rates are receiving most of the proposed increases

1 by ILECs, these residential customers should receive a proportionate  
2 amount of the long distance rate reductions. None of the IXC's (which  
3 provided information) proposed to reduce long distance rates in this  
4 manner, xxxxxxxx xxxxxxxxxxxx xx xxxx xxxxxxx xxxx xxx xxxxxx xxxx.

5 **Issue 10** - I am extremely disappointed in the proposals of the carriers.  
6 xxxx xxxx xxxx xxx, xx xxx, xxxxx xxxxxxxxxxxx xx xxxx xxxxxxxxxxx xxx  
7 xxxxxxxxxxx xxxxxxxxxxx xxxxxxx xxx xxx xxxxxxx xxxxxxxxxxx xxx xxx  
8 xxxx xxxx. xxx, xxx, xxx xxxxxx xx xxxxxxx xx xxxxxxx xxxxxxxxxxx xxx  
9 xxxxxxxxxxx xx xxxxx xx xxxxxxxxxxx xxxxxxx xxxxx, xxxxxx xxx xxxx xxxx  
10 xx xxx xxxxxxxxxxx xxxxxxx xxxx. About 93% of the Verizon revenue  
11 increase will be placed on residential local service customers, yet x  
12 xxxxxxxxxxx xxxxxxx xx xxxx xxxxxxx xxxxxxxxxxx xxxx xxx xxxxxxx xxx  
13 xxxx xxxxxxx xxxx xxxxxxxxxxx xxxxxxx xxxx xxxxxx xxx xxx xxxxx. xxxx  
14 xxxxxxx xx xx xxx xxxx x xxxxxxxxxxx xxxxxxx xx xxxxxxxxxxx xxxxxxx xx  
15 xxxxxxxxxxx xxxxxxxxxxx xxx xxxxx xxx xxxx xx xxxx xxxxxxxxxxx.

16 I continue to believe that most residential customers should experience  
17 some sort of long distance rate reduction unless: a) the customer  
18 subscribes to one of the small IXC's that pays less than \$100 per month in  
19 access expense and is not required to flow-through access reductions; or  
20 b) the customer does not make much, or any, long distance calls for the  
21 period that long distance rate reductions will be in effect.

22  
23

1 **I. ISSUE SIX OF THE FPSC ORDER – WHICH IXCS SHOULD BE**  
2 **REQUIRED TO FILE TARIFFS TO FLOW-THROUGH ACCESS**  
3 **REDUCTIONS, AND WHAT INFORMATION SHOULD BE**  
4 **INCLUDED IN THESE TARIFFS?**

5  
6 **Q. DO YOU HAVE CONCERNS WITH STATEMENTS OF OTHER PARTIES**  
7 **REGARDING ISSUE SIX?**

8 A. It would appear that all parties agree that a flow-through of access  
9 reductions by IXCs is necessary, and there is no disagreement on this  
10 issue. Mr. Guepe, on behalf of AT&T, indicates that in order to insure  
11 “competitive neutrality”, any flow through conditions must be applied to all  
12 IXCs and no companies should have an exemption (except he agrees  
13 there may be a de minimis threshold for those IXCs for which the flow  
14 through is immaterial). (page 3, lines 20 to 25). I concur with Mr. Guepe’s  
15 remarks.

16  
17 Mr. Henson, on behalf of BellSouth LD, does not take a specific position  
18 on this issue. (page 3, lines 16 to 20).

19  
20 Most of the parties’ positions appear consistent with my testimony (and my  
21 position is consistent with Staff’s prior position), although they are not as  
22 specific. For example, Mr. Kapka, of Sprint, believes that any IXC with

1 over \$1 million in annual switched access expense should be required to  
2 file tariffs, and this is consistent with my position.

3

4 **Q. CAN YOU EXPLAIN THE ISSUE OF "RESELLERS" RAISED BY MR.**  
5 **BROTEN OF VERIZON LD?**

6 A. Yes. Mr. Broten indicates that IXC resellers should not be required to  
7 reduce prices to its customers, unless it receives a reduction in the prices  
8 it is charged by its facilities-based supplier. He indicates that many IXCs  
9 resell service and the access charges flow directly to the facility-based  
10 carrier, and not the reseller. This is because resellers of long distance  
11 service typically contract with facilities-based providers for service, and  
12 these agreements may not obligate the facilities-based carrier to pass  
13 through access reductions that it receives. Mr. Broten indicates that when  
14 Verizon LD, VES or VSSI resell long distance services of an affiliate, that  
15 these resellers will pass through these reductions to their customers.  
16 (page 3, lines 3 to 23).

17

18 **Q. DO YOU AGREE WITH MR. BROTEN'S POSITION ON TREATMENT**  
19 **OF RESELLERS?**

20 A. Yes, generally I agree, subject to some confirmation on this issue.  
21 However, I wish to emphasize certain conditions which should apply to  
22 resellers. All resellers that are reselling the long distance of an affiliate  
23 (such as a facilities-based affiliate, or others) should be required to flow-



1 through all long distance reductions to their customers (unless they meet  
2 the de minimis threshold set out in my direct testimony). This condition  
3 should be required between all affiliates, to make sure that affiliates have  
4 not established an arbitrary (or sham) agreement between them with the  
5 intent of avoiding the flow-through of access charges to customers.

6  
7 The only condition where a reseller should not be required to flow-through  
8 access reductions to its customers is when a facilities-based carrier has a  
9 specific agreement with a non-affiliated reseller which prevents the flow-  
10 through of access reductions (i.e., prevents the reduction in prices  
11 charged by the facilities-based supplier to the reseller) to the reseller.

12  
13 **Q. DO YOU HAVE CONCERNS WITH SPRINT'S POSITION REGARDING**  
14 **THE INFORMATION THAT SHOULD BE INCLUDED IN THE TARIFF**  
15 **FILINGS OF THOSE CARRIERS THAT WILL BE REDUCING THEIR**  
16 **LONG DISTANCE RATES?**

17 **A.** Yes. Mr. Kapka, on behalf of Sprint LD, states that the Commission  
18 should not attempt to set some uniform requirement for all carriers, but  
19 that each carrier should meet with Staff and explain the particular  
20 approach that carrier intends to take considering that carrier's competitive  
21 market. Mr. Kapka indicates that this approach was taken in the 1998  
22 access reductions, and it was beneficial because it did not mandate  
23 specific price reductions to specific individual customers and it also

1 ensured that IXC confidentiality was maintained (since Staff was the only  
2 other party involved in these discussions). (page 5, lines 22 to 25, and  
3 page 6, lines 1 to 14).

4

5 **Q. WHAT ARE YOUR CONCERNS WITH MR. KAPKA'S PROPOSAL?**

6 A. Mr. Kapka's proposal to eliminate uniform filing requirements would make  
7 it difficult to monitor rate reductions, so it would not be possible to  
8 determine when, and if, the proper amount of reductions were  
9 implemented by the carrier. Mr. Kapka's approach would not leave an  
10 audit or paper trail, and the IXCs, Staff, and other parties would not be  
11 able to test compliance after-the-fact.

12

13 Consistent with Staff's position, I believe that the IXCs should be required  
14 to provide specific information so that Staff and other parties will be in a  
15 better position to:

- 16 1) test and review the calculations and proposals of IXCs;  
17 2) monitor and compare proposed reductions to final reductions to  
18 make sure that the entire amount of the flow-through takes place;  
19 3) ensure that all IXCs submit the same type of information for review  
20 to make sure that all calculations and assumptions are consistent  
21 and do not vary among the carriers (although the specific proposals  
22 between the IXCs may vary); and

1 4) implement rate reductions as soon as possible and save  
2 implementation time by letting the IXCs know up-front what type of  
3 information is expected to be provided.

4  
5 I am not opposed to each IXC having some flexibility regarding the  
6 specific rate structure to implement, and the specific filing requirements  
7 are not intended to impede this flexibility. My direct testimony provides  
8 additional clarity to Staff's proposal regarding the type of information that  
9 should be provided by IXCs.<sup>1</sup> After this specific information has been  
10 made available for review by the IXCs, then I am not opposed to the IXCs  
11 having further discussions with Staff or other parties regarding specific  
12 pricing and competitive needs or concerns.

13  
14 **Q. DO YOU HAVE THE SAME CONCERNS WITH OTHER CARRIERS**  
15 **THAT PROPOSE DIFFERENT FILING REQUIREMENTS THAN THOSE**  
16 **SUPPORTED BY YOU AND STAFF?**

17 **A.** Yes. Other carriers may support less detail in their tariff filings, but I  
18 believe the integrity of the tariff filings are supported by the filing  
19 requirements that I recommend.

20

---

<sup>1</sup> Direct testimony of Bion Ostrander, in this proceeding, page 8 through page 12.

1           **II.     ISSUE SEVEN OF THE FPSC ORDER – SHOULD IXCS BE**  
2                           **REQUIRED TO FLOW-THROUGH RATE REDUCTIONS**  
3                           **SIMULTANEOUS WITH ILEC ACCESS RATE REDUCTIONS?**  
4

5   **Q.     WHAT POSITIONS DO THE CARRIERS TAKE ON THIS ISSUE OF**  
6           **COORDINATING TARIFF FILINGS BETWEEN ILECS AND IXCS?**

7   **A.**    Mr. Henson, on behalf of BellSouth LD, believes that IXCs should be  
8           required to file tariffs within a reasonable time after the effective date of  
9           ILEC filings, not to exceed fifteen (15) days. (p. 4, lines 15 to 17).

10

11           Mr. Guepe, for AT&T, indicates that IXCs need sufficient time to calculate  
12           their savings and to prepare tariff filings, so he suggests that IXCs be  
13           allowed to implement tariffs within 60 days from the ILEC's filing date. In  
14           the alternative, if the Commission requires a simultaneous effective date  
15           between IXC and ILEC tariffs, then Mr. Guepe proposes that ILEC access  
16           tariff revisions be filed 60 days in advance of the effective date for IXCs to  
17           allow adequate time for analysis and tariff completion by IXCs (p. 5,  
18           lines 14 to 20).

19

20           Mr. Kapka, for Sprint LD, recommends that IXCs have 60 days after the  
21           effective date of ILEC tariffs, in order to meet with Staff and for Staff to  
22           review the proposed changes of IXCs. (p. 7, lines 3 to 10).

23

1 Mr. Broten, for Verizon LD, indicates that IXCs should implement their  
2 tariffs "as soon as possible" after the approved ILEC access rate  
3 reductions. (p. 4, lines 5 to 8).

4

5 Mr. Dunbar, for MCI, indicates he would support simultaneous filings with  
6 ILECs if they are given at least 60 days to implement the rate changes.  
7 (p. 5, lines 4 to 5).

8

9 **Q. WHAT COMMENTS DO YOU HAVE ON THE CARRIERS' POSITIONS**  
10 **REGARDING IMPLEMENTATION OF TARIFFS?**

11 A. There should not be any lag in time between increases in ILEC local rates  
12 and IXC long distance rate reductions, to ensure that the negative impacts  
13 of local rate increases are at least offset by some reductions in long  
14 distance rates (assuming that increases in basic local rates are  
15 implemented, which the OPC does not support). However, if some lag is  
16 necessary between IXC tariffs and ILEC tariffs, this should be no more  
17 than the 15 day lag addressed by Mr. Henson of BellSouth LD.

18

19 If possible, IXCs and ILECs should be given at least 60 to 90 days notice  
20 of when both the ILEC and IXC tariffs will be implemented at the same  
21 time - - which is similar to the proposal of Mr. Dunbar and the alternative  
22 proposal of Mr. Guepe. This notice of time should allow sufficient time for  
23 the IXCs to submit tariff information and calculations for review by Staff

1 and other parties, and it should allow these Staff and other parties at least  
2 30 days review time of the IXC tariffs (assuming there are no problems  
3 with the IXC tariff filings).

4  
5 If IXCs delay their long distance rate reductions, this means that ILEC  
6 customers that are receiving increases in local rates will have permanently  
7 lost any incremental benefit from long distance rate reductions. If the  
8 IXCs implement their tariffs more than 15 days after ILEC tariffs are  
9 implemented, then IXCs should be required to calculate additional one-  
10 time refunds or additional rate reductions to account for long distance rate  
11 reductions that were delayed to customers during this intervening time  
12 period.

13  
14 **III. ISSUE EIGHT OF THE FPSC ORDER – HOW LONG SHOULD**  
15 **THE IXC LONG DISTANCE RATE REDUCTIONS LAST?**

16  
17 **Q. WHAT POSITIONS DO THE CARRIERS TAKE ON THE ISSUE OF THE**  
18 **TIME PERIOD FOR LONG DISTANCE RATE REDUCTIONS?**

19  
20 **A.** Mr. Kapka, on behalf of Sprint LD, believes that IXCs should be required  
21 to flow-through and maintain long distance price reductions for all three  
22 years of the access reductions, plus one additional year. During this  
23 period, he indicates that IXCs should have the flexibility to change prices

1 for individual products and/or introduce new products. He believes that  
2 monitoring of the average revenue per minute annually through the period  
3 of access reductions, and for one additional year, will ensure that  
4 customers receive the benefits of access reductions. (p. 7, lines 1 to 25).

5

6 Mr. Broten, on behalf of Verizon LD, states that the Verizon long distance  
7 affiliates will flow through the access reductions year over year for three  
8 years, and then Verizon should be free to change its long distance rates  
9 as it desires. (p. 5, lines 1 to 6).

10

11 Mr. Guepe, for AT&T, does not believe that any requirements for a length  
12 of time should be imposed for long distance price reductions, since this  
13 could place IXCs at a disadvantage from a competitive standpoint. He  
14 indicates that if the Commission imposes a period of time, this will be the  
15 first time such a mandate has been imposed. Mr. Guepe indicates that  
16 over the past years long distance competition has continually driven down  
17 IXC prices and there is no reason to believe this trend would not continue.  
18 (p. 6, lines 11 to 24).

19

20 Mr. Henson, for BellSouth LD, states that because of the highly  
21 competitive long distance market in Florida, it is not necessary to impose a  
22 minimum time period for price reductions related to access flow-through.  
23 He indicates that once access charges are flowed through to both

1 residential and business customers, the intense level of competition will  
2 ensure that carriers do not rate their rates thereafter in an effort to absorb  
3 the access charge savings. Mr. Henson states that carriers need to retain  
4 flexibility to change their prices on individual services in order to respond  
5 to going-in rates of other IXCs, and to respond to other changes in the  
6 market. (p. 5, lines 10 to 13, and page 6, lines 5 to 20).

7

8 Mr. Dunbar, for MCI, states that the marketplace should and will decide  
9 this issue. (p. 5, lines 12 to 13).

10

11 **Q. WHAT IS YOUR RESPONSE TO THE CARRIER'S POSITION ON THE**  
12 **TIME PERIOD FOR LONG DISTANCE RATE REDUCTIONS?**

13 A. Section 364.163(1) requires that after ILEC access rates are reduced to or  
14 below parity, then intrastate switched access rates will remain capped for  
15 3 years. Consistent with Section 364.163(1), the IXCs should be  
16 encouraged to cap and maintain their long distance rate reductions for a  
17 period of three years after parity is achieved. Parity is not achieved until  
18 the final phase-in of all intrastate switched access reductions are flowed-  
19 through from ILECs to IXCs. This means that after the final flow-through  
20 of phased-in access reductions to IXCs is achieved, the long distance rate  
21 reductions would be in place for three more years. It makes sense to  
22 synchronize the same time frames for ILEC access reductions and IXC  
23 long distance rate reductions.



1

2

The Sprint LD proposal comes the closest to my recommendation. Mr.

3

Kapka only proposes that long distance rate reductions be in place "one"

4

year after parity is reached in the third increment of the two year phase-in.

5

Sprint LD, and all other carriers, should maintain long distance rate

6

reductions for three years after parity is achieved, and parity is not

7

achieved until the third increment of the two-year flow-through. This

8

means that Sprint's proposal is still two years shy of my recommendation

9

that requires long distance rate reductions to be in place for three years

10

after parity is achieved. Of course, if the Commission extends the flow-

11

through for a period longer than that proposed by the ILECs (the three

12

increments over a two-year period), then the three-year period for long

13

distance rate reductions still begins at the time of the final access flow-

14

through.

15

16

Mr. Guepe and Mr. Henson propose that no required time frame be

17

imposed for long distance rate reductions, so these proposals are the

18

most opposite of my recommendation. I believe it is reasonable to

19

construe that the statute was intended to achieve some level of trade-off

20

between various issues such as increases in basic local rates and

21

reductions in long distance rates for similar periods. The one-sided

22

arrangement proposed by IXCs would result in increases in basic local

23

rates without commitments by IXCs to reduce long distance rates. This

1 serves as a potential windfall benefit to IXCs, and a detriment to  
2 residential consumers faced with permanent increases in basic local rates  
3 and the prospect of short-term long distance rate reductions.

4

5 **Q. DO YOU AGREE WITH MR. HENSON, THAT A MINIMUM TIME FRAME**  
6 **FOR RATE REDUCTIONS IS NOT REASONABLE, SINCE IXCS MAY**  
7 **NEED TO RESPOND TO GOING-IN RATES OF OTHER IXCS?**

8 A. No. I believe that long distance rate reductions should be required for a  
9 certain timeframe as I propose. However, if an IXC needs to respond to a  
10 going-in rate proposal of another IXC, then I am not opposed to some  
11 flexibility to deal with these issues on a case-by-case basis. However,  
12 these situations should be coordinated with Staff and other parties which  
13 are providing oversight.

14

15 ***IV. ISSUE NINE OF THE FPSC ORDER – HOW SHOULD IXC LONG***  
16 ***DISTANCE RATE REDUCTIONS BE ALLOCATED BETWEEN***  
17 ***RESIDENTIAL AND BUSINESS CUSTOMERS?***

18

19 **Q. *WHAT POSITIONS DO CARRIERS TAKE ON THE ISSUE OF***  
20 ***ALLOCATION OF LONG DISTANCE RATE REDUCTIONS BETWEEN***  
21 ***RESIDENTIAL AND BUSINESS CUSTOMERS?***

22

1 A. Mr. Broten for Verizon LD (p. 5, lines 12 to 20), Mr. Kapka of Sprint LD (p.  
 2 9, lines 1 to 17), Mr. Dunbar of MCI (p. 5, lines 21 to 23), and Mr. Henson  
 3 of BellSouth LD (p. 7, lines 20 to 22, and p. 8, lines 1 to 5), all appear to  
 4 propose the same or similar method to pass through a pro rata share long  
 5 distance rate reductions to both residential and business customers. This  
 6 method is based on the relative proportion of access minutes associated  
 7 with these customers.

