

ORIGINAL

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Electronic Filing

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b. Docket No. 050693-TL

In re: Alltel Florida, Inc.'s Petition To Reduce Intrastate Switched Network Access Rates In A Revenue Neutral Manner Pursuant to Section 364.164, Florida Statutes.

c. Document being filed on behalf of Office of Public Counsel

d. There are a total of 14 pages.

e. The document attached for electronic filing is Citizens' Post-Hearing Statement of Issues and Positions.

(See attached file: 050693.OPC Posthearing Statement.e-filed version.doc)

Thank you for your attention and cooperation to this request.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Alltel Florida, Inc.'s Petition)
To Reduce Intrastate Switched Network)
Access Rates In A Revenue Neutral)
Manner Pursuant to Section 364.164,)
Florida Statutes)
_____)

Docket No. 050693-TL
Filed: December 6, 2005

CITIZENS' POST-HEARING STATEMENT OF ISSUES AND POSITIONS

The Citizens of Florida, through Harold McLean, Public Counsel, file this post-hearing statement of issues and positions pursuant to the Prehearing Order, Order no. PSC-05-1667-PHO-TL issued November 22, 2005.

Basic Position

Alltel's residential customers will pay the highest basic local exchange rates in Florida, and Alltel's customers will receive little offsetting benefit in long distance rate reductions, if the Commission approves Alltel's rate rebalancing proposal. Granting Alltel's petition will give competitors no greater incentive to enter or expand services in Alltel's local exchange market because the price of the product they compete against -- Alltel's "Connect Unlimited" -- won't change. In addition, even though Alltel claims that it filed this petition to promote a more competitive local exchange market for the benefit of its residential customers, Alltel refuses to take the one truly pro-competitive action available to it: the provision of stand-alone DSL service to its customers.

Competitors generally set their rates on a nationwide basis and won't change their rates in response to rate rebalancing by Alltel Florida. Residential customers will simply pay more for the same services from Alltel if the Commission grants Alltel's petition.

Alltel's rate rebalancing proposal should be denied. If the Commission nevertheless decides to approve Alltel's rate rebalancing proposal, the approval should be made contingent upon Alltel offering stand-alone DSL to all of its customers.

Issues and Positions

Issue 1: Will Alltel's rebalancing proposal remove the current support for basic local telecommunications services that prevents the creation of a more attractive competitive market for the benefit of residential consumers?

Citizens' Position: *No.*

(a) What is a reasonable estimate of the level of support provided for basic local telecommunications service.

Citizens' Position: *No position.*

(b) Does the current level of support prevent the creation of a more attractive competitive local exchange market for the benefit of residential consumers?

Citizens' Position: *No*

(c) Will Alltel's rebalancing proposal benefit residential consumers as contemplated by Section 364.164, Florida Statutes? If so, how.

Citizens' Position: *No.*

Discussion: Alltel's residential customers will pay the highest basic local exchange rates in Florida, while at the same time Alltel's customers will receive little offsetting benefit in long distance rate reductions, if the Commission approves Alltel's rate rebalancing proposal. Alltel provides service to less than 1% of the state's wireline telephone customers. Willis, Tr. 59. Except for Alltel's long distance affiliate, it is likely that interexchange carriers will flow through the Alltel access charge reduction to their customers statewide. Willis, Tr. 57-58. As a consequence, the customers of unaffiliated carriers located in Alltel's territory will likely see less than 1% of the local rate increase flowed back to them through reductions in long distance rates.

The customers of Alltel's long distance affiliate may see some reduction in long distance rates, though it won't fully offset the local rate increase. Alltel's long distance affiliate operates "predominantly" in the territory of Alltel Florida, Inc., but offers long distance service state-wide. Willis, Tr. 58, 77. Therefore, a significant portion, but by no means all, of the access charge reduction experienced by Alltel's long distance affiliate will flow back Alltel Florida customers who are also customers of Alltel's long

distance affiliate. Alltel Florida's long distance affiliate pays about one third of Alltel Florida's access charges. Willis, Tr. 77.

On average, customers of interexchange carriers located in the territory of Alltel, Florida, will experience local rate increases which are more than three times the amount of any long distance rate reduction they might receive if the Commission grants Alltel's petition. If customers use VoIP or cell phone for their long distance service, or if they don't make long distance calls, they'll receive no long distance rate reductions at all to offset Alltel Florida's residential local rate increase of \$6.33 per month.

This results in a substantial net detriment for the customers of Alltel Florida. In contrast, the customers of BellSouth, Verizon and Sprint who used interexchange companies for long distance service received, on average, virtually all of the local rate increases back through reductions in long distance rates as a result of the rate rebalancing petitions filed by those companies in 2003.

Issue 2: Will the effects of Alltel's rebalancing proposal induce enhanced market entry. If so, how?

Citizens' Position: *No. Alltel's petition, if granted, will do little if anything to induce enhanced market entry.*

Discussion: The primary competition cited by Alltel Florida includes VoIP providers, cellular telecommunications companies, and resellers. See *generally* Blessing prefiled testimony at 31-34 and Alltel's response to staff interrogatories 74-80. Alltel's petition does little if anything to enhance market entry by these companies.

