BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Comprehensive Review of the Revenue Requirements and Rate Stabilization Plan of Southern Bell Telephone and Telegraph Company	)	Docket No. 920260-TL Filed: 9-11-96

**INTERMEDIA COMMUNICATIONS INC.'s
AMENDED DIRECT TESTIMONY OF
THOMAS ERWIN ALLEN, JR.**

Q. Please state your name, employer and business address.
A. My name is Thomas E. Allen, Jr. I am employed by Intermedia Communications Inc. ("Intermedia") as Vice President, Strategic Planning and Regulatory Policy. My business address is Cobb Corporate Center, 450 Franklin Road, Suite 170, Marietta, Georgia, 30067.
Q. What are your responsibilities in that position?
A. I am the primary interface between Intermedia Communications and the Local Exchange Companies. I am also responsible for the setting of regulatory policy.
Q. Please give a brief description of your background and experience.
A. I graduated from Emory University in 1976 with a Bachelor of Arts in Political Science. In 1978, I received a Master of Public Administration degree with a concentration in Public Finance from the University of Georgia. I joined Southern Bell in 1979 as an Installation Foreman. From that position I subsequently had assignments in the Customer Services organization. In 1985, I accepted a position in the Southern Bell Headquarters' Rates and Tariffs group with responsibility for dedicated service tariffs. In 1986, I was promoted to Manager in the Rates and Tariffs group maintaining my same responsibilities. In 1991, my organization was consolidated into the BellSouth Regulatory Policy and Planning Department. There I was

responsible for developing and analyzing local competition policies and strategies. The last several years were spent specifically looking at the subjects of local competition, unbundling and resale. I joined Intermedia in October, 1995.

Q. What is the purpose of your testimony?

A. I have three basic purposes in giving this testimony. First, I wish to offer some basic principles the Commission should honor in evaluating the various proposals in this docket. Second, I wish to present and support Intermedia's recommendation on the proposals in this docket in light of these principles. And third, in the context of BellSouth's Megalink proposal, I wish to propose the reduction of certain other rates.

Q. What principles should the Commission use in evaluating the various proposals in this docket?

A. First, given that we are on the threshold of a more competitive environment for the provision of local exchange telecommunication services, the Commission should avoid doing any harm to that competitive environment. Second, the Commission should prefer rate reductions that actually promote competition. Third, the Commission should prefer rate reductions that are cost-based when they meet the first two principles, i.e., when they do no harm and tend to promote competition. And fourth, the Commission should prefer rate reductions that benefit customers generally as opposed to reductions that benefit a narrow slice of customers.

Q. What is Intermedia's recommendations with respect to the proposals in this docket?

A. Perhaps the most useful way to present Intermedia recommendations is to address the proposals as they are listed in the Prehearing Order. Beginning with BellSouth's proposals, the Prehearing Order list its 14 discrete proposals as follows:

<u>BellSouth Proposal</u>	<u>millions</u>
1) Reduce switched access (introduce zone density)	$16.40
2) Reduce PBX rates and introduce term contracts	13.45
3) Waive certain business and residential Secondary Service Order charges	5.81
4) Reduce First Line Connection charge (Business)	3.22
5) Introduce Area Plus for Business	2.25
6) Eliminate usage charge on Remote Call Forwarding	2.01
7) Reduce DID recurring and	1.88

non-recurring charges	
8) Credit for ECS routes implemented	1.10
9) Reduce Business Line monthly rates in Rate Group 12	.62
10) Reduce Megalink interoffice rates	.58
11) Reduce WATS and 800 Service access line charges	.36
12) Eliminate the Secondary Service Order charge for WatsSaver	.30
13) Reduce SNAC charges for Business	.07
14) Reduce DS-1 interoffice mileage rates	.04
Total	$48.09

Q. What is Intermedia's recommendation with respect to Issue 1 A) 1), the proposal to use $16.4 million to reduce switched access via the introduction of zone density pricing?

A. Intermedia recommends that the Commission reject this proposal. Although zone density pricing is in theory a more cost-based approach to setting the affected rates, BellSouth's proposal would tend to be anticompetitive. If the Commission wishes to use some of the $48 million to reduce access charges, it would be better to eliminate the RIC as suggested in the Joint Proposal of ATT, MCI, Sprint Communications, FIXCA, Ad Hoc and McCaw Communications.