8  
 9 Mr. Broten, Mr. Kapka, and Mr. Dunbar, provide the estimated percentage  
 10 of the amount of long distance rate reductions that will be applicable to  
 11 residential and business customers. However, xxxxxxxxxxx xxxxx xx xxx  
 12 xxxxxxxxxxxxxxxxxxx xxxxx xxx xx xxxxxxxxxxxxxxxxxxxxxxxxxxx xxx xxx xxxxxxxx  
 13 xxxxxxxxxxx xxxxxxxx, xx xxx xxxxx xxx xxxxx xxx xxxxxxxxxxx xxxxx  
 14 xxxxxxxxxxx xxxxxxx xx xxxxx xxxxxxx xxx. This estimated pro rate split of  
 15 long distance rate reductions between residential and business customers  
 16 is shown at Confidential Rebuttal Exhibit BCO-1, and compared to the  
 17 percentage of basic local increases for residential and business customers  
 18 of the ILECs.

19  
 20 xxx xxxxxx xxxxx xxxxxxxx xxxxx x xxxxxxxxxxx xxxxxxxxxxx xxx xxx xxxxxxxx  
 21 xxxxxxxxxxx xxxxxxxx xx xxxxxxxxxxx xxxxxxxx xx xxx xxxxx xxxxx xxx  
 22 xxxxx xxx xxxxxxx x xxxxx xxxxx xxxxxxx xxxxxxxxxxx xxx xxxxxxx xxxxx  
 23 xx. xxxxx. xxx xxxxx xxxxxxx xx xx xxxxx xxxxxxxxxxx xx xxx xxxxxxx xxxxx

1           xxxxxx xx xxxx xxxxxxxxxxx xxx xxxxxxx xxxxxxx xxxxxxxxxxxxxx xxx xxxxxxxxx  
 2           xxxxxxxx xxx xx xxxxxxx xxxxxx xxxxx xxxx. Mr. Guepe indicates that  
 3           an IXC should be able to reduce rates based on the make-up of its  
 4           particular customer base, which appears to be consistent with the method  
 5           of the other IXCs. However, he qualifies this statement by indicating that  
 6           an IXC should be able to reduce residential or business rates at its  
 7           discretion in order to increase its market share in a particular market. (p.  
 8           7, lines 9 to 16).

9  
 10           Mr. Henson, of BellSouth LD, does not provide the estimated split of long  
 11           distance reductions applicable to residential or business customers.

12  
 13       **Q.    WHAT IS YOUR RESPONSE TO THE CARRIERS' POSITION ON THE**  
 14       **METHOD FOR ALLOCATING LONG DISTANCE RATE REDUCTIONS**  
 15       **BETWEEN RESIDENCE AND BUSINESS CUSTOMERS?**

16       A.    I am aware that Section 364.163 of the statute does not specify how IXCs  
 17           should allocate long distance rate reductions between residential and  
 18           business customers. However, I believe that IXCs should be encouraged  
 19           to reduce residential and business rates in a reasonable and equitable  
 20           manner. Since residential local rates are receiving most of the proposed  
 21           increases by ILECs, these residential customers should receive a  
 22           proportionate amount of the long distance rate reductions. xxxxxxx xx xxx

1           xxxx xxxxxx xxxxxxxx xxxxxxxxxxxxxx xxxxxxxx xx xxxxxx xxxx xxxxxxxx  
2           xxxxx xxxxx xxxxxxxx xxxxxxxx xxxxx xxxx xxxxxxx xxxx xxx xxxxx xxxx.

3

4           Confidential Rebuttal Exhibit BCO-1 provides a comparison of the  
5           proposed ILEC split between residential and business local rate increases,  
6           compared to the proposed IXC split between residential and business long  
7           distance rate reductions (for those three IXCs which provided information).  
8           The proposed ILEC split of local rate increases is public information, but  
9           the proposed IXC split of long distance rate reductions is considered  
10          confidential. No detailed calculations were generally available regarding  
11          the residential/business split for long distance rate reductions.

12

13          The information at Rebuttal Exhibit BCO-1 shows the following:

- 14          1)    Verizon LD proposes that residential long distance rates receive
- 15               xxx of the long distance rate reduction, and that business long
- 16               distance rates receive xxx of the reduction. In comparison, the
- 17               ILECs of Verizon, Sprint and BellSouth propose that residential
- 18               local rates receive 86% to 93% (Verizon is 93%) of the proposed
- 19               local rate increase, and that business local rates recover the
- 20               remaining percentage. xx xxxxx xxxxx, xxx xxxxxxx xxxxx xxx xxxx
- 21               xxxxxxxx xxxxxxxxxxx xxxxxxx xx xx xxxxxxxxxxx xxxxxxxx xx xxx
- 22               xxxxx xxx xx xx xxxx xxxxxxxxxxx. xxxxxxx,xxxx xxxxxxxxxxx xxxxx xxx
- 23               xxxx xxxxxxxx xxxx xxxxxxxxxxx xxx xxxxxxx xxxxxxx xx x xxxxxxxxxxx

1           xx xxxxxxxxxxxx xxxxxxxxxxxx xxxxxxxxxxxx xx xxxxxxxx xx xxxxxxxx xx  
 2           xxxxxxxxxx xxxx xxxxxxxxxxxx xxx xxxxxx xxxxxxxxxxxxxx xxxxxxxx xxxxxx.  
 3           xxxxxxxx xx xxxxxxxx xxxxxxxx xxxxxxxxxxxxxxxx xx xxxxxxxx xxxxxxxx  
 4           xxxxxxxx xxx xxxxxxxxxxxxxxxx xx xxx xxxxxxxxxxxxxxxxxx xxxxxx xxx xxxx  
 5           xxxxxxxx xxxxxx

7           xxx xxxxx xxx xxxxxxxx xx xxx xxxx xx xxxxxxxx xxxxxxxxxxxxxx xxxx  
 8           xxxxxxxx xx xxxxxxxxxxxx xx xxx xxxxxxxx xxxxxxxxxxx xxxxxxxxxxxxxx  
 9           xxxxx xxxxxx xx xxxxxxxx xxxxxxx xxx xxxxxxxxxxx.

11           2)   Sprint LD proposes that residential long distance rates receive xxx  
 12           of the long distance rate reduction, and that business long distance  
 13           rates be reduced by the remaining percentage. In comparison, the  
 14           ILECs of Verizon, Sprint and BellSouth propose that residential  
 15           local rates receive 86% to 93% (Sprint is 86%) of the proposed  
 16           local rate increase, and that business local rates recover the  
 17           remaining percentage. xxxxxxxxxxx xxxxxxx xxxx xxxxxxxxxxxxxx xxxx  
 18           xxxxxxxx xxxxxxxxxxx xxxxxxx x xxxxxxxxxxxxxxxxxx xxxxxx xxxxxx xx xxxx  
 19           xxxxxxxx xxxx xxxxxxxxxxxxxx xx xxxxxxxxxxxxxx xx xxx xxxxxxxx xxxxxxx  
 20           xx xxxxxxxxxxxxxx xxxxxx xxxxxx xx xxxxxxxx xxxxxxx xxx xxxxxx. OPC  
 21           believes that the percentage of long distance rate reductions  
 22           allocated to Sprint LD residential customers should be increased

1 significantly, to bring this amount more in line with the proposed  
2 increases in local rates of the ILECs.

3  
4 3) MCI proposes that residential long distance rates receive xxx of the  
5 long distance rate reduction, and that business long distance rates  
6 be reduced by the remaining percentage. In comparison, the  
7 ILECs of Verizon, Sprint and BellSouth propose that residential  
8 local rates receive 86% to 93% of the proposed local rate increase.  
9 xxx xxx xxxxxxxxxxxxxxx xxxxxx xxxxxxxx xxxxx xxxxxxxxxxx xxxxxx xxx xxx  
10 xxxxxxxxxxx xx xxx xxxxxxxxxxxxxxx xx xxx xxxxxxxxxxx xxxxxx xxxxxx, xxx xxx  
11 xxxxx xxx xxxxxxxxxxxxxxx xxxxxxx xxxxx. xxxxxxxxxxx, xxx xxxxxxx xx  
12 xxxxxxxxxxx xxxxx xxxxxx xxxxxxxxxxx xxx xxxxxxxxxxx xxxxxxx xxxxxx.  
13 xxx xxxxxxx xxxxx xxxxxxxxxxxxxxx xxxxx xxxxxxx xxxxxxxxxxx xxxxxxxxxxx  
14 xxxxxxxxxxxxxxx xxxxxx xxxxxx xx xxxxxxxxxxxxxxx xxxxx xxxxxxxxxxx xx  
15 xxxxxxxxxxx xx xxx xxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxx xxxxxx xx  
16 xxxxxxx, xxxxxx xxxxxxx. OPC believes that the percentage of  
17 long distance rate reductions allocated to MCI residential  
18 customers should be increased significantly, to bring this amount  
19 more in line with the proposed increases in local rates of the ILECs.

20  
21 AT&T stated that in the first year it would reduce xxxxx xxxxxxxxxxx  
22 xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxx xxxxxxxxxxx xxxxxxxxxxx  
23 xxxxxx xxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx

1 xxxxxxxxxxx x xxxxxxxx xxxxxxxx xxxxxxx xxxxxxxxxxxx xxxxxxxxxxx  
 2 xxxxxxxxxxxxxx xxxxxxxxxxxx xx xxxxxxxxxxxxxx xxxxxxxxxxxxxx  
 3 xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxx  
 4 xxxxxxxxxxxxxxxxxxx xxx xxxxxxx xxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxx  
 5 xxxxxxxxxxxxxxxxxxx xxxxxxx xxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxx  
 6 xxxxxxxxxxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxx  
 7 xxxxxxxxxxxxxx xxxxxxxxxxx xxx xxx xxx xxxxxxxxxxxxxxxxxxx xxxxxxxxxxx  
 8 xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxx xxxxxxx  
 9 xxxxx xxxxx xxxxxxx x xxxxxxxxxxx xxxxxxx xxxxxxx x xxxxxx  
 10 xxxxxxx xxxxxxx xx xxxxxxx xxxxxxxxxxx xxxxx xxxxx xx x xxx x

11 xxxxxxx. This would bring them in line with the proposed split  
 12 between residential and business local rate increases of Verizon,  
 13 Sprint and BellSouth.

14  
 15 BellSouth LD did not provide any estimates for the proposed split  
 16 between residential and business long distance rate reductions..  
 17 BellSouth LD should be encouraged to allocate 86% to 93% of the  
 18 long distance rate reduction to residential customers. This would  
 19 bring them in line with the proposed split between residential and  
 20 business local rate increases of Verizon, Sprint and BellSouth.

21  
 22 **Q. IF RESIDENTIAL LOCAL RATE CUSTOMERS RECEIVE A**  
 23 **SIGNIFICANT PORTION OF THE LOCAL RATE INCREASE, IN**



1 COMPARISON TO THE PROPOSED LONG DISTANCE RATE  
2 REDUCTIONS, DOES THIS ACHIEVE REVENUE NEUTRALITY FOR  
3 THESE CUSTOMERS?

4 A. No. If residential local customers receive most of the local rate increases,  
5 and receive very little of the long distance rate reductions, then this tends  
6 to reinforce my position that residential customers will not benefit from rate  
7 rebalancing and basic local rate increases will exceed long distance rate  
8 reductions. This would support my conclusion at Exhibit BCO-2 included  
9 with my direct testimony in the rate rebalancing case, which indicates that  
10 residential local rate increases will exceed long distance rate reductions.  
11 In fact, with the IXCs now providing their proposed split for residential long  
12 distance rate reductions, it appears that xxx xxxxxxx xxxxxxxxxx xxxxxxxxxx  
13 xxxxxxxxxx xxxx xxxxxxx x xxxxxxxxxx xxxxxxxxxx xxxxxxxxxx  
14 xxxxxxxxxx xxxxxxxxxx xxxxxxxxxxxxxxxx.

16 Xx xxxxxxx xxx xxxxxxx xxxxxx x xxxxxx xxxxxxxxxxx xxxxxxxxxxx  
17 xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx x xxxx xxxxxxxxxxx xxx  
18 xxxxxxxxxxx xxxxxxxxxxx xxxxxxx xxxxxxx xxxxxxxxxxx xxxxxxxxxxx  
19 xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxx xxxxxxx  
20 xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxx xxxxxxxxxx xxxxxxxxxx  
21 xxxxxxxxxx xxxxxxxxxx xxx xxxxxx xxxxxxxxxxx xxxxxx.

22

1           **V.     ISSUE TEN OF THE FPSC ORDER – WILL ALL RESIDENTIAL**  
2                           **AND BUSINESS CUSTOMERS EXPERIENCE A REDUCTION IN**  
3   **THEIR LONG DISTANCE BILLS?**

4  
5   **Q.     WHAT POSITIONS DO THE CARRIERS TAKE ON THE ISSUE OF**  
6           **WHETHER ALL RESIDENTIAL AND BUSINESS CUSTOMERS WILL**  
7           **EXPERIENCE A REDUCTION IN THEIR LONG DISTANCE BILLS?**

8   A.    Mr. Henson, for BellSouth LD, indicates that not all customers will  
9           experience a long distance rate reduction, since some companies may  
10          reduce rates on one set of toll calling plans and other companies may  
11          reduce other rates. Customers can switch between plans to select those  
12          which provide the most benefit. (p. 8, lines 11 to 20).

13  
14          Mr. Broten, for Verizon LD, indicates that the company will reduce rates on  
15          some, but not all residential plans. He provides a confidential percentage  
16          of residential customers that will experience long distance rate reductions  
17          for “several plans”, and this is addressed later. (p. 6, lines 1 to 11).

18  
19          Mr. Guepe, for AT&T, indicates that all AT&T residential customers paying  
20          the in-state connection fee/PICC (which is presumed to be about \$1.90)  
21          will experience a rate reduction (p. 10, lines 5 to 9), but not every  
22          customer will see a long distance rate reduction. (p. 11, lines 1 and 2). It  
23          appears that AT&T will phase-out the entire PICC by July 2006, xxx xx xx

1       xxxx xxxxxx xxx xxxxxixxxxxxxxxxxxxxxxx xxx xx xxxxxxx xx xxxxxx. Mr.  
 2       Guepe indicates that all classes of business customers will receive  
 3       reductions, but xx xxxx xxx xxxxxxxxxx xxxx xxxxxxxxxx xxx xxx xxxxxxxxxx  
 4       xxxxxxxx xxxxxx xxxx xxx xxxx xxxxxxxxxx.

5  
 6       Mr. Dunbar, for MCI, indicates that all residential customers currently  
 7       paying the in-state recovery fee/PICC (which is presumed to be about  
 8       \$1.90) will receive a rate reduction. MCI will phase-out the PICC, and  
 9       eliminate it by July 1, 2006, and MCI will reduce the PICC by at least one-  
 10      third in each year. Also, MCI will reduce rates for other residential  
 11      customers, but has not determined how it will do so at this time. (p. 6,  
 12      lines 22 and 23, page 7, lines 1 to 6).

13  
 14      Mr. Kapka, for Sprint LD, indicates that all customers paying an in-state  
 15      connection fee/PICC of \$1.99 will see a rate reduction. He does not  
 16      address any other specific residential rate reductions.

17  
 18      **Q.   WHAT IS YOUR RESPONSE TO THE CARRIER'S POSITION ON**  
 19      **WHETHER ALL RESIDENCE AND BUSINESS CUSTOMERS WILL**  
 20      **EXPERIENCE A LONG DISTANCE RATE REDUCTION?**

21      A.   I am extremely disappointed in the proposals of the carriers. They make  
 22      very few, if any, solid commitments to rate reductions for residential  
 23      customers (except for the mandated reduction in the PICC by year 2006).

1 The carriers cite to extensive competition in long distance, but xxx xxxxxx  
2 xxxxxxxxxxx xxx xxxxxxx xxxxxxx xxxx xxx xxx xxxxxxxxxxx xxxxxxx  
3 xxxxxxxxxxx xx xxx xxxxxx xxx xxx xxx xxxxxxxxxxxxxxx xxxxxxxx.

4  
5 Xxxxx xxxxxxx xxxxxxx xxxxxxx xxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxx  
6 xxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx  
7 xxxxxxxxxxx xxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx  
8 xxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxx  
9 xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx  
10 xxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx  
11 xxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxx  
12 xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx  
13 xxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx  
14 xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxxxxxx  
15 xxxxxxxxxxx xxxxxxx xxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx  
16 xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxxxxxx.

17  
18 Mr. Broten, for Verizon LD, indicates that the company will xxx xxx  
19 xxxxxx xxxxxxxxxxx xxxxxx xxxxxx xxxxxxx xxxxxxx xxxxxxx  
20 xxxxxxxxxxx xxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxx  
21 xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxxxxxx xxxxxxxxxxx  
22 xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx xxxxxxxxxxx  
23 xxxxxxxxxxx xxxxxxx xxx xxx x while experiencing local rate increases

1 of about \$57 annually. This appears to be far from a favorable outcome of  
2 so-called benefits of "competition", produced by the ILECs and IXC's in this  
3 proceeding.

4  
5 About 93% of the Verizon revenue increase will be placed on residential  
6 local service customers, yet xxxxx xxxxxxxx xxxxxxxx xxxxxx xxxxxxxx  
7 xxxxxxx xxxxxxxxxxxxxx xxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx  
8 xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx  
9 xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx  
10 xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx xxxxxxxx xxxxxxxxxxxxxx xxxxxxxxxxxxxx  
11 xxxxxxxxxxxxxx.

12  
13 I continue to believe that most residential customers should experience  
14 some sort of long distance rate reduction unless: a) the customer  
15 subscribes to one of the small IXCs that pays less than \$100 per month in  
16 access expense and is not required to flow-through access reductions; or  
17 b) the customer does not make much, or any, long distance calls for the  
18 period that long distance rate reductions will be in effect. Because of the  
19 size of the access reductions, residential customers should receive an  
20 equitable amount of long distance rate reductions beyond that currently  
21 proposed by the carriers.

22  
23 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

1 A. Yes.

2

1 BY MR. BECK:

2 Q Mr. Ostrander, have you prepared a summary of your  
3 testimonies?

4 A Yes, I have.

5 Q Would you please provide it.

6 A Madam Chairman and respective Commissioners, I have a  
7 few brief comments on my testimony in this proceeding.

8 First, it is my recommendation that the petitions of  
9 the local exchange companies, Verizon, BellSouth and Sprint,  
10 should be denied because they don't meet the requirements or  
11 the criteria under Florida Statute 364.164. More specifically  
12 my testimony deals with the criteria regarding the benefit to  
13 residential customers.