The salient feature of the products offered by these companies is that they sell packages of services which typically include a host of custom calling features and long distance calling. Alltel has a product that competes with these services: Connect Unlimited. Connect Unlimited is designed to compete against wireless carriers, VoIP providers, and voice services offered by cable companies. Willis, Tr. 43. The Connect Unlimited bundle that Alltel Florida offers consists of the residential line, a package of features, and unlimited long distance calling. Willis, Tr. 39-40. Unlike the rate increase proposed by Alltel for R1 and B1 service, Alltel does not plan to raise the price of this product at all. Willis, Tr. 41. Accordingly there won't be an enhancement to competitive entry because the price of the service targeted to competitors' offerings won't be increasing. Raising R1 prices won't add \$6 in additional margin to the business plans of Vonage, notwithstanding implausible claims to the contrary by Alltel's witness Blessing in response to a question by Commissioner Edgar. See Blessing, Tr. 150. Since the price of Connect Unlimited won't be increasing, competitors won't be in any better position to raise their rates or increase their margins.

Alltel's Connect Unlimited service is already high priced compared to the services offered by competitors, so whatever impetus high prices by the incumbent local exchange carrier might provide toward fostering competitive entry is already in existence. Oddly, the benchmark for the price of Connect Unlimited is not the price charged by VoIP providers, cell phone companies, and resellers. Instead, its based upon the price charged by other ILEC's. Willis, Tr. 46. Connect Unlimited is already priced at what the market will bear. *Id.*

Alltel charges \$54.95 per month for connect unlimited, but the subscriber line charge, taxes, and other charges must be added to that, so that the actual price paid by customers is "60 or more dollars, \$60 or close to \$70." Willis, Tr. 45. For that, customers receive local service, unlimited long distance, and 4 custom calling features (caller ID deluxe, call waiting, caller ID on call waiting, and selective call rejection). Competitive offerings include significant additional features, most of which are also available from Alltel Florida but only at extra cost. These features include call forwarding, 3 way calling , repeat dial, call return, and voice mail. See Alltel response to staff interrogatory 74; Willis, Tr. 43-45. The price for cellular telephone service and VoIP service are set on a national basis. Willis, Tr. 55-57. A VoIP service providing more features than offered by Alltel's Connect Unlimited is priced at about \$25 per month, although VoIP requires a broadband connection. See Willis, Tr. 49. Price incentives for competitors will remain the same whether the Commission grants Alltel's petition or not.

Competitors won't experience material cost reductions, either. In response to questions asked by staff at hearing, Alltel stated that competitors will receive cost reductions "to the extent they pay terminating access." Blessing, Tr. 183. While this statement is true, it can be misleading. Competitors either do not pay terminating access charges, or the terminating access charges are immaterial. Resellers (who receive no discount from Alltel) and VoIP providers do not pay access charges. Cellular telephone calls made within the local calling area do not incur access charges.

Intrastate long distance phone calls from cell phones to a wireline subscriber in Alltel Florida's territory may incur terminating, but not originating, access charges. This

extremely small cost saving to cell phone companies would make no difference to competitive entry. At least three cell phone carriers provide service today in Alltel's territory (Verizon Wireless, Cingular, and Alltel Wireless), and their prices are set nationally in any event. National cellular telephone companies aren't about to change their prices on account of rate rebalancing by Alltel Florida.

Unlike the 2003 proceedings involving BellSouth, Verizon and Sprint, no competitors intervened in this proceeding to urge the Commission to grant the company's petition. In the 2003 proceeding AT&T and MCI intervened both as interexchange carriers and as local competitors using UNE to compete with the local exchange companies. Knology, a new facilities based competitor, also urged the Commission to approve those petitions. Alltel Florida, on the other hand, has no UNE competitors at all. Its wire density of 25 access lines per square mile compares unfavorably to 465 access lines per square mile for Verizon, 341 for BellSouth, and even 94 for Sprint. See Willis prefiled testimony, page 5. In addition to its competitively unattractive wire density, even after Alltel's proposed rate rebalancing Alltel's access charge rates would still be at a level several times that charged by its adjoining incumbent local exchange telecommunications companies, BellSouth and Sprint. See Willis, Tr. 60. For these reasons and others, the local competition faced by Alltel Florida, to the extent there is any at all, will come primarily from cellular phone companies, resellers, and VoIP providers.

Alltel Florida hinders the ability of subscribers to use VoIP as an alternative to its local service by requiring DSL customers to also buy Alltel Florida local service. Alltel Florida offers DSL in all of its exchanges except Hastings. Blessing prefiled testimony,

page 28. However, because of Alltel's policy, customers cannot use DSL and VoIP service without also buying Alltel's local service. This relegates VoIP to the role of an extra line instead of the primary line for Alltel Florida's DSL customers. See prefiled testimony of David Blessing, page 28, footnote 24. Even worse, Alltel's policy insures that users of DSL also pay the higher local rates Alltel seeks to impose in this proceeding. Although Alltel claims that it filed its petition to bring about a more competitive local exchange market for the benefit of its residential customers, its policy of requiring DSL users to also buy Alltel local exchange service makes the local exchange market less competitive than it should be, not more. Alltel Florida is not and has not considered offering stand-alone DSL at any price. Willis, Tr. 78.