Q. What is Intermedia's recommendation with respect to Issue 1 A) 2), the proposal to use $13.45 million to reduce PBX rates and introduce term contracts?

A. The Commission should reject this proposal as anticompetitive. PBX trunks are a very competitive service and concentrating rate reductions in this area would only enhance BellSouth's current competitive advantage. The proposed $29.00 rate for 49 to 60 months is very low - close to or perhaps below cost. Intermedia urges the Commission to review carefully the cost information to insure that BellSouth has complied with the cost requirements for these proposed rates. In any event, these rate reductions would widen BellSouth's competitive advantage in the state.

Q. Why does Intermedia oppose reduction of PBX rates through term contracts?

A. The proposal to introduce term contracts is another in a series of recent actions by BellSouth to lock up market share. Intermedia has recently filed a protest to BellSouth's contract service arrangements (CSAs) tariff expansion that allows CSAs on a much broader range of services. Intermedia is not against contracts or reduction of these rates in principle; rather, Intermedia opposes BellSouth's strategic use of CSAs and/or reductions to lock up customers and thus limit competition in the near term. BellSouth understands well that its competitors are preparing to compete aggressively for these customers and is seeking to preempt competition by locking up market share.

Q. What is the problem with offering customers a better deal through term contracts and CSAs?

A. As suggested above, BellSouth can use term contracts and CSAs to lock up the market and effectively deny <u>both</u> the contracting customer and <u>other</u> customers the benefit of a variety of competitive choices. Customers are being bombarded with offers of term contracts and CSAs for local exchange service by the incumbent before competitors can bring their services to market (much of the delay of getting products to market is the result of the current negotiating environment and the recent FCC order). Consequently, there is a serious risk that competitors will have fewer customers available to market their services to; there will be some customers, of course, but the market will be greatly reduced. Even from the contracting customer's perspective, BellSouth's strategy of locking up the market through term contracts and CSAs is troubling. For example, those customers in long term contracts will be denied the opportunity to get similar services at reduced rates from alternative providers. Intermedia believes that the purpose of introducing competition is to grant all customers the ability to take advantage of telecommunication providers. The public interest requires that the customer be able to "shop" the market for the services and products that best meets its particular needs. Thus, the full benefit of competition will be delayed, if not desired, if BellSouth is allowed to use term contracts and CSAs without some buffering policy such as "Fresh Look."

Q. Is there any kind of rate reduction for PBX or business rates that Intermedia would find acceptable?

A. Intermedia believes that these rates may need to be reduced in general; nevertheless, the Commission should not allow the dramatic reduction proposed by BellSouth and should not allow term contracts at this time. Once the Commission has adopted a "Fresh Look" policy and there are bona fide competitors for PBX services, it would be appropriate to allow term contracts.

Q. What is Intermedia's recommendation with respect to Issue 1 A) 3), the proposal to use $5.81 million to waive certain business and residential Secondary Service Order charges?

A. Intermedia opposes the waiver of these charges, although it may be appropriate to implement some cost-based reductions.

Waiver of charges would promote BellSouth's position in the market by providing a below cost discount to prospective customers and is thus anticompetitive.

Q. What is Intermedia's recommendation with respect to Issue 1 A) 4), the proposal to use $3.22 million to reduce First Line Connection charge (Business)?

A. Intermedia opposes the reduction of these charges. Rather than benefit ratepayers generally, these reductions target business customers to give BellSouth an unnecessary advantage in the market place. This proposal would impede competition rather than promote it.

Intermedia also opposes those reductions because they do not appear to be cost-based. Service connection charges historically have been cost based; for example, many of the LECs raised service connection charges because of increased labor cost in recent years. Thus, it is troubling that BellSouth now proposes a reduction of its line connection charge <u>only</u> for business customers. BellSouth is proposing to reduce the business rate by 29% from $56.00 to $40.00. This new business rate would match the rate for residential customers. In the past, the company had argued successfully that the business rate should be <u>more</u> because business customers usually triggered higher engineering costs (typically more lines and features are provided to business customers). I am not aware of any claim that the cost of serving business customers has declined but the cost of serving residential services has not. In any event, Intermedia believes that nonrecurring charges, which have typically been cost based, should not be reduced as requested unless the company can provide support for the proposed reduction.