14 Exhibit BCO-2 to my direct testimony indicates in a  
15 detailed calculation there that the increase in local rates  
16 will exceed the benefits of any toll reductions. In contrast,  
17 the local exchange companies claim that there will be a benefit  
18 to residential customers, but this exhibit at BCO-2 clearly  
19 shows that there will not be a benefit to residential  
20 customers. And that is one of the primary reasons backing up  
21 my support for denying the local exchange company petitions.

22 Second of all, because Sprint, Verizon and BellSouth  
23 cannot show that the long distance rate reductions will exceed  
24 the increase in basic local rates, they've tried to create  
25 these arguments that there's some competitive benefits out

1 there that will supposedly bring this threshold up so that the  
2 total benefits to residential customers will exceed the costs.  
3 However, as Dr. Gabel explained also, the local exchange  
4 companies and the IXC's have done an unsatisfactory job in  
5 trying to -- presenting specific tangible information to  
6 quantify and show what these competitive benefits are. And  
7 I've been unable to determine that there's any specific direct  
8 tangible and quantifiable competitive benefits that would sway  
9 my decision and help me determine that residential customers  
10 would benefit from these local exchange company petitions.

11           Now the carriers, some of the competitive benefits  
12 that they allude to are those such as increased modernization  
13 or construction or service introductions, that competition will  
14 prompt service introductions. These are, in economic theory, I  
15 think, some of the basic tenets that go along with competition,  
16 and I don't have a problem with that. But I don't believe that  
17 the carriers have met the burden of proof in this case of  
18 showing that those benefits exist or will exist.

19           In fact, in discovery requests we asked them to  
20 provide and quantify the impact of modernization or  
21 construction benefits, provide the impact of service  
22 introductions, and they weren't able to provide that  
23 information.

24           Now I think what's important to consider here when  
25 we're weighing the benefits versus the cost of these local



1 exchange company petitions is how Florida will be benefited by  
2 increases in local rates and supposedly the competitive  
3 benefits that go with it. Now the carriers have not been able  
4 to prove or show that there's any unique benefits that will  
5 attach to increasing local rates or this rebalancing proposal.  
6 So in my estimation based on the record, if Florida was to  
7 rebalance local rates, there's no indication that you would be  
8 better off rebalancing rates versus what you are today. Second  
9 of all, the local exchange companies have been, been unable to  
10 provide reasonable data to compare what would happen in Florida  
11 with increased local rates, the benefits you might get under  
12 that, versus a state where rates haven't been rebalanced. So  
13 once again they've been unable to quantify the impact of  
14 competition to show that residential customers will benefit.

15           Next I would take you to my rebuttal testimony. I've  
16 just got some very brief comments there. Most of that is  
17 directed towards the rebuttal of Mr. Shafer of staff, and just  
18 a couple of quick points. Somewhat consistent with the  
19 argument I made with the local exchange companies, I don't  
20 believe that Mr. Shafer has presented a legitimate argument to  
21 quantify what the effects, positive effects of competition  
22 might be. He alludes to what these may be or perhaps indicates  
23 that if the petitions are approved, we can see if some of these  
24 will create induced competitive entry. But once you've  
25 approved the petitions, you can't move backwards. And if there

1 are no measurable or determinable impacts or induced  
2 competitive entry, then the windfall remains with the local  
3 exchange companies and the IXC's from this filing.

4           Also, Mr. Shafer indicates that he believes these  
5 access reductions could result in reductions in cellular rates.  
6 I don't believe that's going to occur, and it's not consistent  
7 with what I've seen in the past. Furthermore, if you subscribe  
8 to the logic that cellular or wireless is a substitute for  
9 local service, it wouldn't make sense that a wireless company  
10 will respond to reducing its rates when the landline company is  
11 increasing its rates. Now if the landline company -- if the  
12 local exchange companies were in here and reducing their  
13 landline rates, then the wireless company may have to respond  
14 with a reduction. But it makes no sense competitively that the  
15 local exchange company would increase its rates and the  
16 wireless would reduce it. In fact, if the local exchange  
17 companies are increasing their rates, the wireless may increase  
18 their rates, also.

19           Next I would take you to my testimony on  
20 flow-through. Two primary issues on the flow-through. I think  
21 the first and the most important issue is how much of the  
22 access reduction should be flowed through to residential  
23 customers. I believe it's reasonable that the IXC's flow  
24 through rate reductions to residential customers in a manner  
25 that's consistent with the amount or percentage of the local

1 increase that these residential customers will get in basic  
2 local rates.

3           Now my confidential rebuttal testimony exhibit  
4 BCO-1 provides this comparison. It shows basically that  
5 Verizon, Sprint and BellSouth are proposing increases in  
6 residential local rates that will hit the residential customer  
7 to the effect of 86 to 93 percent. Yet if you look at the  
8 confidential column, you can tell that they're not coming close  
9 to passing through that percentage to residential customers  
10 through their proposed toll rate reductions.

11           Now I know at first blush you may think that there's  
12 some inequity in that proposal that the IXCs have to -- should  
13 reduce in proportion to what the local exchange companies are  
14 increasing local rates, but there's basically two primary  
15 reasons for this. First of all, it's the only way -- if you're  
16 going to approve these petitions, it's the only way to come  
17 close to having some equity, some reasonableness between the  
18 increase in local rates and the reduction in toll rates. If  
19 you go to the extreme that the IXCs are proposing, I don't  
20 believe that there will ever be close to being any equity or  
21 benefit to residential customers.

22           Second of all, I would turn to the statute,  
23 364.163(1), and it indicates that the local exchange companies  
24 are required to reduce their access rates to parity and  
25 maintain them capped at that level for three, for three years.

1 Similarly, I would put that same requirement on the IXCs for  
2 maintaining their long distance rate reductions. I think  
3 there's some reasonableness to having consistency and equity  
4 there. If the local exchange company has to keep its access  
5 rates down for three years after parity, I think it's  
6 reasonable to expect the IXCs to keep their toll rate  
7 reductions flowed through along those same lines.

8           The second issue is how long should the rate  
9 reduction last? As I've indicated, I believe that rate  
10 reduction should last for a period of three years after parity  
11 is implemented. I believe that's reasonable. We've seen some  
12 various proposals by the carriers. I believe the carrier that  
13 comes the closest is Sprint, which has proposed that they would  
14 keep the toll rate reductions in place for three years, plus  
15 one additional year. And I think Verizon says they will roll  
16 it through for, for three years. And I believe all the other  
17 parties indicate from day one let the market take care of it.  
18 They've indicated they will pass through, but they've indicated  
19 that no freeze on the rates, that let's allow the market to  
20 take care of the situation. With that said, that concludes my  
21 comments. Thank you.

22           MR. BECK: Mr. Ostrander is available for  
23 cross-examination.

24           CHAIRMAN JABER: Mr. Twomey. Ms. McNulty.

25           MS. McNULTY: No questions.

1 CHAIRMAN JABER: Mr. Hatch.

2 CROSS EXAMINATION

3 BY MR. HATCH:

4 Q I've got just a couple, Mr. Ostrander.

5 Looking at Page 5 of your November 19th and direct  
6 testimony, look at Line 19.

7 A I'm sorry. I didn't --

8 Q Page 5, Line 19 of your November 19th direct.

9 A Okay.

10 Q In there you say that in terms of flow-through,  
11 residential customers of IXCs should receive a proportionate  
12 offsetting benefit in long distance rates. Is that essentially  
13 accurate?

14 A Yes. And I'm saying proportionate from the  
15 proportion of the increases in basic local rates.

16 Q That sort of anticipates my next question. If you  
17 look at BCO-1, which is the confidential chart that you had  
18 discussed a moment ago, the rates range from 86 to 93 percent;  
19 is that correct?

20 A That's correct.

21 Q I'm going to hand you out a document that I want to  
22 walk through.

23 COMMISSIONER BRADLEY: Which page and which line are  
24 you on now, Mr. Hatch?

25 MR. BECK: I believe Mr. Hatch is on the rebuttal

1 testimony in the flow-through docket.

2 MR. HATCH: Yes. It was the rebuttal testimony.

3 COMMISSIONER BRADLEY: Rebuttal November 19th?

4 CHAIRMAN JABER: No. The rebuttal is dated  
5 November 26th.

6 Mr. Hatch, for some reason your microphone, you have  
7 to get right into it for us to hear you.

8 COMMISSIONER BRADLEY: Which page are you on?

9 MR. HATCH: It's the rebuttal testimony of  
10 November 26th. It's the chart at the end of his testimony,  
11 BCO-1. And --

12 COMMISSIONER BRADLEY: Okay.

13 BY MR. HATCH:

14 Q I just asked him if the percentages that he was  
15 talking about in terms of allocated to residential rate  
16 decreases for long distance correspond to those percentages  
17 listed on that chart.

18 Now this is a hypothetical, and it's pretty crude,  
19 just to illustrate a point. And I just want to walk you  
20 through it.

21 This is just an IXC, call is ABC IXC. It has ten  
22 customers; it has nine business customers and one residential  
23 customer. Now just for simplicity, this IXC charges long  
24 distance rates or toll rates of 15 cents a minute for all of  
25 its customers. And also assume that its total minutes of use

1 are 100, that it's residential customers have ten minutes of  
2 use and its business customers have 90, 90 minutes of use. And  
3 so if my math is correct, residential customers generate \$1.50  
4 in revenue and business customers generate \$13.50 in revenue,  
5 for a total revenue of \$15. Would you agree with all of that?

6 A Yes.

7 Q Now on the next line down assume that my access  
8 charge rate that I pay to the ILEC or the CLEC, as the case may  
9 be, is 10 cents a minute and also assume that my access charge  
10 reduction amounts to 9 cents a minute. Now based on those  
11 numbers, my flow-through amount would be the 9-cent per minute  
12 reduction in access times my 100 minutes of use, and that would  
13 give me a total flow-through amount of \$9. Would you agree  
14 with that?

15 A That, that's assuming that you flow through  
16 100 percent of your access reduction.

17 Q Correct. Now just assume that consistent with your  
18 suggested percentages for allocation of long distance  
19 reduction, just assume 90 percent, that seemed to be an easy  
20 number.

21 A I'm sorry. I can't hear you very well.

22 Q My apologies. Just my -- I'm saying assume  
23 90 percent of the reduction is allocated to residential. That  
24 would be consistent with your recommendations in your  
25 testimony; correct?

1           A     If local rates had been increased by 90 percent in  
2 this case.

3           Q     Now if you assume the 90 percent, then you take  
4 your \$9 flow-through, you multiply it times your 9-cent access  
5 reduction, you get your total amount to be distributed  
6 of \$8.10; correct?

7           A     That's what that figure shows.

8           Q     And then if I take that \$8.10 and I'm allocating that  
9 to residential, so I divide that by my residential and spread  
10 it over my ten minutes of use, how much -- I have to ultimately  
11 reduce my residential rates by 81 cents a minute, is that  
12 correct, based on my hypo?

13          A     Well, I think there's a lot of simplifying  
14 assumptions here. I mean, that is what your figure shows. I  
15 will agree with that. But I don't think this represents a  
16 scenario that I've played out in what I recommend.

17          Q     Now with this general impetus here, when an IXC has a  
18 very large percentage of business customers compared to a very  
19 small percentage of residential customers, then wouldn't this  
20 phenomena play through and put tremendous downward pressure on  
21 residential rates, perhaps driving them below cost, if you  
22 stick true to your allocations? Is that a possibility?

23          A     There's nothing in my scenario that would drive it  
24 below cost.

25          Q     Was that a yes or a no?



1 A That was a no.

2 Q Is it possible based on your 90 percent recommended  
3 allocation, approximately 90 percent, that's sort of a split  
4 number, if you have a large --

5 CHAIRMAN JABER: Mr. Hatch, I'm so sorry to  
6 interrupt, but I have to tell you, one word I hear, the next  
7 one I don't.

8 MR. HATCH: It's partly this microphone, Madam  
9 Chairman, but it's also --

10 CHAIRMAN JABER: I know that. I recognize that. If  
11 you want to switch with Ms. McNulty, that's great. But you  
12 need me to hear you.

13 BY MR. HATCH:

14 Q Is it possible where you have a substantial amount of  
15 business market and you have a very small percentage of  
16 residential, that if you flow through a 90 percent amount of  
17 your total access reduction to your residential, that you could  
18 drive your residential rates below cost if you did that? Is  
19 that possible?

20 A I think the only way that happens is where you have a  
21 scenario like this where it's very extreme, but there's nothing  
22 in my proposal that says I recommend driving access below cost.

23 And, in fact, if you go to my Exhibit BCO-2, and  
24 let's just use Sprint as an example, with the proposed increase  
25 in basic local rates that's been proposed by Sprint, \$6.86 a

1 month an on annual basis, that's \$82 --

2 COMMISSIONER DAVIDSON: I'm sorry. Where is BCO-2?

3 THE WITNESS: I'm sorry. It's in my direct testimony  
4 of October 31st.

5 COMMISSIONER BRADLEY: Madam Chairman, so as to not  
6 get confused, I think that Mr. Hatch maybe is trying to get an  
7 answer as it relates to an allocation of 90 percent to  
8 residential and 10 percent to business. And I would prefer to  
9 have the witness focus on, on that, and then we can move on to  
10 another scenario. I just need to bring some --

11 CHAIRMAN JABER: I, I think -- I don't necessarily  
12 disagree with you, Commissioner Bradley. I think what  
13 Mr. Hatch is trying to do though is show that this exhibit --  
14 well, let me not put words in Mr. Hatch's mouth.

15 Is it that you're using this exhibit to support your  
16 hypothetical, Mr. Hatch?

17 MR. HATCH: Yes, ma'am. This exhibit is my  
18 hypothetical as I read it out.

19 CHAIRMAN JABER: Okay. Why don't you go ahead and  
20 outline, yeah, go ahead and outline for us what you're trying  
21 to accomplish so we can better follow the cross-examination to  
22 the Commissioner.

23 MR. HATCH: Based on my hypothetical, and he's agreed  
24 with my math -- he doesn't necessarily agree that this is a  
25 perfect hypothetical, and we'll let him respond to whatever

1 criticisms he may have. But based on my hypothetical, if you  
2 adopt his 90 percent allocation, it would cause reductions in  
3 residential rates that would be actually -- if you reduce them,  
4 essentially it would reduce them to zero. You'd have to give  
5 your service away for free. That's the point.

6 COMMISSIONER BRADLEY: Okay. Okay. And then the  
7 witness suggested that we go to another chart. Now I'm trying  
8 to figure out why we're going to another chart because I  
9 thought we were focusing on -- is there a question that was  
10 asked that I missed that's related to another chart?

11 CHAIRMAN JABER: No. No. Mr. Hatch, let's take it  
12 one at a time. Let's ask the questions you have on BCO-2. And  
13 then, Mr. Ostrander, if, if you need to refer to another  
14 exhibit after you respond to Mr. Hatch's question, that's fine.  
15 But let's be responsive to Mr. Hatch first.

16 COMMISSIONER BRADLEY: Okay. Now he's on BCO-1;  
17 right?

18 CHAIRMAN JABER: No, sir. He's on --

19 COMMISSIONER BRADLEY: Mr. Hatch.

20 MR. HATCH: I'm working off my hypothetical, which  
21 actually has not been marked for identification. My apologies,  
22 Madam Chairman.

23 CHAIRMAN JABER: The first exhibit Mr. Hatch was  
24 looking at, Commissioner, was what they handed out. Do you  
25 have that?

1 COMMISSIONER BRADLEY: Right. I have that.

2 CHAIRMAN JABER: Okay. And then he referred the  
3 witness to BCO-2, which is in the direct testimony.

4 MR. HATCH: Let me just start it over and we can sort  
5 of untangle it this way, I suspect.

6 CHAIRMAN JABER: Okay. Go ahead.

7 COMMISSIONER BRADLEY: I understand your exhibit.  
8 Okay. Now which chart are you comparing your exhibit to?

9 MR. HATCH: I don't want to put words in the  
10 witness's mouth. I had asked him a question and his answer to  
11 my question was referring to a separate exhibit to his  
12 testimony, and that's where we stopped. So --

13 COMMISSIONER BRADLEY: Okay. But you were comparing  
14 your chart to BC01, right, or BCO-2?

15 MR. HATCH: I was not comparing my exhibit to any of  
16 his exhibits.

17 COMMISSIONER BRADLEY: Okay. Now -- okay. Now we're  
18 on the same page. Okay. Now I'm ready.

19 BY MR. HATCH:

20 Q Do you know where we left and where you want to go,  
21 Mr. Ostrander? I'm sorry.

22 A Let me focus on your exhibit first and finish up  
23 there.

24 I think the only way this situation would happen is  
25 under sort of a scenario like this where you've got a very

1 extreme case, and if you would revisit my testimony on  
2 flow-through, you would -- one of the questions that's posed is  
3 do you believe that all residential local exchange customers  
4 should get a rate reduction? And my indication briefly is that  
5 those customers with very low usage or those customers that  
6 belong with IXCs who would not be subject to a reduction would  
7 not see a toll reduction.

8           So I think my testimony explains, you know, this  
9 extreme type of situation. And I'm certainly not proposing  
10 that, anywhere in my testimony that a situation like this would  
11 take place. That's when I segued into Exhibit BCO-2.

12           COMMISSIONER BRADLEY: BCO-2.

13 BY MR. HATCH:

14           Q     At what point --

15           CHAIRMAN JABER: Wait, Mr. Hatch. See, that deserves  
16 us looking at BCO-2 now. And explain your answer,  
17 Mr. Ostrander.

18           COMMISSIONER BRADLEY: Now where is BCO-2?

19           THE WITNESS: This is my direct testimony of  
20 October 31st, 2003.

21           CHAIRMAN JABER: Now what is it on BCO-2 that  
22 supports the response you just gave?

23           THE WITNESS: Okay. What my scenario shows and what  
24 I'm intending to show is what it takes in terms of a toll  
25 reduction to get to break-even, to where the toll reduction

1 will equal the increase in the basic local rates.

2           So what I've done there is taken -- let's just work  
3 with column one called "Sprint." It shows a \$6.86 monthly  
4 increase for Sprint rates. If you check that on a 12-month  
5 basis, that's \$82.32. If you subtract out the annual effect of  
6 the PICC or the in-state connection fee, you get to a total  
7 increase before any toll reductions of \$59.52.

8           Then I give several scenarios of a 2-cent reduction  
9 at 44 minutes of use, which is \$10.56. That still shows that  
10 local rates exceed toll reductions by \$48.96. The second  
11 scenario shows if you add a 2-cent reduction at 88 minutes of  
12 use, I've just doubled the 44 minutes as a very conservative  
13 assumption which I think is reasonable, even if you use that,  
14 still the net annual increase to the customer is \$38.40.

