**Matilda Sanders**

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**From:** terry.scobie@verizon.com

**Sent:** Friday, June 08, 2007 1:44 PM

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**To:** Filings@psc.state.fl.us

**Cc:** de.oroark@verizon.com; cecelia.t.roudiez@verizon.com; David Christian; joan.gage@verizon.com; demetria.c.watts@verizon.com

**Subject:** Docket No. 060476-TL - Verizon Florida LLC's Responses to Staff's Data Request Dated May 11, 2007

**Attachments:** 060476 VZ FL OSP Rate Cap Data Req Responses 6-8-07.pdf

The attached filing is submitted in Docket No. 060476-TL on behalf of Verizon Florida LLC by

Dulaney L. O'Roark III
Six Concourse Parkway
Suite 600
Atlanta, Georgia 30328
(770) 284-5498
de.oroark@verizon.com

The attached .pdf document contains 6 pages - transmittal letter (1 page), certificate of service (1 page) and Responses (4).

*(See attached file: 060476 VZ FL OSP Rate Cap Data Req Responses 6-8-07.pdf)*

Terry Scobie
Executive Adm. Assistant
Verizon Legal Department
813-483-2610 (tel)
813-204-8870 (fax)
terry.scobie@verizon.com

**Dulaney L. O'Roark III**
Vice President-General Counsel, Southeast Region
Legal Department

ORIGINAL

verizon

Six Concourse Parkway
Suite 600
Atlanta, Georgia 30328

Phone 770-284-5498
Fax 770-284-5488
de.oroark@verizon.com

June 8, 2007 – **VIA ELECTRONIC MAIL**

Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 060476-TL
Petition to initiate rulemaking to amend Rule 25-24.630(1) and Rule 25-24.516(1), F.A.C., by BellSouth Telecommunications, Inc.

Dear Ms. Cole:

Enclosed for filing in the above matter are Verizon Florida LLC's Responses to Staff's Data Request dated May 11, 2007. Service has been made as indicated on the Certificate of Service. If there are any questions regarding this filing, please contact me at 770-284-5498.

Sincerely,

s/ Dulaney L. O'Roark III

Dulaney L. O'Roark III

tas

Enclosures

## CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing were sent via U.S. mail on June 8, 2007 to:

Staff Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Abel Law Firm
Steven H. Denman/William P. Cox
P.O. Box 49948
Sarasota, FL 34230-6948

AT&T Florida
J.Meza/E.Edenfield/M.Gurdian
c/o Ms. Nancy S. Sims
150 South Monroe Street, Suite 400
Tallahassee, FL 32303-1556

Embarq Florida, Inc.
F. B. (Ben) Poag
MC FLTLHO0107
P. O. Box 2214
Tallahassee, FL 32316-2214

Embarq Florida, Inc.
Susan Masterton
Mailstop: FLTLHO0102
1313 Blair Stone Road
Tallahassee, FL 32301

Florida Public Telecommunications Association, Inc.
Bruce W. Renard
9432 Baymeadows Road, Suite 140
Jacksonville, FL 32256

Qwest Communications Corporation
Cathy Hansen
1801 California Street, 47th Floor
Denver, CO 80202-2605

s/ Dulaney L. O'Roark III

ORIGINAL

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

| | |
|---|---|
| In re: Petition to initiate rulemaking to amend Rule 25-24.630(1) and Rule 25-24.516(1), F.A.C., by BellSouth Telecommunications, Inc. | Docket No. 060476-TL<br>Filed: June 8, 2007 |

**VERIZON FLORIDA LLC'S RESPONSES TO THE FLORIDA PUBLIC SERVICE COMMISSION'S DATA REQUEST DATED MAY 11, 2007**

1) Do you believe the Florida Public Service Commission (FPSC) can eliminate the rate caps set forth in Rules 25-24.630(1) and 25-24.516(1), Florida Administrative Code, without taking in to consideration Chapter 364.3376(3), Florida Statutes? Please explain your response.

**RESPONSE:** The statutory provision cited in this request states: "For operator services, the commission shall establish maximum rates and charges for all providers of such services within the state." Fl. Stat. § 364.3376(3). Although it appears the Commission must take this provision into account, it need not be read as requiring caps to be established at set amounts. For example, a number of states establish maximum rates based on the tariffed rates of either the leading LEC or IXC.

2) Please explain how the "public interest" would be served by eliminating or increasing the rate caps on operator service calls.

**RESPONSE:** Eliminating or increasing rate caps would serve the public interest by fostering competition and promoting the deployment and retention of existing payphones for use by the public. Permitting operator services providers (OSPs) and payphone providers (PSPs) to set rates based on market demand can enable them to add or retain payphones for use by the public that PSPs might otherwise remove because of artificial and uneconomic pricing constraints. Allowing market rates assures the continuing availability of payphones for use by the public. At the same time, OSPs, PSPs and aggregators would still compete to set their respective rates in response to consumer demand and competition. To survive in the market, OSPs will have to operate their businesses efficiently and offer competitive rates at levels that consumers are willing to accept. OSPs that cannot meet this competition will not survive. In short competition for these services will serve the public interest.

3) If the provision of operator services is a competitive market, is it reasonable to expect rates for these services to decrease, not increase? Please explain your response.