Q. What is Intermedia's recommendation with respect to Issue 1 A) 5), the proposal to use $2.25 million to reduce introduce Area Plus for Business?

A. Intermedia opposes the this proposal. Rather than benefit ratepayers generally, the proposed reduction would target business customers to give BellSouth an unnecessary advantage in the market place. Thus, this proposal would impede competition rather than promote it.

Q. What is Intermedia's recommendation with respect to Issue 1 A) 6), the proposal to use $2.01 million to reduce eliminate usage charge on Remote Call Forwarding?

A. Intermedia supports the reduction of the recurring rates for remote call forwarding, but only where such call forwarding is associated with number portability. Facilitating number portability promotes competition and benefits ratepayers generally.

Q. What is Intermedia's recommendation with respect to Issue 1 A) 7), the proposal to use $1.88 million to reduce DID recurring and non-recurring charges?

A. Intermedia opposes this proposal as it would only widen BellSouth's competitive advantage. BellSouth is proposing to reduce DID Trunk Termination recurring rates from $31.00 to $20.00 and reduce the nonrecurring charge from $90.00 to $65.00. In addition, the Company proposes to reduce the Establishment Trunk Group NRC from $915.00 to $55.00. BellSouth has decided to reduce these rates and charges at this time for the same reason it has proposed the PBX rate reductions: to lock out competition. NRCs are typically established at cost and Intermedia does not believe that the cost for DID establishment has been reduced by 94%. In addition, the Commission should not approve these reductions because NRCs typically affect future customers and the reductions in this proceeding should benefit <u>current</u> customers.

In summary, Intermedia believes that DID charges should not be reduced using the revenues identified in this proceeding. BellSouth would reduce charges that do not benefit the general body of rate payers, nor, for the most part, current customers. Moreover, Intermedia believes the proposed dramatic change in the NRCs are not cost based and not pro-competitive.

Q. What is Intermedia's recommendation with respect to Issue 1 A) 8), the proposal to use $1.10 million to as a credit for certain ECS routes?

A. Intermedia does not oppose this proposal. The Commission has previously determined the ECS routes in question to be in the public interest.

Q. What is Intermedia's recommendation with respect to Issue 1 A) 9), the proposal to use $0.62 million to reduce Business Line monthly rates in Rate Group 12?

A. Intermedia opposes this proposal. BellSouth proposes reducing the rate group 12 monthly flat rate from $29.10 to $29.00. BellSouth states that the rates exceed their cost and reducing the rate brings them in line with the proposed PBX trunk rates (under the 49-to-60 month contract). Intermedia believes that while business rates may need to be reduced, basing the proposed reductions on inappropriate reductions in PBX rates would not promote competition or benefit the public generally.

Q. What is Intermedia's recommendation with respect to Issue 1 A) 10), the proposal to use $0.58 million to reduce Megalink interoffice rates?

A. Intermedia supports this proposal. These reductions would bring the rates closer to costs and would be pro-competitive. In addition, the Commission should reduce LightGate, MegaLink and SynchroNet rates (local channel and interoffice rates). The corresponding High Capacity Service and Digital Data Access Service rate should also be reduced. Specifically, the Commission should require a flat-rated local channel and reduce inter-office rates (both fixed and per mile).

Q. What is Intermedia's recommendation with respect to Issue 1 A) 11), the proposal to use $0.36 million to reduce WATS and 800 Service access line charges?

A. Intermedia opposes reduction of WATS & 800 Service Access Line charges for basic reasons. First, these reductions would benefit only a small number of customers in a narrow slice of the competitive market. Second, the reductions would not appear to be cost-based. BellSouth apparently believed that these access line charges were necessary to cover the costs associated with adding WATS and 800 Service. There has been no demonstration that the underlying costs of these services have decreased. Reductions of charges that benefit only a few consumers and that are not cost-based are likely anti-competitive.

Q. What is Intermedia's recommendation with respect to Issue 1 A) 12), the proposal to use $0.30 million to reduce eliminate the Secondary Service Order charge for WatsSaver?