15           What I'd really like you to focus on is really what's  
16 Line D, the permanent toll reduction required for break-even.  
17 What that shows you is the amount of reduction in residential  
18 toll rates on a per-minute basis it would take to equal  
19 the \$82.32 basic local increase. So basically it's going to  
20 take a reduction of 11.3 cents in toll rates. Now anything  
21 less than that means that local rates, the increase in local  
22 rates exceeds the toll rate reduction.

23           Now how you get to that 11.3-cent reduction kind of  
24 goes back to some of these mechanics that we talked to, and I  
25 think that's the whole point of my testimony is I've shown how

1 extreme the basic local increases are and what kind of a toll  
2 rate reduction it's going to take. And I'm not satisfied that  
3 the IXCs will meet this or come close to meeting this kind of a  
4 toll reduction, and that's really the primary purpose of my  
5 testimony. How you get to the 11.3 toll, the 11.3 cents is  
6 based on an assumption about a certain number of minutes and  
7 it's based on an average customer. You could change that and  
8 you'll get different numbers. But what I'm attempting to show  
9 is it's going to take a sizable toll rate reduction to get  
10 there, and the only way you're going to get there is by flowing  
11 through a fair amount of that toll reduction to the residential  
12 customer. You're not going to get a reduction in per-minute  
13 toll rates of 11.3 cents by flowing through an extremely minor  
14 amount of toll rate reductions. It's going to take a fairly  
15 significant toll rate reduction on a per-minute basis to the  
16 residential customer to achieve that break-even.

17 CHAIRMAN JABER: Mr. Hatch, go ahead.

18 BY MR. HATCH:

19 Q Mr. Ostrander, I'm a Sprint customer here in  
20 Tallahassee and I have an AT&T 7-cents-a-minute plan. How can  
21 AT&T give me an 11-cent reduction based on a 7-cents-a-minute  
22 plan?

23 A That's the point that I, I make in my testimony. I  
24 say at one point in my testimony, given the relationship  
25 between existing in-state rates and what the average interstate

1 rate is nationwide of around 8 cents, that to achieve this  
2 break-even, they would probably have to go below the interstate  
3 rate, which is based on parity at the interstate level for  
4 access charges, and I doubt that they're going to do that. And  
5 what that is doing is getting back to my point that the extreme  
6 amount of these basic local increases does not give a very good  
7 opportunity for a customer to break even on this situation.

8 I, I understand the point you're making as an IXC,  
9 but my point is it's going to take a significant reduction in  
10 toll rates to achieve break-even with a significant increase in  
11 basic local rates. And since the state statute requires there  
12 be a benefit to residential customers, that's the bottom line.

13 MR. HATCH: No further questions Madam Chairman.

14 CHAIRMAN JABER: Mr. Meros.

15 MR. MEROS: No questions.

16 CHAIRMAN JABER: Mr. Lackey.

17 MR. LACKEY: No questions.

18 CHAIRMAN JABER: Mr. Fons?

19 MR. FONS: No questions.

20 CHAIRMAN JABER: Staff.

21 MS. BANKS: Staff has no questions.

22 CHAIRMAN JABER: Commissioners? Okay. Redirect, Mr.  
23 Beck.

24 MR. BECK: No redirect.

25 CHAIRMAN JABER: Thank you, sir, for your testimony.



1 And, Mr. Beck, you had two exhibits, Exhibits 79 and 80.

2 MR. BECK: Yes. I move them into evidence.

3 CHAIRMAN JABER: Without objection, Exhibits 79 and  
4 80 are admitted into the record.

5 (Exhibits 79 and 80 admitted into the record.)

6 MR. TWOMEY: Madam Chair, while Dr. Cooper is coming  
7 up, you had the first day, I think, agreed to take official  
8 notice of the, the floor debates, the transcripts. I have  
9 prepared copies of those and it might be appropriate to, to  
10 identify them as exhibits if they're going to be in the record.

11 CHAIRMAN JABER: I already took official recognition  
12 of them.

13 MR. TWOMEY: Yes, ma'am. But, I mean, Dr. Cooper has  
14 segments in his, in his testimony and exhibits. I have the  
15 entire transcripts. I've made copies for the Commission and  
16 the parties. And it may be good for purposes of appeal, if  
17 necessary, to have entire transcripts.

18 CHAIRMAN JABER: Hand them out and I'll entertain  
19 that request in just a minute. That reminded me though,  
20 Mr. Twomey. There were things, Ms. Keating, that -- where is  
21 Ms. Keating? Staff, just help me remember at the conclusion of  
22 the case to come back to those other requests. It's okay,  
23 Beth. We can do that afterwards. But just help me remember  
24 that we have exhibits we've got to take up at the conclusion of  
25 the case. Okay.

1           Commissioners, just so you know, while we're waiting  
2 for exhibits, after Mr. Cooper's testimony what I intend to do  
3 is take a short break and then come back for closing arguments.

4           Ms. Keating, let me ask you a question. I have  
5 already granted the request for official recognition. It's my  
6 understanding that that means those documents are already in  
7 the record for appellate purposes or other reasons. It doesn't  
8 matter.

9           MS. KEATING: That's correct, Madam Chairman. But  
10 General Counsel was also suggesting that it might be a good  
11 idea to go ahead and mark them so that they have numbers and  
12 are clearly identified for the record and for purpose of  
13 reference, et cetera.

14           CHAIRMAN JABER: Easy reference?

15           MS. KEATING: Yes, ma'am.

16           CHAIRMAN JABER: All right. We'll identify -- there  
17 are multiple copies, Mr. Twomey? I'll just wait until I get  
18 all of them, or is it just the documents dated May 1st, 2003?

19           MR. TWOMEY: I'm sorry. There's some confusion here.  
20 Mr. Poucher is helping me. I didn't make clear, there are  
21 three different transcripts.

22           CHAIRMAN JABER: Okay. I'll wait until I get all of  
23 them since I can refer to the dates. When they all get passed  
24 out, we'll confirm everyone's got it.

25           MR. TWOMEY: I've made 20 copies. I'm not sure if

1 that's --

2 CHAIRMAN JABER: Mr. Poucher, I know I've seen you  
3 walk faster than that.

4 MR. FONS: Not in a long time.

5 CHAIRMAN JABER: Yeah. There are supposed to be  
6 three total.

7 COMMISSIONER BRADLEY: There are two.

8 MR. TWOMEY: I'm sorry. Two, just two.

9 CHAIRMAN JABER: Oh, two?

10 MR. TWOMEY: Yeah.

11 CHAIRMAN JABER: All right. Transcripts dated,  
12 legislative transcripts dated April 30th, 2003, and May 1st,  
13 2003, will be identified as composite Exhibit 81.

14 (Exhibit Number 81 marked for identification.)

15 CHAIRMAN JABER: Go ahead, Mr. Twomey.

16 MARK N. COOPER

17 was called as a witness on behalf of the American Association  
18 of Retired Persons and, having been duly sworn, testified as  
19 follows:

20 DIRECT EXAMINATION

21 BY MR. TWOMEY:

22 Q Thank you, Madam Chair. Dr. Cooper, you've been  
23 sworn?

24 A Yes, I have.

25 Q Would you state your name and employer, please?

1 A Mark N. Cooper, Citizens Research.

2 Q And on whose behalf are you testifying?

3 A AARP.

4 Q Did you cause -- pardon me. Did you cause to be  
5 prepared written testimony prefiled in this case consisting of  
6 35 pages titled "Direct Testimony of Dr. Mark N. Cooper on  
7 behalf of AARP Redacted"?

8 A Yes.

9 Q Did you prepare nine exhibits, Exhibits MNC-1 through  
10 MNC-9 consisting of some 39 pages?

11 A Yes.

12 Q Did you also prepare eight pages of exhibits  
13 containing information claimed confidential by the ILECs  
14 intended to supplement your redacted exhibits in your direct  
15 testimony?

16 A Yes.

17 Q Did you prepare any unredacted testimony? That is --  
18 or is all of the confidential information contained in your  
19 exhibits?

20 A All the confidential is in the exhibits, yes.

21 Q Okay.

22 MR. TWOMEY: Madam Chair, the confidential exhibit  
23 contains more than, than the eight pages. It contains all of  
24 his exhibits, including eight pages that have been redacted.  
25 You can tell by the, the highlighted text what has been

1 redacted.

2 CHAIRMAN JABER: Thank you.

3 MR. TWOMEY: Madam Chair, I'd ask that --

4 BY MR. TWOMEY:

5 Q Are there any corrections to your testimony, Dr.  
6 Cooper?

7 A No.

8 Q Any corrections to your exhibits?

9 A No.

10 Q Okay. If I asked you the questions contained in your  
11 prefiled direct testimony today, would your answers remain the  
12 same?

13 A Yes.

14 MR. TWOMEY: Okay. Madam Chair, I'd ask that Dr.  
15 Cooper's testimony be inserted into the record as though read.

16 CHAIRMAN JABER: Prefiled direct testimony of Dr.  
17 M. N. Cooper shall be inserted into the record as though read.

18 MR. TWOMEY: I'd ask that his exhibits be identified,  
19 please.

20 CHAIRMAN JABER: Let's see. We should probably  
21 separate MNC-1 and 2, separate exhibits. That will be given  
22 Exhibit Number 82, recognizing that portions of that exhibit  
23 are confidential.

24 (Exhibit Number 82 marked for identification.)

25 CHAIRMAN JABER: And then MNS -- MNC-2 through MNC-9,

1 Mr. Twomey --

2 MR. TWOMEY: Yes, ma'am.

3 CHAIRMAN JABER: -- will be identified as composite  
4 Exhibit 83.

5 (Exhibits 82 and 83 marked for identification.)

6 MR. FONS: Madam Chairman, I may have missed it, but  
7 I don't have anything for Exhibit 88.

8 CHAIRMAN JABER: For which one?

9 MR. FONS: Number 81.

10 CHAIRMAN JABER: Oh. 81 was the transcript, the  
11 legislative transcript.

12 MR. FONS: And in that regard, I was only handed two  
13 transcripts, and I understand there's supposed to be three.

14 CHAIRMAN JABER: Initially Mr. Twomey said three, but  
15 he corrected that. There are only two transcripts --

16 MR. TWOMEY: Well, there's -- Madam Chair, there is  
17 in, there is in Dr. Cooper's exhibits to his testimony, there  
18 are -- MNC-7, 8 and 9 are three -- they're excerpts from three  
19 days of debate in the House and the Senate. The documents that  
20 were passed out only contain -- or the final floor debates of  
21 the final day in each chamber. Does that --

22 MR. FONS: It raises a question as to we're only  
23 going to have a partial as to one of the debates and we've got  
24 the full transcript as to the others, and I believe that --

25 COMMISSIONER JABER: Let's do this. I need just a

1 short break anyway. If you will compare exhibits, please. And  
2 what I've got already identified, just to complete the record,  
3 and if I need to correct it when we get back, no problem. But  
4 what I have currently identified as Exhibit 81 are the  
5 April 30th and May 1st, 2003, transcripts from the legislative  
6 debate. I've identified Exhibit 82 as MNC-1, which is a  
7 confidential exhibit partially. And Exhibit 83 is a composite  
8 MNC-2 through MNC-9.

9 THE WITNESS: Madam Chairwoman --

10 CHAIRMAN JABER: Excuse me, Dr. Cooper.

11 THE WITNESS: There's confidential information in the  
12 composite.

13 CHAIRMAN JABER: Thank you. I'm telling you what the  
14 numbers are and what the exhibits are so that when we get back  
15 on the record, Mr. Twomey, just tell me how they should be  
16 labeled, tell me what's confidential and tell me if we need to  
17 withdraw some of those exhibits.

18 MR. TWOMEY: Yes, ma'am.

19 CHAIRMAN JABER: Five minutes.

20 (Recess taken.)

21 CHAIRMAN JABER: Okay. Let's get back on the record.

22 MR. TWOMEY: Madam Chair, the -- first of all, I  
23 apologize for fouling things up. I had enlisted the help of  
24 Mr. Poucher, and then I set about sabotaging his efforts by the  
25 way I stacked the documents.

1           There should be, there should be three transcripts of  
2 the floor debate of the bills in question. There is the two  
3 before the Florida House of Representatives dated April 30th  
4 and May 1st, and then also before the Florida Senate, which I  
5 think was missing before, dated April the 30th.

6           CHAIRMAN JABER: Okay. Let's take it one at a time,  
7 Mr. Twomey.

8           Composite Exhibit 81, we'll clarify that it consists  
9 of an April 30th Senate transcript, 2003, a May 1st, 2003,  
10 House transcript, and an April 30th, 2003, House transcript.

11           MR. TWOMEY: Yes, ma'am. There are portions of those  
12 transcripts contained in Dr. Cooper's exhibits MNC-7 through 9.  
13 I would suggest for ease -- since they're referred to in his  
14 testimony as pages of, of those exhibits, I'd suggest leaving  
15 them in as well.

16           Additionally, Dr. Cooper pointed out to me during the  
17 break that, that the portions of his exhibits that are  
18 confidential are MNC-1, 2 and 6. Of course, the ones -- those  
19 documents are completely redacted in his redacted testimony.

20           CHAIRMAN JABER: Will you be referring to the  
21 confidential parts at all?

22           MR. TWOMEY: I won't. I just --

23           CHAIRMAN JABER: Okay. Then, yes, parts of 1, 2 and  
24 6 are confidential, but those are not the exhibits that are  
25 included in Mr. Cooper's testimony, nor are you going to use



1 them.

2 MR. TWOMEY: No. But I provided them to you in the  
3 red envelopes in the event that some other parties were to use  
4 them.

5 CHAIRMAN JABER: All right. Then let's identify them  
6 as part of Exhibit 82 just for the sake of consistency.

7 MNC 1, 2 and 6 will be identified as composite  
8 Exhibit 82, recognizing that parts of those exhibits are  
9 confidential. That leaves Exhibit 83 to be a composite exhibit  
10 for MNC-3 through 5, 7 through 9.

11 MR. TWOMEY: Okay. Thank you, Madam Chair.

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1 **STATEMENT OF QUALIFICATIONS**

2

3 **Q. PLEASE STATE YOUR NAME.**

4 A. My name is Mark N. Cooper. I am Director of Research of the Consumer Federation  
5 of America (CFA). I am also President of Citizens Research.

6

7 **Q. PLEASE DESCRIBE YOUR EXPERIENCE.**

8 A. Prior to founding Citizens Research, a consulting firm specializing in economic,  
9 regulatory and policy analysis, I spent four years as Director of Research at the Consumer  
10 Energy Council of America. Prior to that I was an Assistant Professor at Northeastern  
11 University teaching courses in Business and Society in the College of Arts and Sciences and  
12 the School of Business. I have also been a Lecturer at the Washington College of Law of the  
13 American University co-teaching a course in Public Utility Regulation.

14 I have testified on various aspects of telephone and electricity rate making before the  
15 Public Service Commissions of Arizona, Arkansas, California, Colorado, Connecticut,  
16 Delaware, the District of Columbia, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa,  
17 Kentucky, Manitoba, Maryland, Missouri, Montana, New Jersey, New York, North Carolina,  
18 Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Vermont, Virginia,  
19 Washington, Wisconsin, and Wyoming, as well as the Federal Communications Commission  
20 (FCC), the Canadian Radio-Television, Telephone Commission (CRTC) and a number of  
21 state legislatures.

22 For two decades I have specialized in analyzing regulatory reform and market  
23 structure issues in a variety of industries including telecommunications, railroads, airlines,  
24 natural gas, electricity, medical services and cable and broadcast television. This includes  
25 approximately 250 pieces of testimony split fairly evenly among state regulatory bodies,

1 federal legislative bodies, and federal administrative bodies.

2 I have participated in several §271 proceedings under the Telecommunications Act of  
3 1996 (hereafter, “the Act” or “the 1996 Act”). For the Consumer Federation of America I  
4 have filed comments at the FCC in the proceedings involving Ameritech-Michigan,  
5 BellSouth South Carolina and Louisiana. SBC California, Texas and Missouri, Bell Atlantic-  
6 New York, and Verizon Massachusetts. I have also participated as an expert witness on  
7 behalf of others in several §271 and related proceedings as follows: Oklahoma Attorney  
8 General in the early arbitrations in that state and I assisted that office in its preparations for  
9 the second §271 proceeding in that state; Texas Office of Public Utility Counsel; Public  
10 Counsel Section of the Washington State Attorney General’s Office; Office of Consumer  
11 Advocate of Pennsylvania; Office of Consumers Counsel of Ohio; and, Citizens Utility  
12 Board of Wisconsin.

13

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

15 A. I have been asked by AARP to evaluate the proposals for rate rebalancing put before  
16 the Florida Public Service Commission (hereafter the “Commission”) by BellSouth, Verizon  
17 and Sprint (hereafter “the Companies”). In my testimony I provide a comprehensive  
18 framework for evaluating the Companies’ proposals on rate rebalancing that is consistent  
19 with the statute but leads to a very different conclusion than the ones provided by the  
20 Companies. The Companies have proposed a radical and rapid rate rebalancing based on a  
21 narrow, theoretical view of the ancient history of the telecommunications industry. The  
22 statute, on the other hand, requires the Commission to base its decision on the contemporary  
23 telecommunications marketplace.

24 I show in my testimony that the rebalancing proposed by the Companies fails to meet  
25 the conditions laid out in the statute on every major point. The rate increases will cause a

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1 dramatic increase in the contribution of basic residential local service to the common costs of  
2 the company without significantly enhancing competitive entry. The rate increases will not  
3 benefit residential ratepayers. On the contrary, it will cost them dearly as a class. Even if  
4 residential ratepayers made a substantial number of intrastate toll calls qualifying for savings  
5 under the rates alleged to be reduced, there is absolutely no evidence of how intrastate toll  
6 rates will be reduced and, more importantly, how they will be reduced in programs available  
7 to residential customers. Moreover, my clients, older Floridians, will be particularly hard hit  
8 by this rate rebalancing. Thus, on these three grounds – elimination of a subsidy,  
9 stimulation of competition, and delivery of benefits to consumers – the proposed rate  
10 rebalancing fails the test set out by the legislature.

11 I also point out in my testimony that the pursuit of parity between intrastate and  
12 interstate access rates, which the legislature has set as a fourth condition, is a bad public  
13 policy. The federal authorities have decided to allow long distance companies to have a free  
14 ride on the telephone network. Following their example will not benefit consumers.

15

16 **Q. WHAT DO YOU RECOMMEND?**

17 A. Given that the rebalancing does not meet the goals of the statute, the Commission  
18 should reject each of the Companies' petitions. If the Commission determines that  
19 rebalancing should be implemented, I believe it should require that the increase in monthly  
20 rates be allocated between residential and business customers in proportion to their access  
21 minutes. It should also spread the rebalancing over four years to minimize the negative  
22 impact on older Floridians, who tend to make fewer long distance calls and are likely to  
23 suffer negative effects of rate rebalancing over the long term.

