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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY OF

DON J. WOOD

ON BEHALF OF

MCI TELECOMMUNICATIONS CORPORATION

DOCKET NO. 920260-TL

NOVEMBER 8, 1993

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BY TELETYPE TO THE COMMISSION

TESTIMONY OF DON J. WOOD ON BEHALF OF MCI
FPSC DOCKET NO. 920260-TL, NOVEMBER 8, 1993

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2

3 A. My name is Don J. Wood, and my business address is Suite 720, 1850 Parkway
4 Place, Marietta, Georgia 30067.

5

6 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

7

8 A. I am employed by GDS Associates, Inc. as the Senior Project Manager
9 responsible for Telecommunications Consulting Services.

10

11 Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.

12

13 A. I received a BBA in Finance with distinction from Emory University and an
14 MBA with concentrations in Finance and Microeconomics from the College of
15 William and Mary. My telecommunications experience includes employment at
16 MCI Telecommunications Corporation as Manager of Regulatory Analysis for
17 the Southern Division. In this capacity I was responsible for the development
18 and implementation of regulatory policy for MCI's operations in the southern U.
19 S. I next served as a Manager in the Economic Analysis and Regulatory Affairs
20 Organization, where I participated in the development of MCI's regulatory

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1 policy for national issues. I have also been employed in the local exchange
2 industry by BellSouth Services in its Pricing and Economics, Service Cost
3 Division. My responsibilities included performing costs analysis of new
4 services, preparing documentation for filings with State Commissions and the
5 FCC, developing methodology and computer models for use by other analysts,
6 and performing special assembly cost studies.

7

8 Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

9

10 A: I have been asked by MCI to present a rate design proposal for basic local
11 exchange (*local*) and intraLATA toll service (*toll*) to be implemented in
12 Southern Bell's service territory. I will also describe the adverse impacts of the
13 current levels of Southern Bell's intrastate access charges, and the need to
14 reduce those charges.

15

16 The rate design I propose is designed - unlike the calling plan proposed by
17 Southern Bell - to increase the value of these services to Florida consumers in a
18 way that does not depend on the individual customer's calling patterns within
19 the LATA. In other words, subscribers who make all local calls, predominantly
20 short-haul intraLATA toll calls, predominantly longer-haul intraLATA toll calls,

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1 or any combination of these will each benefit under this proposal. In addition, a
2 subscriber need not make calls that are either shorter or longer than a given
3 duration in order to benefit, nor must he make more or less than a given
4 number of calls in a month. Finally, the recommended rate design does not
5 require subscribers to obtain special directories or to have any additional
6 knowledge of toll rate centers or the mileage between them.

7

8 Q: WHY IS IT IMPORTANT FOR THE COMMISSION TO ADDRESS THE
9 ISSUE OF AN APPROPRIATE LOCAL/TOLL RATE STRUCTURE IN THIS
10 CASE?

11

12 A: The Commission has before it a rate design plan by Southern Bell that will
13 expand the definition of "local" calling to include local measured service and a
14 significantly larger geographic area. The Expanded Local Calling Area in
15 Southern Bell's plan will potentially include, as "local" calling with a usage
16 charge, approximately sixty percent of Southern Bell's existing intraLATA toll
17 minutes. The present review of Southern Bell's operations pursuant to F.S.
18 §364.035 and §364.036, and the fact that another such review will not take
19 place for four years, makes this case a logical opportunity for the Commission
20 to address this issue. Specifically, the Commission should determine how the

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1 calling needs of Florida subscribers can best be met, and adopt a local/toll rate
2 design that will meet those needs. In its determination of what type of calling
3 will be denominated as local and which calls will be considered intraLATA toll,
4 the Commission will in effect be deciding what traffic will be shielded from
5 competition by statute and rate design, and what traffic will be subject to the
6 Commission's competitive toll policies.

7

8 Q: WHAT BASIC CRITERIA SHOULD A LOCAL/TOLL RATE DESIGN
9 INCLUDE?

10

11 A: The local/toll rate structure adopted by the Commission should include the
12 following basic elements:

13

14 1) A local/toll rate design should allow for a more uniform response to any
15 pressures that might exist for expansion of the local flat-rate calling area.
16 Ideally, a uniform plan could replace most or all of the variety of
17 Extended Area Service (EAS) type plans currently in place in Florida.

18

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1 2) The local/toll rate design should allow for responses to the pressures for
2 lower usage rates for intraLATA toll services, and should seek to make
3 intraLATA toll calling as convenient as possible for consumers to use.

4
5 3) The local/toll rate design should be based on conventional dialing
6 patterns that customers are familiar with using. A local/toll structure
7 designed for consumer benefit will not require the use of additional
8 dialing directories or presuppose knowledge of rate centers and call
9 mileage in order for the subscriber to avoid unexpected usage charges.