A. Intermedia does not support the elimination of the Secondary Service Order charge for WatsSaver. BellSouth is again proposing a rate reduction that would neither be cost-based, nor benefit the general body of ratepayers.

Q. What is Intermedia's recommendation with respect to Issue

1 A) 13), the proposal to use $0.07 million to reduce SNAC charges for Business?

A. Intermedia supports this proposal. These reductions would bring the rates closer to costs, and is pro-competitive.

Q. What is Intermedia's recommendation with respect to Issue 1 A) 14), the proposal to use $0.04 million to reduce DS-1 interoffice mileage rates?

A. Intermedia supports this proposal, as it would also would bring the rates closer to costs and is pro-competitive.

Q. That concludes BellSouth's proposals. Do you wish to address the proposals of other parties?

A. Yes. Next I would like to address the proposed reductions made under the Joint Proposal of ATT, MCI, Sprint Communications, FIXCA, Ad Hoc and McCaw Communications. Issue 1 B) summarizes the Joint Proposal as follows:

Proposals	millions
1) Reduce PBX and DID trunk charges	$11.00
2) Eliminate the Residual Interconnection Charge	35.00
3) Reduce mobile interconnection rates	2.00
Total	48.00

Q. What is Intermedia's recommendation with respect to Issue 1 B) 1), the proposal to use $11 million to reduce PBX and DID trunk charges?

A. Intermedia opposes this proposal. The restructure of PBX rates and the elimination or reduction of NRCs provides little or no relief for the average rate payer and only improve BellSouth's competitive advantage.

Q. What is Intermedia's recommendation with respect to Issue B) 2), the proposal to use $35 million to Eliminate the Residual Interconnection Charge?

A. Intermedia does not oppose elimination of the RIC. Our only concern with this is that if the RIC is entirely eliminated the lion's share of the available revenues would have been used to reduce access charges. As a matter of policy, the Commission might choose to use some of that $35 million elsewhere. Intermedia does support FIXCA's basic point, however, that access charges need to be driven further toward costs as soon as possible.

Q. What is Intermedia's recommendation with respect to Issue 1 B) 3), the proposal to use million to reduce mobile interconnection rates?

A. Intermedia does not oppose this proposal. As we understand, this proposal would bring mobile interconnection usage rates closer to cost, which is procompetitive.

Q. In Issue 1 C, the Public Counsel proposes to use some of the available revenue establish a reserve fund to assist BST customers who have experienced problems with conversion to the 954 NPA? What is Intermedia's recommendation with respect to that proposal?

A. Intermedia takes no position on that issue at this time.

Q. In Issue 1 D), FCTA proposes to use some of the available revenue to eliminate nonrecurring charges for interconnection trunks and special access circuits ordered by ALECs?

A. We favor this proposal. These reductions would facilitate interconnection and thus would promote competition.

Q. In Issue 1 E), Palm Beach Newspapers, Inc./Florida Today proposes to reduce usage rates for N11 service to $.01 per minute. What is Intermedia's position on this proposal?

A. Intermedia does not oppose this proposal because it is cost-based and thus would promote competition in local information services.

Q. With respect to Issue 2, to the extent the Commission does not approve the plans proposed by BellSouth, Public Counsel, FCTA, Palm Beach Newspapers, Inc./Florida Today and AT&T, MCI, Sprint, FIXCA, AD Hoc and McCaw, how should the Commission implement the scheduled rate reduction?

A. As suggested in my previous answer to Issue 1 A) 10), the proposal to use $0.58 million to reduce Megalink interoffice rates, Intermedia believes that the Commission should also reduce (a) LightGate, MegaLink and SynchroNet rates (local channel and interoffice rates) and (b) the corresponding High Capacity Service and Digital Data Access

Service rates. Specifically, the Commission should require a flat-rated local channel and reduce inter-office rates (both fixed and per mile). These proposals have not been advanced by any other party, yet would be an important pro-competitive, cost-based use of the available funds.

Q. Does this conclude your testimony?

A. Yes it does.

CERTIFICATE OF SERVICE

Docket No. 920260-TL

I HEREBY CERTIFY that a copy of the foregoing Intermedia Communications Inc.'s Amended Direct Testimony of Thomas Erwin Allen, Jr. has been furnished by hand delivery, facsimile, or overnight mail this 11th day of August, 1996, to:

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