24

25

1 **THE STATUTORY TEST**2 **Q. HOW DID YOU DETERMINE WHAT THE STATUTORY TEST IS?**

3 A. I read the statute but found that while portions of the statutory test to warrant  
 4 Commission approval of the rebalancing petitions of the Companies are clear, the meaning,  
 5 or intent, of other portions of the statute are unclear without reference to the legislative  
 6 debates in the Florida House and Florida Senate. Therefore, I reviewed the legislative record.

7

8 **Q. WHICH PORTIONS OF THE STATUTE DO YOU FEEL ARE RELATIVELY**  
 9 **CLEAR AND STRAIGHTFORWARD?**

10 A. The test the Companies acknowledge they must pass in order to increase their  
 11 residential and single-line business customers' monthly rates is laid out in Section 364.(1),  
 12 F.S., which states:

13 **364.164 Competitive market enhancement.--**

14 (1) Each local exchange telecommunications company may, after July 1,  
 15 2003, petition the commission to reduce its intrastate switched network access  
 16 rate in a revenue-neutral manner. The commission shall issue its final order  
 17 granting or denying any petition filed pursuant to this section within 90 days.  
 18 In reaching its decision, the commission shall consider whether granting the  
 19 petition will:

20 (a) Remove current support for basic local telecommunications services that  
 21 prevents the creation of a more attractive competitive local exchange market  
 22 for the benefit of residential consumers.

23 (b) Induce enhanced market entry.

24 (c) Require intrastate switched network access rate reductions to parity over a  
 25 period of not less than 2 years or more than 4 years.

26 (d) Be revenue neutral as defined in subsection (7) within the revenue  
 27 category defined in subsection (2).

28 Subsections (c) and (d) are seemingly straightforward enough, although I have been advised

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1 that not only did each of the Companies apparently renege on the terms of years promised to  
 2 the Legislature for implementing the rate increases (three years for BellSouth and four each  
 3 for Verizon and Sprint, purportedly to “reduce the ‘rate shock’ to their customers”), they also  
 4 had their petitions dismissed by the Commission for trying to institute the second, and final,  
 5 round of rate increases a mere 367 days after the first round.

6  
 7 **Q. IS THE INTENT OF SUBSECTION (b) TOTALLY CLEAR (b)?**

8 A. No. While this subsection is seemingly more clear, the legislative debate and  
 9 statements by the legislation’s supporters appear to state that the Florida Legislature intended  
 10 that “competition would have to be proven to result” as opposed to merely being more likely  
 11 to result from residential and single-line business rates being increased at the levels  
 12 requested.

13  
 14 **Q. WHAT SUPPORT DO YOU HAVE FOR THIS VIEW?**

15 A. In his introduction of the House bill to the full House on April 30, 2003,  
 16 Representative Mayfield said the following at Pages 5 and 6 of the excerpted transcript of  
 17 those proceedings, which is attached as Exhibit MNC-7:

18 Now, members, let me tell you what the bill does not do, does not do.  
 19 It does not raise rates. It does not contain any mandatory language that  
 20 requires rate increases. It does not require the PSC to grant any petition from  
 21 any company unless the Commission is completely satisfied that two  
 22 conditions are met: Competition has to be created, and residential customers  
 23 have to benefit. The PSC is going to be responsible for sitting in judgment  
 24 and making sure that those two things take place before it will grant any  
 25 petition.

26  
 27 (Emphasis supplied.)

28  
 29 Representative Ritter, co-sponsor of the House bill, said the following at Pages 8 and 9 of  
 30 MNC-7:

1           This bill is better than last year's bill. And I was fortunate to work on that  
2 one as well, but this is a better piece of legislation, more consumer friendly,  
3 more competitive, will bring competition in, will lower our rates.  
4

5           And Representative Mayfield did a fabulous job of explaining it, so I just  
6 want to say this. My parents live on a fixed income. They are basic single-  
7 service residential customers. They are also my most vocal constituents. I am  
8 fortunate to have my mother and father living in my district. They know  
9 where and when to reach me any day, any hour, any time. If I thought that  
10 this bill would raise my parents' local rates, I wouldn't be supporting it here  
11 today. This bill does not do that, which is why I'm able to give it my full  
12 support today.  
13

14           (Emphasis supplied.)  
15

16           Then, on the next day when the House voted out the Senate bill, Representative Mayfield  
17 said the following in response to a question from Representative Clarke, at Pages 4 and 5  
18 of MNC-8:

19           Representative Clarke, that's exactly what it does. It moves the political  
20 process one step away from rate changes or possible rate changes. It sets forth  
21 provisions which will require the Public Service Commission to sit in  
22 judgment and to determine two factors: One, will the petition to change rates  
23 create competition in the local marketplace; and two, will it be beneficial to  
24 residential customers. Before any changes can take place, that has to be  
25 determined by the PSC.  
26

27           (Emphasis supplied.)  
28

29           Representative Littlefield stated within his remarks in support of the legislation, at Page  
30 24 of MCN-8:

31           And I think that it's important to create competition so that consumers have  
32 the benefit of choice. And we have heard over and over again in our policy  
33 that when you give people choice, you empower them. And I simply say,  
34 power to the people, vote for this bill. And this bill -- let me -- just one more  
35 point, and I'm finished. And I promise I also will not go as long as the first  
36 one who spoke in opposition.  
37

38           This bill, when you look closely at it, you will find that the Public Service  
39 Commission is serviced or given a clear blueprint as to how to make the  
40 residential market more competitive while protecting the residential  
41 consumer.  
42

1 (Emphasis supplied.)

2  
3 Representative Garcia, in his remarks supporting the legislation, said the following at Page  
4 32 of MNC-8:

5  
6 This is what this bill does. It gives the ability for more competition. Forget  
7 about the phone ringing. I'm getting rid of my local landline right now  
8 because I don't use it anymore. It's always on the cell phone. And when the  
9 time comes, we're going to have more wireless services going all around the  
10 place. And this is what we're trying to do with this bill, is promote more  
11 competition.

12 (Emphasis supplied.)

13  
14 And, lastly from the House side, while closing on the bill and urging a vote for it,

15  
16 Representative Mayfield said the following at Page 45 of MCN-8:

17 But, members, look, this bill is about creating competition. It's about  
18 creating competition. It's about creating competition.

19 (Emphasis supplied.)

20  
21  
22 **Q. THE HOUSE SEEMS TO HAVE BEEN EMPHATIC THAT ACTUAL**  
23 **COMPETITION MUST BE SHOWN TO RESULT BEFORE THE COMMISSION**  
24 **CAN INCREASE LOCAL RESIDENTIAL RATES, DID THE SENATE EXPRESS**  
25 **SIMILAR REQUIREMENTS?**

26 A. Yes, in fact, the Senators seemed even more insistent than the House members that  
27 competition would have to be shown to actually occur before the Commission could raise  
28 local rates. For example, Senator Haridopolos, the legislation's Senate sponsor said the  
29 following in opening the Senate debate on the bill:

30 This legislation will build on the 1995 legislation bringing competition to  
31 local markets, and this gives the PSC the absolute authority to set prices and  
32 consumer protection.

33  
34 Page 2 of MNC-9. (Emphasis supplied.)

35



1 Again, at Page 3 of MNC-9, Senator Haridopolos sought to reassure Senator Campbell that  
 2 “the Public Service Commission [would] have the authority to deny or condition a rate  
 3 rebalancing requested by the companies” saying:

4 Yes, Senator from the 32nd. They have this very strict language in Section 15  
 5 of the bill which says that the -- the language as outlined making sure that it  
 6 must be in the best interests of residential customers and bring local  
 7 competition to the market before they would look at the rates.

8  
 9 SENATOR CAMPBELL: Are there any other criteria for the petition?

10

11 SENATOR KING: Senator Haridopolos to respond.

12

13 SENATOR HARIDOPOLOS: Throughout Section 15 they outline,  
 14 specifically in Sections 1 through 9, each of the criteria. But the main  
 15 criterion I thought we were looking at most closely would be again for the  
 16 PSC to decide is there increased competition and will this benefit local  
 17 customers.

18

19

20 **Q. IS THERE ADDITIONAL DEBATE FROM THE SENATE DISCUSSING THE**  
 21 **REQUIREMENT THAT COMPETITION BE SHOWN TO RESULT AND THAT**  
 22 **RESIDENTIAL CUSTOMERS MUST BE SHOWN TO BENEFIT?**

23 A. Yes, actually there is a very significant dialogue showing that the Senate sponsor and  
 24 Senate supporters of the legislation fully intended both that (1) competition must be shown to  
 25 result and (2) that residential customers be shown to benefit by the petitions being granted. I  
 26 would like to pinpoint a number of the additional examples of this intent, starting with  
 27 Senator Haridopolos assuring Senator Siplin that the legislation would not “impose an  
 28 automatic increase on our customers, on our citizens in the State of Florida:”

29 SENATOR SIPLIN: Thank you. Senator from the 26th, will your bill impose  
 30 an automatic increase on our customers, on our citizens in the State of  
 31 Florida?

32

33 SENATOR HARIDOPOLOS: That's a very good question. Absolutely not.  
 34 As I think -- I know you worked on the bill with me. This is very clear that  
 35 the Public Service Commission has absolute control over costs and prices.  
 36 And again, to make it clear to the members, the only way that a rate increase

1           could take place is only if the mandates or conditions are met, and that is that  
2           it must be in the best interests of residential customers and must bring local  
3           competition before they can look at rates.

4  
5       Pages 8 and 9 of MNC-9. (Emphasis supplied.)

6  
7       Later, Senator Haridopolos attempts to reassure Senator Cowin, who is concerned about how  
8       granting these petitions will affect her rural constituents, who, she says of: "It's obvious, it  
9       seems to me, that their local rates will go up. And I don't know where that competition will  
10      come from. Senator Haridopolos responds, saying, starting at Page 18 of MNC-9:

11  
12           SENATOR HARIDOPOLOS: Senator Cowin, I think you bring up a very  
13           legitimate issue and an issue of concern to a lot of persons. I think what gives  
14           me comfort as I read through the bill, especially in Section 15, it clearly  
15           delineates. it clearly mandates that -- it says to the areas we're hoping to open  
16           up to competition that there must be a benefit to residential customers and  
17           there must be competition in the market before they can adjust these rates.  
18           That's the comfort level that I have in the bill. If there is no competition, if it's  
19           not in the best interests of the customer, their rates cannot be increased. And  
20           again, we're giving that discretion to the Public Service Commission, and  
21           we're going to have persons from the background of Jack Shreve and others  
22           defend before the Public Service Commission saying that this is not the right  
23           thing to do, raise rates in this area. Also, you have a provision which was not  
24           in the previous bill of having the carrier of last resort. That's expanded all the  
25           way now to 2009, and I think that will also benefit the rural areas which  
26           have legitimate concerns about this bill.

27  
28                        But I think those two key points, saying there must be competition  
29                        and it must benefit the local customer, is really the key provision. And I think  
30                        you might see -- it might take longer for competition, but that also means that  
31                        the rates will not go up in these noncompetitive areas.

32  
33           Seeking to tie Senator Haridopolos to the specifics of the bill regarding the  
34       necessity of finding both actual competition and residential benefits, Senator Cowin  
35       puts this question to him, at Page 19 of MNC-9:

36  
37           SENATOR COWIN: A follow-up and then another question. So I guess I'm  
38           hearing you say that in a rural community, that if the telephone rates don't  
39           have competition or the rates don't go -- and the rates won't go up if there isn't  
40           competition for those people that don't have any long distance, or are you  
41           looking at it as a total picture and saying           overall, there will be parity,

1 because overall the long distance rates -- where is the geographic region for  
2 competition for rural communities? Is that a separate entity?  
3

4 (Emphasis supplied.)  
5

6 Senator Haridopolos reassured Senator Cowin, saying, starting at Page 19 of MNC-9:  
7

8 SENATOR HARIDOPOLOS: I believe, Senator Cowin, as the bill clearly  
9 states, that what you're going to have here is simply, as the PSC looks at each  
10 -- as the company asks in a particular jurisdiction to raise rates, they're going  
11 to look at the parameters of the area they're looking at specifically, and they're  
12 going to ask those two basic questions, will it benefit customers, and is there  
13 true competition. And I think that's what we want to hand to the professionals  
14 at the PSC, this very type of question.  
15

16 Later in the debate, Senator Haridopolos addresses Senator Sebesta's concerns about the  
17 extent of the Commission's authority and discretion to approve or reject requested local rate  
18 increases, as well as the fate of families earning above the Lifeline eligibility level that might  
19 "suffer" as a result of the large rate increases. Senator Sebesta asked:

20 SENATOR SEBESTA: Thank you. Mr. President. Senator, I voted no on this  
21 bill last year and was, as you know, leaning no this year. I've been listening  
22 very intently to what you and our fellow Senators have been saying. I guess I  
23 have two questions for you.  
24

25 One, can you tell me beyond a shadow of a doubt that whether these rates will  
26 go up or down is subject to the Public Service Commission and how they  
27 decide?  
28

29 SENATOR KING: Senator Haridopolos to respond.  
30

31 SENATOR HARIDOPOLOS: I can say without a doubt it will be the  
32 complete job of the Public Service Commission to decide the rates one way or  
33 the other, without question.  
34

35 SENATOR SEBESTA: Okay. Follow-up, Mr. President?  
36

37 SENATOR KING: Follow-up.  
38

39 SENATOR SEBESTA: Number two, the folks that I am most concerned  
40 about here -- now, the Lifeline project is wonderful, and the telephone  
41 companies are to be commended for that. That's really wonderful. But that  
42 takes it to \$23,000 a year for a family of four. What I'm most concerned  
43 about is that next chunk, let's say the next 20,000, because even at \$43,000 a  
44 year, for a family of four, man, they're still struggling. And if they're looking

1 at an up to \$7 a month rate increase. that's 100 bucks a year in pre-tax. That's  
2 a chunk for a family that's really suffering. What do we do about them?

3  
4 SENATOR HARIDOPOLOS: Well, I believe with this bill, the true intent of  
5 the bill is true competition. We've been waiting for a long time for this true  
6 competition. We've been at it since 1995. And I think with this bill, we've  
7 already heard testimony in our committee about how companies are ready to  
8 come in now that there's going to be true competition. And I think you're  
9 going to see the phone rates not go anywhere near these increases that you've  
10 spoken about.

11  
12 SENATOR SEBESTA: One last follow-up, Mr. President?

13  
14 SENATOR KING: You're recognized.

15  
16 SENATOR SEBESTA: Thank you, sir. So as you said a minute ago, rates  
17 will not be allowed to go up unless there is new competition in the area?

18  
19 SENATOR KING: Senator Haridopolos to respond.

20  
21 SENATOR HARIDOPOLOS: That is correct. There must be competition,  
22 and it must be in the benefit of residential customers.

23  
24 SENATOR SEBESTA: I think you just sold me.

25  
26 SENATOR HARIDOPOLOS: Thank you, sir.

27  
28 Pages 22-24, MNC-9. (Emphasis supplied.)

29  
30 Finally, in closing on his bill and in urging his fellow Senators to approve it, Senator  
31 Haridopolos issued his final assurances regarding the safeguards of the legislation, saying,  
32 beginning at Page 43 of MNC-9:

33 SENATOR KING: Senator Haridopolos to close.

34  
35 SENATOR HARIDOPOLOS: Thank you, Mr. President. I appreciate the  
36 spirited debate. I think the most important thing is this political football game  
37 is finally over.

38  
39 I remember when I filed this bill two years ago in the House, there were  
40 lobbyists lined up on both sides. And what we have finally done is, the  
41 Legislature I think has come together and looked at an issue to finally increase  
42 competition, but with the important ingredient of oversight. I think everyone  
43 in this room understands the professionals we have at the Public Service  
44 Commission. and that's where we're going to put this political football to bed.  
45 We're going to take it out of the Legislature and put it in the professionals'

1 hands where citizen groups and persons alike can make sure that if there is  
 2 any discussion about rates, the persons can be there to defend the right of the  
 3 consumer.

4

5 I think this bill is all about competition and innovation, and I think that's  
 6 what America is all about, competition and innovation.

7

8 I want to thank Senator Siplin for his good work on this bill, as well as  
 9 Senator Smith and others, and, of course, the Chairman, Senator Bennett, for  
 10 bringing all sides together. This has been a long time in coming, as Senator  
 11 Smith has said. And I think that we have finally put this political football to  
 12 bed, and I think it's time for us to move forward  
 13 and trust competition in the same way we trusted competition to make the  
 14 United States.

15

16 Thank you.

17

18 (Emphasis supplied.)

19

20 **Q. WHAT DO YOU CONCLUDE THE LEGISLATURE INTENDED FROM THE**  
 21 **STATEMENTS QUOTED ABOVE?**

22 A. While all the quoted statements by the legislation's sponsors and supporters might  
 23 seem a little tedious, their specificity and repetition leave me with two clear conclusions:  
 24 One, the Florida Legislature intended that the Commission must find that actual local  
 25 competition will result in specific geographic areas (meaning individual rural versus  
 26 individual urban rate zones) before it can consider raising basic local residential rates, and  
 27 two, the Companies must also prove that their residential customers will benefit before their  
 28 local rates can be increased as requested.

29

30 **Q. DO YOU BELIEVE THAT THE COMPANIES HAVE PROVEN THAT**  
 31 **LOCAL COMPETITION IN ALL OF THEIR GEOGRAPHIC SERVICE AREAS**  
 32 **WILL RESULT IF LOCAL RATES ARE INCREASED AS REQUESTED?**

33 A. No, none of the Companies have remotely provided such proof for any of their  
 34 geographic service areas, let alone all such rural and urban areas. Rather, as I discuss below,

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1 the most the Companies have accomplished is to have presented an unfounded theory that  
 2 increasing their residential customers' rates from 35 to 90 percent over the course of two  
 3 years and a day will automatically increase the level of local competition by some undefined  
 4 amount. The Companies attempted proof does not begin to meet the Legislature's test.

5

6 **Q. WHAT ABOUT THE REQUIREMENT THAT RESIDENTIAL CUSTOMERS**  
 7 **MUST RECEIVE DEMONSTRABLE BENEFITS BEFORE THEIR RATES CAN BE**  
 8 **INCREASED AT THE UNPRECEDENTED LEVELS DEMANDED BY THE**  
 9 **COMPANIES?**

10 A. Well, Subsection (a) of 364.164, F.S. is clearly perplexing and more than a little  
 11 obtuse in what is intended to be proven before the Commission can increase local rates. I  
 12 suspect that there are more technical objections to the sentence structure, but it strikes me  
 13 that it is some type of "run on sentence" with more than one misplaced modifier.