10
11 4) A local/toll rate design structured to maximize consumer benefit will not
12 require subscribers to make calls of a given frequency, duration, or
13 length in order to be better off when compared to the existing rate
14 design.

15

16 Q: HOW SHOULD "LOCAL" SERVICE AND "TOLL" SERVICE BE DEFINED
17 WITHIN THE CONTEXT OF A LOCAL/TOLL RATE DESIGN
18 STRUCTURE?

19

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1 A: The distinction between local and toll services is ultimately a matter of labelling
2 a given call as one service or the other. While the revenues and costs for local
3 and toll services have historically been treated differently in the Separations
4 process and subsequent accounting conventions, the LECs provide local, toll,
5 and access services over the same ubiquitous public network. If a call
6 completed between two stations is billed by the LEC as toll service today but is
7 "reabeled" as local service tomorrow, the call will continue to be carried in the
8 same way over the same network facilities. Functionally, a LEC-completed call
9 between two end-users is the same regardless of the service label; the difference
10 arises in how the customer is billed for the service.

11
12 The existence of separate classifications of calling (local vs. toll), therefore, are
13 tariff distinctions, not technical or network distinctions. The tariff distinctions
14 between local and toll (or long distance) calls are not based on an empirical
15 definition, however. Southern Bell's General Subscriber Service Tariff (GSST),
16 Section A1., defines *local service* as "A type of localized calling whereby a
17 subscriber can complete calls from his station to other stations within a specified
18 area without the payment of long distance charges." The definition provided for
19 *local service area* goes on to state that "A *local service area* may include one or
20 more exchange service areas." In other words, *local calls* are those calls that

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1 are 1. local, 2. not "long distance," and 3. completed between stations that are
2 located within the same exchange, unless they are located in different
3 exchanges.

4
5 Section A1. goes on to define a *local message* as "a message between telephone
6 stations within the same local service area," and a *long distance message* as "a
7 message between telephone stations in different exchange areas for which a long
8 distance message charge is made." While no comprehensive definition is
9 provided in Southern Bell's present tariff, it is clear that the presence of usage
10 charges is an important element in distinguishing the two services.

11
12 With no technical or network differences, and no empirical definition in the
13 Southern Bell tariff, the distinction between local and toll service becomes a
14 matter of end user perception. To subscribers, *local* service does not mean that
15 calls are carried over certain network facilities according to a tariffed definition,
16 it most often means that another telephone subscriber located relatively nearby
17 can be reached by dialing a seven digit number and that the call will be "free;"
18 that is, it will carry no usage charges over and above the flat rate monthly
19 charge for the service. *Toll*, or *long distance* service means to subscribers that
20 the call to another subscriber located relatively farther away will require that a

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1 "1" or "0" be dialed before the number, and by dialing the "1" or "0" the
2 customer is reminded to expect usage charges for the call.

3
4 In the absence of technical distinctions or empirical tariff definitions, local and
5 toll service should be defined from the customer's perspective in terms of
6 dialing arrangement and usage charges. Customers in Florida have come to
7 expect that *local* calls dialed on a seven digit basis do not carry usage charges,
8 and that by dialing a "1" or "0" the subscriber understands that he has made a
9 *long distance* or *toll* call and will be billed usage charges. The Commission
10 should require any party wishing to change these well-understood conventions to
11 demonstrate conclusively why such a change is needed.

12
13 Q: PLEASE DESCRIBE THE SPECIFIC ELEMENTS OF THE RATE DESIGN
14 YOU PROPOSE.

15
16 A: First, the plan adopted by the Commission should allow a uniform response to
17 any perceived pressures for expansion of local calling areas. In other words, a
18 consistent rate design should be adopted throughout Southern Bell's Florida
19 operating territory if, but only if, the Commission determines that the needs of
20 customers for expanded local calling are currently going unmet.

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1 Second, any plan adopted should clearly identify local and toll calling *from the*
2 *customer's point of view.* All calls within a defined "local calling area" should
3 be paid for on a "flat rate" monthly basis. Calls beyond this identified local
4 calling area should be consider "toll" calling, be dialed on a "1+" or "0+,"
5 rather than 7 digit, basis, be charged on a "per minute" basis, and be subject to
6 imputation requirements. End users should have the capability to use the carrier
7 of their choice for these calls without the necessity of dialing an access code.

8
9 The benefits of this proposal are most apparent when contrasted with the
10 elements of the plan proposed by Southern Bell.