Resellers will also bear the full burden of Alltel's proposed local rate increases since they receive no discount from Alltel. Willis, Tr. 59. Every dollar of local rate increase will add another dollar to their costs.

Issue 3: Will Alltel's rebalancing proposal reduce intrastate switched network access rates to interstate parity over a period of not less than two years or more than four years?

Citizens' Position: *No position.*

Issue 4: Is Alltel's rebalancing proposal revenue neutral, as defined in Section 364.164(2), Florida Statutes?

Citizens' Position: *No position.*

Issue 5: Should Alltel's rebalancing proposal be granted or denied?

Citizens' Position: *Alltel's rate rebalancing proposal should be denied. If the Commission nevertheless decides to approve Alltel's rate rebalancing proposal, the approval should be made contingent upon Alltel offering stand-alone DSL to all of its customers.*

Discussion: The bottom-line reason why the Commission should deny Alltel's petition is that granting the petition will not create a more competitive market for the benefit of residential customers. The adverse effect of increasing local residential rates by more than six dollars per month far exceeds any benefits which might inure to residential customers. A summary of pertinent points, as well as some of the differences between this petition and the petitions granted by the Commission in 2003, follows:

- Competitors will not be further drawn to Alltel's territory because of the rate increases. They do not compete against R1 service. Instead, they compete against Alltel's Connect Unlimited service which has a bundle of features and long distance service, as do the competitors' services. Connect Unlimited is already priced high, and its price will not increase as a result of this proceeding. Competitors will therefore have no greater incentive to enter the market.

- Competitors such as cellular telephone and VoIP providers set their services and prices on a nationwide basis. Granting Alltel's petition won't affect their offerings or prices.

- Alltel offers no discount to resellers.

- Alltel Florida's customers will receive less than one third of the local rate increases back through lower long distance rates. In the 2003 case, on average customers received virtual all of the local rate increases back through reduced long distance charges if they used interexchange carriers for long distance calling.

- Alltel's access charge prices will be many times the access charge price charged by its adjacent local exchange carriers BellSouth and Sprint, even with rate rebalancing. To the extent a competitor pays access charges, BellSouth and Sprint are more attractive territories.

- Wire density in Alltel's territory is unattractive compared to the wire density in BellSouth and Sprint's territory.

- Competitors do not use UNE's, as they did during the 2003 cases, to compete against the incumbent local exchange carrier. In those cases competitors such as AT&T and MCI intervened, both as interexchange carriers and as local competitors using UNE's, to urge the Commission to approve the petitions. No such competitors appeared in this

proceeding, nor were there any facility based competitors in this proceeding such as Knology urging the Commission to approve the petition.

- Alltel's refusal to offer stand-alone DSL diminishes VoIP's ability to compete with Alltel as a primary provider of local exchange service and relegates VoIP to second or third line status for the DSL customers of Alltel Florida.

Issue 6: Should the IXC flow through procedures addressed in Docket No. 030961-TI and ordered in PSC-03-1469-FOF-TL, be applied to Alltel's rebalancing proposal?

Citizens' Position: *Yes.*

Issue 7: Would the Commission's approval of Alltel's rebalancing proposal be consistent with the section 364.01(4)(a), Fla. Stat.?

Citizens' Position: *No, the price for basic local telecommunications service will be less reasonable and affordable if the Commission grants Alltel's petition.*

Discussion: Section 364.01(4)(a) requires the commission to exercise its exclusive jurisdiction in order to protect the public health, safety, and welfare by ensuring that basic local telecommunications services are available to all consumers in

the state at reasonable and affordable prices. Reasonable and affordable prices allow and encourage customers to subscribe to basic local telecommunications services.

In July of 2003 (just before the Commission considered the rate rebalancing proposals of BellSouth, Verizon and Sprint) subscribership was at a high of 95.2% for both the United States and Florida. Exhibit 8, Table 3. Since then, subscribership dipped to 92.4% for the United States and 91.6% in Florida in March, 2005 (Exhibit 9, Table 3). The most recent data shows subscribership at 94.0% for the United States and 93.0% for Florida. Exhibit 58. Although subscribership was at an all time high both in Florida and the United States just before the Commission approved rate rebalancing petitions by BellSouth, Verizon and Sprint, subscribership has since fallen. Subscribership in Florida is now a full percent less than the national average.

The Commission should be concerned that the subscribership figures for Florida are no longer what they were in July of 2003. Although the reasons for this decline are unclear, increasing residential rates in the rural areas served by Alltel Florida by over six dollars per month will not help reverse this negative trend.

Issue 8: Should the docket be closed?

Citizens' Position: *No position.*

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DOCKET NO. 050693-TL

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S. Mail or hand-delivery and by e-mail to the following parties on this 6th day of December, 2005.

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