14

15 **Q. WHAT DO YOU MEAN?**

16 A. Just look at the language:

17 In reaching its decision, the commission shall consider whether granting the  
 18 petition will:

19 (a) Remove current support for basic local telecommunications services that  
 20 prevents the creation of a more attractive competitive local exchange market  
 21 for the benefit of residential consumers.

22 As discussed below, I have concluded that there is no "current support for basic local  
 23 telecommunications services," which means the petitions should be denied outright. If there  
 24 is no support or subsidy for local service, then it is impossible for such support to be removed  
 25 by rate increases. However, even if there were some level of support for local service and it  
 26 was removed to some degree by rate increases, the test for meeting the remaining

1 requirements of Subsection (a) is far from clear. For example, what does “prevents the  
 2 creation of a more attractive competitive local exchange market” mean? And, what did the  
 3 Florida Legislature intend by the phrase “for the benefit of residential consumers?” That the  
 4 language is so awkward is likely the result of the industry drafting the entire bill.<sup>1</sup> Despite  
 5 the confusion necessitated by the wording of this factor, I am confident that the Florida  
 6 Legislature intended that residential customers be shown to receive actual net financial  
 7 benefits in the form of lower overall monthly bills through offsetting reductions in intrastate  
 8 toll rates required by the new law.

9

10 **Q. HOW DO YOU COME TO THIS CONCLUSION DESPITE THE**  
 11 **CONFUSING LANGUAGE OF SUBSECTION (a)?**

12 A. Again, as with the “actual competition” requirement, it is clear from the floor debate  
 13 in both the Florida House and Florida Senate that the Legislature intended that residential  
 14 customers receive actual financial benefits and that they result primarily from the potential of  
 15 “breaking even” or even “winning” on the total monthly telephone bill as a result of taking  
 16 advantage of the promised lower intrastate toll rates. Although she clearly confused the fact  
 17 that only intrastate toll rates, not interstate tolls, must be reduced for some period in sync  
 18 with the local rate increases, the House bill’s co-sponsor, Representative Ritter, tried to make  
 19 the point that residential customers might see financial benefits from the legislation when she  
 20 said:

21 In closing, let me say this. If you are worried about the politics of this bill,  
 22 let me suggest that many of the things that have been done on the floor of this  
 23 house during this session are far more damaging than what is being done in

---

<sup>1</sup> Statement of Representative Richardson at the April 9, 2003 meeting of the House Committee on Business Regulation: “As you all know, this has been a very delicate process to come to where we are now. It’s involved a lot of negotiation. The industry has worked together in good faith to provide us with the product that we are looking at this morning Representative Attkisson. This is not a bill that was written by legislators. It was a proposal brought to us by the industry, that they agreed upon. And they have done an excellent job and it certainly is a product that I can support. (Emphasis supplied.)

1        this particular piece of legislation. If you are worried, please do not worry  
2        about this piece of legislation. You are lowering rates for your constituents.

3  
4        And as for those of us who live in South Florida and have elderly  
5        constituents, first of all, might I suggest that many of our constituents have  
6        computers, and they are e-mailing us on many things, including prepaid  
7        tuition. And might I also suggest that many of our elderly constituents have  
8        families who live out of state, and our constituents make numerous long  
9        distance phone calls to those people who live in the Northeast predominantly,  
10       and those constituents will see a direct reduction in their phone bills as a result  
11       of this piece of legislation.

12  
13      Page 22 of MNC-8. (Emphasis supplied.) There are many references to the absolute  
14      necessity of the Commission finding “a benefit for residential customers” in the above-cited  
15      floor debates in both chambers. Furthermore, both the industry and the legislation’s sponsors  
16      and supporters made numerous statements in committee meetings to the effect that residential  
17      customers would have to benefit and that the chief way they would be able to benefit would  
18      be by making intrastate toll calls at the promised lower rates.<sup>2</sup>

19  
20      **Q.     IS IT POSSIBLE TO DETERMINE WHETHER RESIDENTIAL**  
21      **CUSTOMERS CAN “BREAK EVEN” OR “WIN” BY MAKING A CERTAIN LEVEL**  
22      **OF INTRASTATE TOLL CALLS AT THE REDUCED RATES PROMISED BY THE**  
23      **LEGISLATION’S SUPPORTERS?**

24      A.     No, it is, in fact, impossible for anyone, including this Commission, to make such a  
25      determination for the very reason that there is not one word of testimony in any of the three  
26      cases stating at what levels intrastate toll rates will be reduced in IXC programs or products  
27      available to residential customers. The costs, or detriments, to the residential customers are  
28      specifically known in the event the petitions are granted. If the petitions are granted, we  
29      know that all of BellSouth’s local residential rates will increase by as much as \$3.86 a month,

---

<sup>2</sup> AARP is now in the process of having portions of both House and Senate committee meetings transcribed with the intention of supplementing the statements by supporters of the legislation that lowered intrastate toll rates could lead to “break even” or “winning” total monthly telephone bills.



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1 or by \$46.32 a year. Verizon's residential rates will increase by \$4.61 a month, or \$55.32 a  
 2 year, and Sprint's will dwarf the others' and increase by \$6.86 a month, or by \$82.32 a year.  
 3 Those are increases of from 35 to 51 percent for BellSouth's residential customers,  
 4 depending upon their rate group, from 38 to 47 percent for Verizon's residential customers  
 5 and increases of from 60 to 90 percent for Sprint's customers. These increases do not  
 6 include the significant taxes and fees that accelerate as a percentage of the base bill. By  
 7 contrast, the purported "residential benefits." at least as they relate to lower intrastate toll  
 8 rates are not stated and are unknowable because the major IXCs serving the state are not  
 9 parties to these cases and have not disclosed how they will apportion the access fee  
 10 reductions between their products available to residential or large business customers.<sup>3</sup>

11 Even if it were possible to calculate potential net financial savings from the promised  
 12 reductions in intrastate toll calls, which is not the case, it is likely that many residential  
 13 consumers, especially the elderly, would not make a sufficient number of "qualifying"  
 14 intrastate toll calls to achieve overall net savings on their monthly bills.<sup>4</sup>

15

16 **Q. ARE THERE OTHER REASONS TO BELIEVE THAT RESIDENTIAL**  
 17 **CUSTOMERS WILL NOT RECEIVE ANY ACTUAL BENEFITS IF THESE**  
 18 **MASSIVE RATE INCREASES ARE APPROVED?**

19 A. Yes. I discuss a number of additional reasons why residential customers will not  
 20 benefit from these increases in a later section of my testimony dealing with the "distribution  
 21 of benefits and costs of rebalancing."

22

---

<sup>3</sup> The absence of the IXCs as parties to this case and the inability to calculate potential residential savings as a result of lowered intrastate toll rates is the basis for AARP's Motion to dismiss for failure to join indispensable parties, which motion had not been ruled upon when this testimony was filed.

<sup>4</sup> To date, the overwhelming number of residential consumers testifying before the Commission in its series of customer service hearings have testified that they make few, if any, qualifying intrastate toll calls.

1 **THE LOOP AS A COMMON COST**

2

3 **Q. IS THE LOOP A SHARED FACILITY WHOSE COSTS ARE COMMON TO**  
4 **A NUMBER OF SERVICES?**

5 A. Yes, the loop is a common facility to many services and should be considered a  
6 common cost of those services. One can readily see this by applying Dr. Taylor's mind  
7 experiment to long distance calling.

8 Dr. Taylor asked the Commission to think about an incumbent local exchange  
9 company that chooses to drop long distance service and only provide local service. Would  
10 the company need a loop to provide that service? The answer is obviously yes. Therefore,  
11 he says the loop is a cost of local service.

12 I agree, but the problem is that he never performs the same mind experiment for long  
13 distance service. Think about an incumbent local exchange company that chooses to drop  
14 local and only provide long distance service. Would it need a loop to provide service? The  
15 answer is obviously yes.

16 When you conduct both experiments, you discover that the loop is a shared cost of  
17 both services. The same is true of DSL service, which has lately become a focal point of  
18 much incumbent local exchange company (ILEC) attention. This debate has been going on  
19 almost since the beginning of the industry.

20 Much the same is true of the mind games played by other witnesses. Caldwell (p. 9)  
21 states that when a customer contacts the telephone company and asks for local service, the  
22 customer causes the loop to come into existence. But, if the customer contacted the phone  
23 company and asks for long distance, but not local, the desire for long distance would cause  
24 the same loop to come into existence.

25 Cost causation cannot be resolved by asking only one question, or by deciding which

1 question to ask first. The telecommunications network is a multi-service network that enjoys  
2 substantial economies of scale and scope (falling average cost as more products are added to  
3 share joint and common costs). It has been that way from its inception. The loop is a  
4 telecommunications facility used to complete all telephone calls -- local, intraLATA long  
5 distance, and interLATA long distance. It is also used to provide enhanced services. Today,  
6 it is also used for DSL services. It is impossible to complete an interLATA long distance call  
7 without a loop. Moreover, when the loop is in use to complete an interLATA long distance  
8 call, it cannot be used simultaneously to complete another call.

9

10 **Q. DO HISTORIC PATTERNS OF INVESTMENT AND CONTEMPORARY**  
11 **ECONOMIC BEHAVIOR REVEAL THE FALLACY OF ATTRIBUTING LOOP**  
12 **COSTS TO ONLY BASIC LOCAL SERVICE?**

13 A. Yes. History shows that the integration of the long distance network into the local  
14 network (they actually started as two separate networks) raised the cost of the integrated  
15 network. Since the integrated network costs more as a result of the addition of long distance,  
16 it is reasonable to assume that long distance causes costs in the integrated network.  
17 Historical analysis of why telecommunications investments were actually made shows that  
18 most telecommunications technologies were deployed for and used by business customers  
19 first. Hence, it is more reasonable to assume that those customers caused the investment. In  
20 other words, complaints that business customers and long distance users pay too much  
21 actually ignore the historic pattern of cost causation.

22 In truth, since the first decade of the last century, the network, including the loop, has  
23 been consciously designed to provide local and long distance service and business and  
24 residential service. Long distance was not an afterthought; it was always a forethought,  
25 included in the design, development and deployment of the network. Vertical services have

1 been included in economic analyses of network design and architecture for over two decades.

2 Now that the Companies are intensely competing to sell bundles of services, the  
3 fiction that local service causes the loop cost should be put to rest once and for all. The  
4 economic evidence that the telecommunications network is a multi-product enterprise  
5 enjoying economies of scale and scope is overwhelming.

- 6 ♦ On the supply-side all long distance calls use the network exactly the same way  
7 local calls do. Vertical services (like Call Waiting, Call Forwarding and Caller  
8 ID) and new digital services (like DSL) are supported by all parts of the network.  
9 Basic service accounts for about one-quarter of total revenues generated per line  
10 because the line is shared by an ever-increasing array of services.  
11
- 12 ♦ On the demand-side, customers expect to receive long distance service when they  
13 order telephone service. Vertical services are strong complements of basic  
14 service. If a provider sells basic service to a customer, competitors are very  
15 unlikely to sell that customer Call Waiting.  
16
- 17 ♦ Companies are eager to sell local service and long distance service bundled  
18 together.<sup>5</sup> One-stop shopping is an integral part of providers' business plans. In  
19 such a bundle, why is local service the "cost causer," as the LECs and IXC  
20 claim, and long distance the free rider?  
21

22 A reasonable basis to determine the allocation of shared costs is to analyze the  
23 facilities and functionalities necessary and actually used in the production of goods and  
24 services. In order to produce a long distance call IXCs need distribution plant, as well as  
25 switching plant and transport plant. Instead of basing economic analysis on a guess about  
26 what consumers really wanted when they purchased a bundle of services, the Commission  
27 should rely on a "service pays" principle. That is, services that use facilities should be  
28 considered to benefit from the deployment of those facilities and every service that uses a  
29 facility should help pay for it.  
30  
31

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<sup>5</sup> Providers are also intensely interested in bundling many more services, such as Internet and data services, in addition to local and long-distance calling.

1 **Q. IS THERE A LEGAL BASIS FOR TREATING THE LOOP AS A COMMON**  
 2 **COST?**

3 A. The Telecommunications Act of 1996 certainly understood the economics of the  
 4 industry and sought efficient entry across a broad range of services.

- 5 • The Act promotes the deployment of advanced telecommunications  
 6 services and information technologies and insists on a sharing of joint and  
 7 common costs.
- 8
- 9 • The Act repeatedly recognizes that advanced services and basic service are  
 10 linked.
- 11
- 12 • The Act recognizes that competitive and non-competitive services will be  
 13 commingled on the network and its purpose is to advance this multi-  
 14 product network.
- 15

16 The law directly addresses the revenue responsibility of these various services. The  
 17 cross-subsidy and joint cost language of 47 USC 254 (k) addresses this point:

18 Subsidy of Competitive Service Prohibited – A telecommunications carrier  
 19 may not use services that are not competitive to subsidize services that are  
 20 subject to competition. The Commission, with respect to interstate services,  
 21 and the States, with respect to intrastate services, shall establish any necessary  
 22 cost allocation rules, accounting safeguards, and guidelines to ensure that  
 23 services included in the definition of universal service bear no more than a  
 24 reasonable share of the joint and common costs of facilities used to provide  
 25 those services.

26 This policy recognizes two distinct steps that are necessary to have fair and efficient  
 27 pricing in an emerging, partially competitive environment -- a strict prohibition on below  
 28 cost pricing for competitive services and a reasonable recovery of joint and common costs  
 29 across services that share facilities. The Conference Report states this principle more  
 30 vigorously. The Conference Committee Report clarifies the standard for cost allocation by  
 31 adopting the Senate report language --

32 The Commission and the states are required to establish any necessary cost  
 33 allocation rules, accounting safeguards, and other guidelines *to ensure that*  
 34 *universal service bears no more than a reasonable share (and may bear less*  
 35 *than a reasonable share) of the joint and common facilities used to provide*  
 36

1 both competitive and noncompetitive services.<sup>6</sup>

2  
3 In pursuit of universal basic service, this language establishes a reasonable share of joint and  
4 common costs allocated to basic service as an *upper* limit.

5 The FCC, the states, and the courts have found consistently and repeatedly that the  
6 loop is a common cost. The courts recognized this almost three quarters of a century ago in  
7 Smith v. Illinois.<sup>7</sup> Many of the states have formally recognized this in comments in federal  
8 proceedings<sup>8</sup> and in their own cost dockets.<sup>9</sup>

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<sup>6</sup> Conference Report, p. 129, *emphasis added*.

<sup>7</sup> 282 U.S. 133 (1930).

<sup>8</sup> The Texas Public Utility Commission, the Nebraska Public Service Commission, the New Hampshire Public Utilities Commission, the New Mexico State Corporation Commission, the Utah Public Service Commission, the Vermont Department of Public Service and Public Service Board, and the Public Service Commission of West Virginia. In the Matter of Federal-State Joint Board on Universal Service, Before the Federal Communications Commission, FCC 96-93, CC Docket No. 96-45, April 12, 1996 p. 18; "Comments of the Idaho Public Service Commission" In the Matter of Federal-State Joint Board on Universal Service, Before the Federal Communications Commission, FCC 96-93, CC Docket No. 96-45, April 12, 1996, p. 17; "Comments of the Public Utility Commission of Texas" In the Matter of Federal-State Joint Board on Universal Service, Before the Federal Communications Commission, FCC 96-93, CC Docket No. 96-45, April 12, 1996, p. ii; "Initial Comments of the Pennsylvania Public Utility Commission to the Notice of Proposed Rulemaking and Order Establishing Joint Board" In the Matter of Federal-State Joint Board on Universal Service, Before the Federal Communications Commission, FCC 96-93, CC Docket No. 96-45, April 12, 1996, p. 7; "Initial Comments of the Virginia Corporation Commission," In the Matter of Federal-State Joint Board on Universal Service, Before the Federal Communications Commission, FCC 96-93, CC Docket No. 96-45, April 12, 1996, p. 5; "Comments of the Staff of the Indiana Utility Regulatory Commission" In the Matter of Federal-State Joint Board on Universal Service, Before the Federal Communications Commission, FCC 96-93, CC Docket No. 96-45, April 12, 1996, p. 9.

<sup>9</sup> "Report of Glenn P. Richardson, Senior Hearing Examiner Application of GTE South Incorporated For Revisions to Its Local Exchange, Access and IntraLATA Long Distance Rates, Commonwealth of Virginia State Corporation Commission, Case No. PUVC950019, March 14, 1997, p. 84; Application of the Mountain States Telephone and Telegraph Company doing Business as U.S. West Communications, Inc., for Approval of a Five-Year Plan for Rate and Service Regulation and for a Shared Earnings Program, Colorado Public Utilities Commission, Docket Nos. 90a-665T, 96A-281T, 96S-257T, Decision No. C97-88, January 5, 1997, pp. 42-43; Decision and Order Rejecting Tariff Revisions, Washington Utilities and Transportation Commission v. U.S. West Communications Inc., Docket No. UT-950200, April 11, 1996 pp. 83-84; Department of Utility Controls' Investigation Into the Southern New England Telephone Company's Cost of Providing Service, Department of Public Utility Control, Docket No. 94-10-01, June 15, 1995, pp. 24-25; Report and Order, In Re: US West Communications, Inc., Utah Public Service Commission, Docket No. 95-049-05, November 6, 1995, p. 95; Final Decision and Order, In Re US West Communications Inc., Iowa Utilities Board, Docket No. RPU-95-10, May 17, 1996, p. 295, 306; Final Decision and Order, In Re US West Communications Inc., Iowa Utilities Board, Docket No. RPU-94-1, November 21, 1994; In the Matter of the Application of GTE Southwest Incorporated and Contel of the West, Incorporated to Restructure Their Respective Rates, New Mexico State Corporation Commission, Docket NO. 94-291-TC, Phase II, December 27, 1995, pp. 11, 14-15; New England Telephone Generic Rate Structure Investigation, New Hampshire Public Utilities Commission, March 11, 1991, DR 89010, slip. op., pp. 39-40; Order No. 18598, Re: Investigation into Nontraffic-Sensitive Cost Recovery, Florida Public Service Commission, 1987; Docket No. 860984-TP, pp. 258, 265-266; Order No. U-15955, Ex Parte South Central Bell Telephone Company, Docket No. 1-00940035, Louisiana Public Service Commission,

1 **Q. DID THE TELECOM ACT OF 1996 CHANGE THE FACT THAT THE**  
 2 **LOOP IS A COMMON COST?**

3 A. No it did not. In a series of rulings to implement the 1996 Telecom Act, the FCC has  
 4 constructed a comprehensive paradigm that starts from the fundamentally correct premise  
 5 that the loop is a shared cost. The FCC began in the local competition docket by recognizing  
 6 that the loop is a shared cost of local, long distance and the other services that use the loop.  
 7 As discussed above, separate telecommunications services are typically provided over shared  
 8 network facilities, the cost of which may be joint or common with respect to some services.