**RESPONSE:** Rates must meet customer demand and expectation in a competitive market and can be influenced by a number of factors such as product differentiation, variable costs among providers, quality and reliability, availability of substitutes, ease of use and convenience. Whether rates will increase or decrease over the initial short term, or the longer term, will therefore be influenced by these factors as well as changes in these factors. Because competitors vie for customers based on making their rates and services more attractive and widely available to customers, the market will effectively regulate pricing. Even if operator service rates from payphones do not immediately decrease once the caps are eliminated or increased by the FPSC, competitive pressures will militate against any unreasonable increases and may ultimately drive prices downward, absent any material change in prevailing circumstances. Moreover, should any market dysfunction occur in the future, the Commission can investigate and apply appropriate regulation, if needed.

4) If the Commission believes the rate caps should be increased and not eliminated, how should those rates be developed?

**RESPONSE:** As previously noted by Verizon and other parties, the majority of other states either have no operator service rate caps or use the tariffed rates of the leading LEC or IXC as a benchmark. The market for operator services is nationwide and LATA distinctions have become largely irrelevant to many callers. Consumers subscribe to wireline, wireless and VoIP calling products that make no pricing distinction between in-state or out-of-state calls. Verizon therefore suggests that the Commission consider using the prevailing rates that the major OSPs and carriers maintain for interstate OSP calls as floating rate caps for intrastate Florida OSP calls. Then, as the rate thresholds for interstate rates decrease or increase, the in-state rates for Florida citizens would remain consistent with nationwide norms.

5) Do you believe the FPSC can set these rates based on the costs to provide operator services? If so, should they be cost-based? Please explain your response.

**RESPONSE:** The Florida statutory provision that enables the Commission to establish maximum rates and conditions does not specify how those rates and conditions are to be determined. *See* Fl. Stat. § 364.3376(3). Cost-based rates would not be a practical or appropriate methodology in establishing any rate cap. There are numerous OSPs, PSPs and aggregators in Florida, each of which may have different equipment, facilities and costs in providing their respective services. Providers' cost may also vary depending on the locations where service is to be provided. For example, it is not atypical for the same toiletry product at an airport to be priced higher than at a discount store, partly due to the differences in the real estate cost incurred by the provider. Similarly, OSPs must compete to secure locations and payphones where they will be permitted to offer their services, and the cost of securing and maintaining those locations costs

may vary. Moreover, aggregating or averaging costs among all providers to develop a single one-size-fits-all rate cap would be inequitable and could serve as a disincentive for some providers to work toward more cost efficient provisioning of services.

6) If the Commission believes rates must be based on costs, should all parties be required to prepare/present costs studies? Should all studies be prepared/presented the same way?

**RESPONSE:** If a rate cap were to be cost-based, all providers subject to the rate caps, whether parties or not, should be required to present cost studies. While the form of the presentations may vary by provider, a consistent methodology should be used to assure accurate analysis and comparison of provider costs. As noted above, however, the use of any cost methodology is an impractical approach and would hinder rather than foster competition.

7) If the cost to provide any operator service is determined to be less than the current rate caps, should those rates be reduced?

**RESPONSE:** The rates should not be reduced. As stated above, Verizon does not believe rate caps should be based on cost. Reducing rate caps can only serve to deter current providers and prospective entrants from maintaining or expanding the availability of services. Such a result would be contrary to the public interest. Consumers who elect to use payphones and other aggregator phones will continue to have alternative options to zero-dialed operator service calls, including use of 800 and 1010 access codes and prepaid cards. Callers will also be afforded the opportunity to receive a rate quote prior to completion of the call (*see* Florida Rule 25-24.930(2) and 47 C.F.R. § 64.703(a)(3)). Therefore, consumers are in the best position to make an informed choice of whether to use a particular OSP or PSP or an alternative service.

8) In post-workshop comments filed by various parties on September 16, 2006, in Docket No. 060476-TL, it was stated that the provision of operator services is a competitive market. Do you agree? If so, does this mean that there are multiple providers from which payphone providers and call aggregators can obtain services?

**RESPONSE:** Verizon agrees that the market in which OSPs vie to be the preferred carrier for PSPs and aggregators is competitive as is the market in which the OSPs, PSPs and aggregators compete for callers. There are multiple OSPs from which PSPs, hotels and other aggregators can choose to serve their respective phones. Similarly, consumers have many competitive choices and the market has broadened significantly to include providers of substitute services. Numerous alternatives to zero-dialed calling are available to consumers who use payphones and other aggregator-provided equipment. Consumers today can complete calls using dial-around access numbers such as 1-800 CALL ATT or

1010XXX. Consumers also can choose to use prepaid cards that are readily available from many vendors, including convenience stores. Consumers may elect to use a subscription based or prepaid wireless service in lieu of any OSP. The extensive access to wireless alternatives that consumers now enjoy is evidenced by the existence of more than 237 million wireless subscribers in the United States. (*See* www.CTIA.org.)

9) From the viewpoint of a consumer placing an operator-assisted call at a payphone or in a call aggregator context, do you believe the consumer has a competitive alternative? Please explain your response.

**RESPONSE:** Yes, as discussed in response to Requests 7 and 8, such consumers have numerous readily available competitive alternatives, including a wide array of dial-around code services, prepaid cards, and wireless service. Consumers are also informed of their right to use their preferred carrier of choice by conspicuously posted dial instruction placards, as required by Florida Rule 25-24.515(10) and 47 C.F.R § 64.703(b)(2).