11
12 **Q: DESCRIBE THE CALLING PLAN PRESENTED BY SOUTHERN BELL IN**
13 **THIS PROCEEDING.**

14
15 **A: The Southern Bell Plan (SBT Plan) presented by Southern Bell's witness Sims**
16 **creates an Expanded Local Calling Area (ELCA) that will include calls made**
17 **beyond the existing local calling area up to a distance of forty miles. Calls**
18 **within the ELCA are billed on a per minute basis at a discounted rate of 8 cents**
19 **per minute and are to be dialed on a seven digit basis.**

20

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1 The SBT Plan requires the subscriber to pay usage charges of 2 cents per
2 minute for calls that are within the existing local calling area, designated as the
3 Basic Local Calling Area (BLCA) for purposes of the Plan. The customer
4 would also pay a flat-rated access line charge. The total monthly usage charge
5 for calls within the BLCA, but not for calls within the ELCA, would be capped.

6
7 In other words, the customer will continue to purchase a flat-rate local access
8 channel from Southern Bell, and will continue to pay usage charges for "toll"
9 traffic beyond the existing local calling area. There are two primary
10 differences, however, between the SBT Plan and the existing rate structure.
11 First, in order to receive the discounted rate on their "toll" traffic out to forty
12 miles, the subscriber must agree to pay a local measured service rate of 2 cents
13 per minute for calls that he can currently make with no usage charge. Second,
14 the subscriber will not know, based on the dialing arrangement, which usage
15 charge will be incurred (or, if he has reached the cap, whether any usage charge
16 will be incurred) for any given call because each type of call will be made on a
17 seven digit basis.

18

19 Q: PLEASE DESCRIBE THE PROBLEMS WITH THIS PLAN.

20

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1 A: A number of problems are inherent in the SBT Plan that, taken individually,
2 should warrant its rejection by the Commission. First and foremost, it is
3 significantly more complex than the local and toll service arrangements that
4 most consumers receive today. Customers will need to know, in advance,
5 information on their anticipated calling patterns - including typical call
6 durations, mileage, and frequency - in order to determine if they are likely to
7 benefit under the SBT Plan. The plan is further complicated by a usage
8 discount structure based on the payment of additional monthly charges, and a
9 usage cap for BLCA, but not ELCA, calls.

10

11 A second problem with the Southern Bell Plan is that its extension of "local"
12 calling to a forty mile radius is an over-inclusive response to EAS pressures.
13 Southern Bell's witness Sims states that "this Plan will also help to alleviate
14 pressures for new EAS routes, particularly in areas where the community of
15 interest does not meet the standards for creating an additional EAS route."¹
16 While Ms. Sims does not list the routes that she is referring to, it is unclear
17 why a Plan is needed to redefine local calling to include routes that do not have
18 sufficient community of interest calling today, as defined by the Commission's

19 ¹ Direct Testimony of Nancy H. Sims on behalf of Southern Bell, p. 14.

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1 standard. In other words, in order for it to be appropriate to "localize" all
2 potential new EAS routes today, they must either meet the Commission's
3 existing standard for determining a community of interest or the Commission's
4 standard must be redefined to include the characteristics of all existing routes.
5 The Commission presently has a standard for determining the existence of
6 community of interest, and no party, including Southern Bell, has argued in this
7 case that the standard should be revised. A Plan that converts routes to local
8 calling that do not meet that standard is clearly over-inclusive in its geographic
9 scope.

10

11 Third, the SBT Plan effectively puts into place tariffed rates for intraLATA toll
12 service that are below the rates charged to interexchange carriers for access
13 service.² Southern Bell's GSST defines *Long Distance Message*
14 *Telecommunications Service* as "the furnishing of facilities for subscribers'
15 telephone communications on an individual message basis between two or more
16 points which are located in the same Local Access and Transport Area
17 (LATA)." As described previously, GSST distinguishes a *long distance*
18 *message* from a *local message* based solely on the fact that the *long distance*

19
20

² As I will describe later in my testimony, the rates charged by Southern Bell for intrastate access should be reduced.

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1 *message* carries a usage charge. The SBT Plan labels calls made beyond the
2 existing local calling area but less than forty miles as "ELCA local." Yet these
3 calls very clearly meet Southern Bell's tariffed definition of *Long Distance*
4 *Message Telecommunications Service*: the calls are provided on an individual
5 message basis, within the LATA, and incur a usage charge. Thinly disguised
6 intraLATA toll calling is toll calling nevertheless, and should be priced to
7 recover the access charges paid by the IXC's to complete a similar call as
8 described in the Commission's Order No. 24859.³

9
10 Fourth, the SBT Plan, as filed, offers no benefit to those subscribers who
11 typically make intraLATA calls that are greater than 40 miles in length. These
12 calls will continue to be billed at Southern Bell's current intraLATA MTS rate.
13 The ability of a given subscriber to benefit from the SBT Plan, therefore,
14 depends on his need to make intraLATA toll calls within the 40 mile ELCA and
15 his willingness to subscribe to local measured service. In contrast, a general
16 reduction in the rates for all mileage bands of intraLATA toll service would
17 benefit subscribers regardless of their calling patterns. Such a reduction can be

18 ³ Order Establishing Parameters for Local Exchange Company Toll Pricing, issued
19 7/29/91. Specifically, the rates for the ELCA in Southern Bell's Plan violate
20 Guideline 1 of the Order requiring that "revenues cover aggregate access charges
21 by service."