9 The costs of local loops and their associated line cards in local switches, for  
 10 example, are common with respect to interstate access service and local  
 11 exchange service, because once these facilities are installed to provide one  
 12 service they are able to provide the other at no additional cost.<sup>10</sup>  
 13

14 The FCC followed that decision with its proposed rulemaking on access charge  
 15 reform, in which it reaffirmed the observation that the loop is a common cost.

16 For example, interstate access is typically provided using the same loops and  
 17 line cards that are used to provide local service. The costs of these elements  
 18 are, therefore, common to the provision of both local and long distance  
 19 service.<sup>11</sup>  
 20

21 In the reform of the separations process, the FCC has stated the economic reasoning  
 22 and analysis which underpins this treatment of the loop:

23 Nearly all ILEC facilities and operations are used for multiple services. Some  
 24 portion of costs nonetheless can be attributed to individual services in a  
 25 manner reflecting cost causation. This is possible when one service, using  
 26 capacity that would otherwise be used by another service, requires the  
 27 construction of greater capacity, making capacity cost *incremental* to the

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September 5, 1995, p. 12; In Re Formal Investigation to Examine and Establish Updated Universal Service Principles and Policies for Telecommunications Services in the Commonwealth, Docket No. 1-00940035, September 5, 1995, p. 12; In the Matter of a Summary Investigation into IntraLATA Toll Access Compensation for Local Exchange Carriers Providing Telephone Services Within the State of Minnesota, Minnesota Public Utilities Commission, Docket No. P-999/CI-85-582, November 2, 1987, p. 33.

<sup>10</sup> Federal Communications Commission, First Report and Order: Implementation of the Local Competition Provisions of the Telecommunications Act of 1996. CC Docket No. 96-98, ¶678.

<sup>11</sup> Federal Communications Commission, In the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charges: Notice of Proposed Rulemaking, CC Docket Nos. 96-262, 94-1, 91-213, 95-72, ¶ 237.

1 service. The service therefore bears a causal responsibility for part of the cost.  
 2 The cost of some components in local switches, for example, is incremental  
 3 (i.e. sensitive) to the levels of local and toll traffic engaging the switch. Most  
 4 ILEC costs, however, cannot be attributed to individual services in this  
 5 manner because in the case of joint and common costs, cost causation alone  
 6 does not yield a unique allocation of such costs across those services. The  
 7 primary reason is that shared facilities and operations are usually capable of  
 8 providing at least one additional service at no additional cost. In such  
 9 instances, the cost is *common* to the services. For example, the cost of a  
 10 residential loop used to provide traditional telephony services usually is  
 11 common to local, intrastate toll, and interstate toll services. In a typical  
 12 residence, none of these services individually bears causal responsibility for  
 13 loop costs because no service places sufficient demands on capacity to  
 14 warrant installation of a second loop....

15  
 16 Both incremental cost and stand-alone cost (which are usually expressed per  
 17 unit of output) are greatly affected by the way we choose to define the  
 18 increment and the service class. The incremental cost of carrying an  
 19 additional call from residences to end offices, for example, is zero if the  
 20 residences are already connected to end offices, but the incremental cost of  
 21 establishing such connections is the cost of the loops.<sup>12</sup> (emphasis added)

22  
 23 Most importantly, the FCC's methodology for estimating costs of basic service for  
 24 purposes of identifying high cost areas is consistent with its logic of properly allocating loop  
 25 costs. Two of the ten criteria it establishes for specification of a cost model require similar  
 26 treatment of joint and common costs:

27 (2) Any network functionality or element, such as loop, switching, transport,  
 28 or signaling, necessary to produce supported services must have an associated  
 29 cost...

30 (7) A reasonable allocation of joint and common costs must be assigned to the  
 31 cost of supported services. This allocation will ensure that the forward-  
 32 looking economic cost does not include an unreasonable share of joint and  
 33 common costs for non-supported services.<sup>13</sup>

34  
 35 As public policy has introduced more and more competition into the industry, the  
 36 shared nature of the loop has become more evident, not less. Today the most vigorous  
 37 competition is for bundles of service that include both local and long distance. That is where

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<sup>12</sup> Federal Communications Commission, In the Matter of Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, Notice of Proposed Rulemaking, CC Docket No. 80-286, November 10, 1997 (hereafter, Separations NPRM), pp. 14-15.

<sup>13</sup> FCC, Universal Service Order, ¶ 250.



1 the action is for both the CLECs and ILECs. In fact, the FCC has declared it official policy  
 2 that the states in the Triennial Review proceedings should consider all the revenues  
 3 associated with the loop.

4 Despite relatively widespread agreement on such broad general statements  
 5 concerning implicit support flows, this area is more complex than it might  
 6 initially appear. The existence of “below cost” residential local exchange  
 7 service rates does not mean that such customers are “unprofitable” to serve.  
 8 Determining whether a customer class is desirable to serve requires a  
 9 comparison of costs and all potential revenues from the class, which will  
 10 substantially exceed the local exchange service rate. In addition, describing  
 11 certain rates as being “above or below cost” itself involves complex questions  
 12 concerning how costs should be defined.<sup>14</sup>  
 13  
 14

15 **Q. DOES THE STATUTORY DEFINITION OF BASIC SERVICE REQUIRE**  
 16 **THE COMMISSION TO TREAT THE LOOP AS A COST OF BASIC SERVICE?**

17 A. Not at all. The fact that the statute lists the functionalities that should be made  
 18 available as part of basic service does not mean the cost of those functionalities must be  
 19 attributed to basic service. Several of the functionalities identified are required to be made  
 20 available with other services as well.

21  
 22 **Q. WHAT ARE THE IMPLICATIONS FOR THE CURRENT PROCEEDING OF**  
 23 **TREATING THE LOOP AS A COMMON COST?**

24 A. Once the loop is recognized as a shared cost and the total revenues from all the  
 25 services it supports are taken into account; once the nature of competition as it is actually  
 26 occurring in the marketplace is taken into account, it becomes quite evident that the  
 27 proposals to rebalance rates fails the first two tests under the new statute:

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<sup>14</sup> *Report and Order on Remand and Further Notice of Proposed Rulemaking*, In the Matter of Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers; Implementation of the Local Competition Provisions of the Telecommunications Act of 1996; Deployment of Wireline Services Offering Advanced Telecommunications Capability, CC Docket No. 01-338; 96-98; 98-147, August 21, 2003, Para. 157.

- 1       • Rate rebalancing does not eliminate a subsidy to basic local service; it simply  
2       increases the contribution of basic local service to the shared costs of the network.  
3
- 4       • Rate rebalancing will not stimulate enhanced market entry and greater competition.  
5       The competitors treat local and long distance as a bundle. It will not affect their entry  
6       significantly.  
7

8

9       **Q.     ON WHAT EVIDENCE DO YOU BASE THE STATEMENT THAT RATE**  
10      **REBALANCING MERELY INCREASES THE CONTRIBUTION FROM BASIC**  
11      **SERVICE TO COMMON COSTS?**

12           A. The Companies' cost studies make it apparent (see Exhibit MNC-1). The loop is  
13      by far the largest cost that the Companies attribute to basic local service. Sprint declares that  
14      90 percent of basic service costs are associated with the loop.<sup>15</sup> While Sprint's claim about  
15      the share of loop costs in the total cost of basic service is the highest, the other Companies'  
16      cost studies show similarly high levels. If the loop is treated as a common cost, there is no  
17      doubt that the prices charged for basic service are far greater than the costs that are properly  
18      attributed to basic service. A comparison of UNE prices for all three companies with the  
19      average revenue for basic service leads me to conclude that while the precise level of  
20      contribution from basic service to common costs varies somewhat between the companies,  
21      there is no doubt that for all three basic service revenues more than cover costs, once the  
22      loop, network interface device and port are treated as a common cost.

23           In standard rate cases, this observation would lead to a debate over the relative level  
24      of contribution to common costs, and a variety of different approaches to marking up direct  
25      costs to ensure recovery of common costs would be discussed. Exhibit MNC-2 shows that if  
26      the loop is treated as a common cost between the three primary services being bundled in the  
27      market – local, vertical services and long distance – basic local service already makes a much

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<sup>15</sup> Sprint-Florida, Petition, p. 11.

1 larger contribution in absolute dollar terms than the other two services, but the rate of mark-  
2 up is higher on long distance.

3 In this proceeding, however, we do not have to proceed to that step, since the statute  
4 lays out a simple standard. Rates are to be rebalanced only if they are removing support for  
5 basic service. If the loop is treated as a common cost, that simply is not the case.

6

## 7 **COMPETITION IN FLORIDA AND THE IMPACT OF REBALANCING**

8

9 **Q. DO YOU AGREE WITH THE ANALYSIS OF COMPETITION PRESENTED**  
10 **TO THE COMMISSION BY THE COMPANIES?**

11 A. No. I disagree with both the depiction of the current status of competition and the  
12 impact that the Companies claim their rate rebalancing proposals will have on it.

13

14 **Q. WHAT FLAWS DO YOU FIND IN THE COMPANY ANALYSIS OF THE**  
15 **CURRENT STATE OF COMPETITION?**

16 A. The Companies have painted an unnecessarily negative picture of competition in  
17 Florida at present and have vastly overestimated the impact that rate rebalancing will have on  
18 competitive entry in Florida.

19

20 **Q. IN WHAT WAYS HAVE THE COMPANIES PAINTED AN**  
21 **UNNECESSARILY NEGATIVE PICTURE OF COMPETITION IN FLORIDA?**

22 A. The current status of competition is mixed. I have developed three measures of  
23 competition for residential customers – intensity, balance and extensiveness (see Exhibit  
24 MNC-3). I measure intensity as the percent of residential customers who have switched to  
25 competitors. On this measure, Florida is in the middle of the pack. It ranks 22<sup>nd</sup> among the

*Direct Testimony of Mark N. Cooper, Ph. D, On Behalf of AARP*

1 states for which residential numbers have been broken out by the FCC. Since most of the  
2 states for which the FCC does not give a residential breakdown are small and  
3 noncompetitive, that is probably its overall national ranking.

4 I measure the extensiveness of competition as the percentage of zip codes without a  
5 competitor (noncompetitive) and the percentage with six or more competitors (competitive).  
6 Florida ranks first and eighth on these.

7 I measure balance as the ratio of the percentage of CLEC customers who are  
8 residential to the percentage of ILEC customers who are residential. If CLEC competition  
9 were balanced, we would expect them to be attracting residential customers in the same  
10 proportion as ILECs and we would see a ratio of 1. For Florida, the ratio is .58 and it ranks  
11 33 among the 39 states.

12 Compared to the national picture, Florida is high on some aspects of competition, low  
13 on others and average on others. However, compared to the other BellSouth states, it is  
14 doing very well. It beats all the other BellSouth states on extensiveness. It beats all the other  
15 BellSouth states on intensity, except Georgia. It is in the middle of the BellSouth pack on  
16 balance.

17 There is evidence that even on the measures where Florida is not leading the  
18 BellSouth states, great strides have been made. The above analysis is based on FCC statistics  
19 through the end of 2002 and there are reasons to believe that things have gotten better since  
20 then. Florida has only recently resolved the pricing of Unbundled Network Elements  
21 (UNEs). The reduction of the UNE-P rate in September of 2002 was substantial and its  
22 impact is not fully reflected in these figures. In fact, there appears to have been a very  
23 substantial effect of the new UNE rate on the balance of competition (see Exhibit MNC-4).  
24 After the finalization of UNE rates, competitors made major strides in extending competition  
25 into the residential sector.

1           Moreover, in that same time frame, the penetration of CLECs into the residential  
2 market grew faster in Florida than in any other BellSouth state (see Exhibit MNC-5 above).

3

4       **Q.     HOW DOES THE COMPANY ANALYSIS OVERESTIMATE THE IMPACT**  
5 **OF RATE REBALANCING ON COMPETITION?**

6       A.     First, the Companies blame the weaknesses of competition on price, repeatedly  
7 asserting that increasing the price of basic local telephone service will make it more attractive  
8 and induce entry. Yet, other factors present barriers to entry. In fact the competitors in  
9 Florida were twice as likely to cite operating support systems and interconnection problems  
10 as barriers to entry as price.<sup>16</sup>

11           Second, it has become clear that competition for bundles is where the action is in  
12 telecom competition. Competitors have always been competing primarily to win customers  
13 for a bundle of local and long distance service. Lately they have begun to emphasize “all-  
14 you-can-eat” bundles of local, long distance and calling features. The shifting of costs from  
15 intraLATA long distance to basic service will have little, if any impact on this competition.  
16 since both are in the bundle.

17           As far back as the first §271 application approval in New York, competition has been  
18 about a bundle of services. MCI, which spearheaded competition in New York, offered a 5  
19 percent discount off of local, worth about \$1.50. However, it offered an additional \$5  
20 discount if the customer took both local and long distance from them. The customer could  
21 choose any long distance plan. Clearly, the emphasis was on the bundle of local and long  
22 distance.

---

<sup>16</sup> Office of Market Monitoring and Strategic Analysis, Florida Public Service Commission, Telecommunications Markets in Florida: Annual Report on Competition, as of June 30, 2002, December 2002, p. 44.

1           The Neighborhood Program, rolled out earlier this year by MCI took this approach to  
2 another level. It offers unlimited local and long distance for a fixed price. Interestingly, the  
3 incumbents have responded with bundles of their own. We now have AT&T and Sprint also  
4 offering similar bundles. One leading industry analyst estimates that 30 million subscribers  
5 have switched to these bundles.

6           A competitor who is focused on bundles of local and long distance is indifferent to  
7 rate rebalancing. Since both services are included in the bundle, the shifting of cost recovery  
8 from intraLATA long distance to basic service is irrelevant.

9           As noted above, the FCC has recently concluded in the Triennial Review that all the  
10 revenues that can be captured must be considered.

11           A glance at the development of competition from both the ILEC and the CLEC sides  
12 suggests the process. ILECs have captured a large share of the long distance market quickly  
13 after they are allowed to sell long distance in their service areas. By the end of this year,  
14 with virtually all incumbents allowed to sell in all their markets, they are likely to have  
15 almost one-third of the residential long distance accounts (see Exhibit MNC-6). It is almost  
16 certain that virtually all of these customers are taking both local and long distance from them.  
17 Competitors are likely to have about the same level of local accounts by the end of this year.  
18 The leaders in this competition are the long distance carriers, who are certainly capturing  
19 both local and long distance.

20           The intermodal competitors about which the Companies make so much are even more  
21 heavily into bundles. Their packages include other services (video, high-speed Internet) and  
22 cost a great deal more. Rate rebalancing has little impact on the economics of their  
23 competitive position.

24

1 **Q. IS THERE DIRECT EVIDENCE ON THE IMPACT OF RATE**  
 2 **REBALANCING ON THE LEVEL OF COMPETITION?**

3 A. The studies the companies relied upon cannot separate out the effects of rate  
 4 rebalancing on the level of competition. Moreover, most of the examples of rate rebalancing  
 5 discussed in Mr. Gordon's Testimony took place before the 1996 Act.<sup>17</sup> Therefore, it would  
 6 be difficult to separate out the effects of rate rebalancing as such from the effects of the  
 7 general level of rates. However, two of the states mentioned, Maine and Ohio did rebalance  
 8 rates after the 1996 Act. Exhibit MNC-7 shows the change in ILEC line counts for Florida  
 9 and these two states, since Florida began to lower its UNE rates. Cumulatively, competition  
 10 has grown faster in Florida than in these two rebalancing states. Moreover, Florida has  
 11 grown just as fast as the nation, since it reformed UNE prices.

12

13 **Q. IF RATE REBALANCING WILL NOT STIMULATE COMPETITION,**  
 14 **WHAT WOULD?**

15 A. The clear implication of this analysis is that lowering UNE prices are one of the keys.  
 16 Continuing to smooth out the operating support issues is also important.

17

18 **DISTRIBUTION OF BENEFITS AND COSTS OF REBALANCING**

19

20 **Q. WILL RESIDENTIAL CUSTOMERS BENEFIT FROM RATE REBALANCING?**

21 A. No. It is highly unlikely that residential consumers as a class will receive a direct  
 22 benefit as a result of the rate rebalancing proposed by the Companies. Virtually all of the  
 23 rate increases for basic local service are imposed on residential consumers. The Companies  
 24 have allocated around 90 percent of the basic local service increases to residential consumers,

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<sup>17</sup> Gordon, pp. 38-43.

1 while single-line business customers take the remainder. Moreover, multi-line business, or  
2 “big business” telephone customers will experience no local service rate increases at all if  
3 these petitions are approved. However, business customers account for a substantial part of  
4 intrastate long distance. Since the cost of all long distance minutes will be reduced, business  
5 customers, in general, and big business customers, specifically, are likely to enjoy a  
6 reduction in rates at least in proportion to their usage and totally out of proportion to the local  
7 rate increases, if any, they will experience.

8

9 **Q. ARE THERE OTHER PROBLEMS WITH THE DISTRIBUTION OF**  
10 **INSTATE ACCESS FEE REDUCTIONS BETWEEN RESIDENTIAL AND**  
11 **BUSINESS CUSTOMERS?**

12 A. Yes, as I mentioned earlier, the distribution of the savings in intrastate toll rates as  
13 between the residential and business programs, or products, to be offered by the IXC's has not  
14 even been disclosed in these cases so that the ability of any given residential customer to  
15 calculate any potential “benefit” from breaking even on his or her total monthly bill is  
16 precluded. As I said before, this is the basis for AARP’s pending motion to dismiss the  
17 cases.

18 The new law allows the IXC's to allocate the access fee reductions to their business  
19 and residential customers in any way they wish so long as some part of the reductions goes to  
20 each class of customers. The worst case scenario would be that 99 percent of the flow-  
21 through access reductions would be applied to intrastate toll products targeted to multi-line  
22 business customers, who receive no local rate increases, while only 1 percent would be made  
23 available to residential customers, who will pay for the vast majority of the increases in local  
24 rates.



1 Many customers testifying at the public hearings held to date have stated that they  
2 make few, if any, intrastate toll calls that would qualify them for potential savings, even if  
3 the intrastate toll reductions were flowed through in a fair manner.

4 In order to ensure that residential consumers at least break even on the rate  
5 rebalancing, the Commission should require that the increase in basic monthly charges be  
6 allocated in proportion to access minutes of use between the classes.

7

8 **Q. HOW WILL OLDER FLORIDIANS FARE UNDER THE RATE**

9 **REBALANCING SCHEME?**

10 A. My clients, older Floridians, are likely to be particularly hard hit by rate rebalancing.  
11 Older consumers tend to make fewer long distance calls. In a recent survey conducted by  
12 AARP,<sup>18</sup> they reported making half as many calls as the rest of the population. This is  
13 consistent with other research.<sup>19</sup>

14 Given this distribution of usage, the Commission should spread the local rate  
15 increases across four years, if at all. This will cushion the blow for older Floridians, the  
16 segment of the population that is least likely to benefit from the rebalancing.

17

18 **Q. BUT WOULDN'T LIFELINE ASSISTANCE HELP MRS. HOWTON BY**  
19 **PROVIDING FINANCIAL ASSISTANCE AND BY PROTECTING HER FROM THE**  
20 **RATE INCREASES?**

21 A. Yes, for some customers it would provide temporary protection from the rate  
22 increases.

---

<sup>18</sup> AARP. *Consumer Understanding of Pricing Practices and Savings Opportunities in the Long Distance Telephone Industry*. 2000

<sup>19</sup> Division of Research and Regulatory Review. *The Affordability of Residential Local Telephone Service in Florida*. February 1999.

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**Q. WHY DO YOU SAY “TEMPORARY PROTECTION FROM THE RATE INCREASES?”**

A. Because the statute the rate increases are filed under provides that Lifeline recipients can only be protected from the increases until parity is achieved, which will be in as few as two years. After parity is achieved it would appear that these Companies would be allowed to and perhaps forced to increase Lifeline monthly rates by the same amounts being sought for all the rest of their residential customers, lest they be guilty of discriminatory rate practices. It’s true that BellSouth has proposed to “expand” the rate increase protection to four years and Sprint to three years, while Verizon proposes no additional protection, but it is questionable whether the law will allow such an expansion.

In any event, the protection against these rate increases is only temporary, irrespective of whether it is for two years or four, and the Lifeline recipients will have to eventually deal with these huge increases. The suggestion that increased competition will bring the rates back down to current levels or even lower in the next two to four years is not credible. Rate increases of this magnitude will impose significant hardship on low income households.

**Q. WHAT IS THE SUREST WAY TO PROTECT LIFELINE RECIPIENTS FROM THE HARM REPRESENTED BY THESE HUGE MONTHLY RATE INCREASES?**

A. The most obvious and the surest way to avoid exposing Lifeline recipients to the proposed rate increases is for this Commission to not approve them for any customers.

**Q. DO YOU THINK THERE WILL BE INDIRECT BENEFITS OF RATE REBALANCING?**

1 A. From the residential consumer point of view some of the claims for indirect benefits  
2 are a little far fetched. The notion that consumers will benefit from rebalancing because they  
3 will substitute intraLATA or intrastate-interLATA calls for interstate calls does not ring true  
4 for residential consumers. You cannot call your children in Sarasota when they live in  
5 Saratoga.

6 **Q. DO YOU HAVE AN OVERALL VIEW ON THE RELATIVE LIKELIHOOD**  
7 **OF RESIDENTIAL CUSTOMERS RECEIVING “BENEFITS” FROM THE DENIAL**  
8 **OF THE PETITIONS VERSUS THEM BEING APPROVED?**

9 A. Yes. From any number of perspectives most, if not all, residential telephone  
10 customers will benefit far more obviously if this Commission denies the rate increases than  
11 they could conceivably benefit, at least on the evidence presented by the Companies, if the  
12 increases are granted. For example, in the area of the maximum rate increase exposure, if the  
13 Commission denies the increases in these petitions, then basic local residential service  
14 increases are limited to the rate of inflation minus one percent, or a little above one percent  
15 annually under current rates of inflation. By contrast, granting the petitions will result in  
16 increases of from 35 to 90 percent in as few as two years, which can be followed by 20  
17 percent per year increases, year after year. all of which can be imposed without obtaining  
18 Commission approval. The choice should be obvious.

19 The expansion of Lifeline eligibility to 125 percent of the poverty level is  
20 accomplished by the legislation becoming law and is not dependent upon the rate increases  
21 being granted. As I said above. Lifeline recipients will eventually be harmed by the full level  
22 of the requested rate increases unless the petitions are denied.

23

1 Q. IS THERE A RESIDENTIAL CUSTOMER DETRIMENT WITH RESPECT TO  
2 QUALITY OF SERVICE IF THE RATE INCREASES ARE GRANTED?

3 A. Yes there is and it could be significant for residential customers. Currently the  
4 Commission has jurisdiction over the Companies' quality of service by statute and is  
5 compelled to enforce minimal quality of service standards. Some of the largest settlements  
6 reached by the Office of Public Counsel have resulted from the demonstration of repeated  
7 violations of quality of service standards. If the Commission grants the requested rate  
8 increases, then the Companies may unilaterally deprive the Commission of its quality of  
9 service jurisdiction once parity is reached and place the Commission in the position of trying  
10 to reacquire the jurisdiction. However, on the other hand, if the Commission denies the  
11 increases, then it automatically retains quality of service jurisdiction. Once again, the choice  
12 for the benefit of residential customers appears obvious.

13

14 **Q. WHY DO YOU BELIEVE THAT PARITY IS A BAD POLICY?**

15 A. The FCC has allowed the long distance service to have a free ride on the  
16 telecommunications network. Eliminating the carrier common line charge and all other  
17 contributions to fixed costs violates the principle that services should pay for facilities they  
18 use. Each of the proposals before the Commission zeros out all contributions to fixed costs.

19

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

21 A. Yes.

1 BY MR. TWOMEY:

2 Q Dr. Cooper, thank you. Do you have a summary of your  
3 testimony?

4 A Yes, I do. Madam Chairwoman, members of the  
5 Commission, rate cases are difficult, and they're especially  
6 difficult when you can't talk about half of the numbers. But  
7 I want to try and work through this by starting from the bottom  
8 line and working my way up consistent with the statute, the  
9 primary purpose of the statute.

10 I think the evidence before the Commission shows that  
11 the direct impact of the rate rebalancing on residential  
12 customers is clearly and undeniably negative. They bear  
13 approximately 90 percent of the local rate increases,  
14 90 percent will fall on the residential customers. A much  
15 smaller percentage of the offsetting revenue-neutral balancing  
16 reductions for access will go to the residential customers. I  
17 cannot say what that percentage is. But there is no doubt that  
18 there is a substantial hole into which the residential customer  
19 class is thrown as a result of the direct effects of the rate  
20 rebalancing. Moreover, the evidence before the Commission  
21 shows that the people who I appear on behalf of, older  
22 Floridians --

23 MR. FONS: Madam Chairman, I understand this is his  
24 summary, but I can't find any of this in his, in his direct or  
25 his rebuttal testimony. It sounds like he's giving a summation

1 of the evidence that's been presented so far.

2 CHAIRMAN JABER: Dr. Cooper, I noticed a little bit  
3 of this with the previous witness's summary, but I've been  
4 trying to be flexible with all the witnesses. My only request  
5 to you is that you limit your comments to what's been filed in  
6 your direct case, and I am sure through cross-examination  
7 you'll be able to address whatever points you want to address.  
8 All right?

9 THE WITNESS: Okay.

10 CHAIRMAN JABER: Thank you.

11 THE WITNESS: Well, in my, in my direct testimony I  
12 demonstrate that residential ratepayers bear a disproportionate  
13 share of the burden, a larger share of the burden than the  
14 costs in terms of the direct impact of the rate rebalancing.

15 I argue and show that the indirect benefits projected  
16 through enhancement of competition are likely to be very small  
17 and not get the residential ratepayers out of the hole in which  
18 they have fallen. They are small, I contend, because  
19 competition has focused on bundles, on packages of services,  
20 services which include local and long distance bundled  
21 together, and, therefore, shifting cost recovery from one part  
22 of the bundle to another part of the bundle is not going to  
23 stimulate a great deal of competition. And, therefore, that  
24 indirect benefit will be small.

25 I also show on the, in my testimony that the burden

1 placed on seniors, my clients in this proceeding, is likely to  
2 be larger than the rest of the residential customer class.

3           The second proposition -- the second condition that  
4 the statute set out is the question of reducing support. I  
5 show in my testimony that we are not, in fact, reducing support  
6 for residential customers or a basic service once you consider  
7 that the loop costs are, in fact, joint and common costs shared  
8 by a number of services. When you see that, you discover that  
9 the effect of this proceeding is to not reduce support for the  
10 residential or basic service class, but to increase its  
11 contribution to the joint and common costs of the unified  
12 operation of the local companies.

13           I point out in my testimony that this is a  
14 long-standing debate that has unfolded over many years. I  
15 believe that the Legislature, as I point out in my testimony by  
16 reviewing the debates, which were -- the language of the  
17 legislation was unclear. The debates clarify, I think, that  
18 the Commission was given the authority to look very carefully  
19 at both of the propositions, the question of support and the  
20 question of benefit, to look at the question of benefit  
21 comprehensively and conclude, I think, as I've suggested, that  
22 there, that there is no net benefit to the residential  
23 customers and no elimination or reduction of support, but  
24 rather an increase in contribution. Thank you.

25           MR. TWOMEY: Dr. Cooper is available for cross.

1 CHAIRMAN JABER: Thank you. Mr. Beck. Ms. Bradley.

2 MS. BRADLEY: No questions.

3 CHAIRMAN JABER: Ms. McNulty.

4 MS. McNULTY: No questions.

5 CHAIRMAN JABER: Mr. Hatch.

6 MR. HATCH: No questions.

7 CHAIRMAN JABER: Ms. Mays.

8 MS. MAYS: Yes. Thank you. Let me make sure I get  
9 this on first.

10 CROSS EXAMINATION

11 BY MS. MAYS:

12 Q Good evening, Dr. Cooper. My name is Meredith Mays,  
13 and I represent BellSouth in this proceeding.

14 In looking at your testimony, you devote several  
15 pages to legislative intent, don't you?

16 A Yes, I do.

17 Q And i your reading of the legislative intent, as I  
18 understand it, is that you believe actual competition must  
19 result before the rates are rebalanced; is that right?

20 A The -- an increase in competition must be, must occur  
21 as a result of the rebalancing. Yes.

22 Q And later in your testimony when you discuss  
23 competition and compare Florida to other BellSouth states, you  
24 describe Florida as doing very well, don't you?

25 A Well, I describe the development of competition in



1 Florida and point out that Florida has been catching up with  
2 the resolution of the, the critical questions, the UNE prices  
3 and operating support systems.

4 Q Are you aware of this Commission's 2003 report on  
5 competition in which it found substantial residential  
6 competition taking place in BellSouth's territory?

7 A Well, I haven't seen the 2003. I've, I've -- people  
8 have mentioned it to me. But I based my data on the comparison  
9 available from the Federal Communications Commission.

10 Q You also claim that BellSouth's current rates are not  
11 supported; is that right?

12 A No -- well, no. I conclude that a variety of  
13 services make a contribution to the joint and common costs of  
14 the, of the overall operation of the company.

15 Q Isn't it true that this Commission found in its fair  
16 and reasonable rate study that it found a shortfall when  
17 comparing revenues to local service and comparing that to  
18 costs?

19 A Well, I'm aware of the, the last look that the  
20 Commission took at it. I'm also aware of prior examinations in  
21 which it concluded that the loop costs are a common cost, not  
22 a, a cost of the, of residential or basic service.

23 Q And in the fair and reasonable case that was, I  
24 think, the most recent of the Commission's findings on that,  
25 this Commission found that the cost of the loop facilities were

1 attributable to basic local telecommunications services, didn't  
2 it?

3 A Yes, it did.

4 Q When you gave your summary, Dr. Cooper, you discussed  
5 the burden that would be placed on your clients, as I  
6 understand it; is that right?

7 A Yes.

8 Q You also discuss bundles; correct?

9 A Yes.

10 Q And have you had an opportunity to review any of your  
11 clients' responses to BellSouth's discovery in this case?

12 A My clients' responses -- I have not read my clients'  
13 responses. They were directed to AARP, not my testimony.

14 Q Did you review in this Commission's findings -- we  
15 talked about the fair and reasonable findings, I'm referring to  
16 that again that. It looked at seniors and found that many  
17 seniors subscribe to more than one feature, that they,  
18 55 percent subscribe to cable TV, 25 percent subscribe to  
19 cellular service, 17 percent subscribe to Internet service and  
20 7 percent subscribe to satellite service. Are you aware of  
21 that?

22 A Well, I'll accept those observations. They suggest  
23 to me that seniors are much less likely to take any of those  
24 services than nonseniors. That is the rate at which they  
25 subscribe to those services, as you've described to me, is far

1 lower than the general nonsenior population.

2 Q Assuming that 55 percent of seniors subscribe to  
3 cable TV service, then doesn't that lead to the conclusion that  
4 those percentage of seniors can, in fact, afford a rate  
5 increase?

6 A Well, I guess if you conclude that they have to give  
7 up their cable TV service in order to afford the rate increase,  
8 that might be the case.

9 MS. MAYS: I have no further questions for this  
10 witness.

11 MR. CHAPKIS: No question.

12 MR. FONS: No questions.

13 CHAIRMAN JABER: Okay. Commissioner Deason.

14 COMMISSIONER DEASON: I just -- the cable TV  
15 situation, the witness from Knology indicated that it is their  
16 business plan to provide bundles to customers and that  
17 customers who already subscribe to cable TV, that they may can  
18 come in, provide a bundle of cable TV and telecommunication  
19 services at a very attractive price.

20 Do you think that is an advantage that could, for  
21 those seniors who do subscribe to cable TV, that that may be an  
22 advantage of competition?

23 THE WITNESS: Well, I, I think clearly once -- people  
24 intend to win customers and they intend to upsell them  
25 dramatically. And it's quite clear to me, for instance, that

1 the, the, the, the, the part of the bill represented by the  
2 local basic rate is not driving a great deal of competition  
3 anymore. It's, in fact, the very big bundle that folks want to  
4 sell which is why you cannot see a significant competitive  
5 impact from this rate rebalancing. So I agree that they want  
6 to sell bundles, they want to sell high-speed Internet as well,  
7 and that's exactly why this rate rebalancing is not going to  
8 produce a significant competitive impact, that indirect benefit  
9 to offset the direct cost.

10 COMMISSIONER DEASON: Well, how do you reconcile that  
11 with the testimony from the Knology person who indicated that  
12 with rebalancing they would be more likely to enter markets in  
13 Florida and be able to package cable, telephony, Internet,  
14 those type services?

15 THE WITNESS: Well, I, you know, I haven't reviewed  
16 their, their business plans. If you -- having looked at the  
17 margin analysis that competitors have put in in a variety of  
18 proceedings, having looked at the Federal Communications  
19 Commission's conclusion that we need to look at all the  
20 revenues, it strikes me that this rate rebalancing -- I didn't  
21 say there's no effect. But given the focus on bundles and big  
22 bundles, I don't see a significant, a large competitive impact  
23 here, and not large enough to offset the direct cost burden  
24 particularly on my clients who are very much lower, consumers  
25 at lower percentages compared to the rest of the population.

1 CHAIRMAN JABER: Okay. Staff.

2 MR. FORDHAM: Thank you, Madam Chairman.

3 CROSS EXAMINATION

4 BY MR. FORDHAM:

5 Q Good evening, Dr. Cooper. My name is Lee Fordham. I  
6 have just a couple of questions for you, sir.

7 A Good evening.

8 Q First of all, on Page 35 of your direct testimony,  
9 Lines 14 through 18, I believe it was your direct testimony  
10 that parity is a bad policy. Is that correct, sir?

11 A Yes.

12 Q Now disregarding your personal belief regarding the  
13 policy, would you agree that Section 364.164, Florida Statutes,  
14 requires that parity be the standard for intrastate switched  
15 access reductions?

16 A Well, it requires it to be the standard. But in  
17 order to get there I think you have to pass the other tests  
18 laid out in the statute, which I do not think these proposals  
19 pass.

20 Q Okay. Now in the prehearing statement the AARP takes  
21 the position that the ILECs have not substantiated that the  
22 reduction in access charges will equal the corresponding basic  
23 local services increases for residential customers. Can you  
24 tell me, sir, does Section 364.164 define revenue neutral as  
25 used in that section of the statute?

1           A     It defines it. But the testimony that's been  
2 presented to this Commission is sort of like the, the three  
3 blind men sort of touching different parts of the elephant.  
4 And it's not clear that there's anyone out there with their  
5 eyes open seeing that it is an elephant. So there's a hand-off  
6 from BellSouth which will rebalance its rates to the IXCs, who  
7 then determine how that rate, those rate reductions get passed  
8 through.

9           Q     Does that section make any mention that the ILECs'  
10 rate adjustments must be revenue neutral to residential  
11 customers?

12          A     I believe it creates the legal obligation to do so.

13          Q     How does it do that, sir?

14          A     I'm not -- I would have to look at the statute  
15 specifically.

16          Q     Okay. Does that section define revenue neutral as it  
17 applies to the ILEC revenue category of basic local services,  
18 revenue and interstate switched access, switched network access  
19 revenues?

20          A     I believe it does.

21               MR. FORDHAM: We have nothing further, Commissioner.

22               CHAIRMAN JABER: Commissioners? Okay. Mr. Twomey,  
23 do you have redirect?

24               MR. TWOMEY: Very briefly.

25                               REDIRECT EXAMINATION

1 BY MR. TWOMEY:

2 Q Dr. Cooper, Ms. Mays cited to you the percentage take  
3 of apparently seniors from that report on cable TV and other  
4 services. Do you believe that that percentage is in any  
5 fashion relevant to the issue in these cases whether there is  
6 support being eliminated by the proposed rate increases,  
7 competition induced or benefits being provided to residential  
8 customers?

9 A To my knowledge, with the exception of vertical  
10 services, almost the entire list was not subject to the  
11 jurisdiction of this Commission.

12 Q Yes, sir. Now lastly, the staff counsel just asked  
13 you about a requirement for revenue neutrality for, for  
14 customers. My question in response to that is, is did you find  
15 anything in the legislative intent that suggested benefits to  
16 residential customers?

17 A Yes. I believe that residential customers should --  
18 need to benefit, and I think the arithmetic shows that they  
19 will not, given the magnitude and structure of the rebalancing.

20 MR. TWOMEY: Thank you, sir. That's all.

21 CHAIRMAN JABER: Okay. Dr. Cooper, thank you very  
22 much for your testimony, and you may be excused.

23 (Witness excused.)

24 CHAIRMAN JABER: And, Mr. Twomey, we have three  
25 exhibits. Exhibits 81 through 83, without objection, will be

1 admitted into the record.

2 (Exhibits 81, 82 and 83 admitted into the record.)

3 (Transcript continues in sequence with Volume 14.)

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STATE OF FLORIDA )  
                          :  
COUNTY OF LEON )


CERTIFICATE OF REPORTER

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.

  
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LINDA BOLES, RPR  
FPSC Official Commission Reporter  
(850) 413-6734