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1 achieved for customers of Southern Bell's intraLATA toll service by direct
2 reductions in rates, and for customers of other carriers through a reduction in
3 the level of intrastate switched access charges. Similarly, a mechanism that
4 would give subscribers easier and more convenient access to the carrier of their
5 choice for intraLATA toll service would produce a benefit that does not depend
6 on a customer's usage patterns.

7
8 Finally, the Plan's dialing pattern will create customer confusion. Most
9 customers have learned to equate seven digit dialing with the "free" (i.e. no
10 usage charge) local calling zone. The SBT Plan extends seven digit dialing to
11 include ELCA intraLATA toll calls, which are billed at a higher usage rate than
12 the customer's BLCA calls, or, if the customer has reached the cap on BLCA
13 usage, are the only calls that will incur a usage charge. The subscriber will be
14 unable to determine from the dialing pattern how he will be billed for the call.

15
16 Q: HAS THE IMPOSITION OF USAGE CHARGES ON CALLS DIALED WITH
17 SEVEN DIGITS BEEN FOUND TO CREATE CUSTOMER CONFUSION IN
18 OTHER BELLSOUTH STATES?

19

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1 A: Yes. After implementing similar plans that include usage charges for calls
2 dialed on a 7 digit basis, other Commissions in the Southeast have received
3 "numerous complaints from their constituents."⁴ The best description of this
4 confusion is contained in a written complaint from approximately twenty
5 Louisiana business subscribers. This complaint states that
6 "[while the] 7 digit plan saves the consumer the 1/10 of a second
7 which is required to dial the "1" before certain calls, this dubious
8 advantage must be weighed against the many serious problems
9 which the plan creates."⁵
10 The Louisiana customers described the Plan as a source of confusion, explaining
11 that
12 "many consumers wrongly believe that all 7 digit calls are
13 'free.' They have always dialed '1' before calls for which
14 they expected to pay long distance charges. Habits of a
15 lifetime do not change easily. Many customers are
16 receiving bills for long distance service for calls which
17 they did not realize were subject to long distance
18 billing."⁶
19
20 For those customers who did understand that long distance charges would be
21 incurred on a 7 digit-dialed call, confusion remained because

22 ⁴ Order No. U-17949-S of the LPSC, February 10, 1992, p. 1.

23 ⁵ See, Motion for Modification of Order, filed January 24, 1992 by Acadiana
24 Bottling Company, Iberia Parish School Board, First American Bank and
25 Trust, et. al.; Louisiana Public Service Commission, Docket No. U-17949-
26 B.

27 ⁶ Id., p. 2.

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1 "they cannot easily know whether or not a particular call is
2 subject to long distance charges. In order to make this
3 determination, consumers must refer to a confusing table which
4 depicts which seven digit calls are within the 'basic local calling
5 area' and which are within the 'expanded local calling area.'
6 This exercise assumes that the caller has such a table close at
7 hand. Using this table is cumbersome, time consuming, and
8 confusing."⁷
9

10 Finally, these business customers complained that they were unable to control
11 long distance calling on their phones by restricting which extensions had access
12 to "1+' dialing. The seven digit dialing portion of the plan had rendered
13 ineffective their billing control, cost containment, and anti-fraud systems.⁸

14 According to Southern Bell, Florida business customers will also not have
15 access to toll restriction services under the plan, even though seven digit-dialed
16 calls will carry usage charges.⁹

17
18 The SBT Plan proposed in Florida can be expected to cause similar problems to
19 those experienced in other states. Subscribers will not know, based on dialing
20 seven digits, which usage charge will be incurred, or, if they have reached the
21 cap, whether any usage charge will be incurred for a given call. Business

22 ⁷ Id., p. 3.

23 ⁸ Id., p. 3.

24 ⁹ See Southern Bell's response to MCI's First Set of Interrogatories, Item No. 87.

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1 subscribers may find that the seven digit dialing arrangement allows their call
2 control systems to be circumvented.

3

4 Q: IN DOCKET NO. 880069-TL, THE STAFF PRESENTED A
5 RECOMMENDATION TO THE COMMISSION THAT INCLUDED A
6 PROPOSED LOCAL/TOLL RATE DESIGN PLAN. PLEASE DESCRIBE
7 THE STAFF'S PLAN.

8

9 A: The Staff's October 24, 1991 Memorandum describes a local/toll rate structure
10 that would expand the flat-rate local calling area to include those calls that are
11 currently intraLATA toll in the 0-10 mileage band. In addition, those calls that
12 are more than ten but less than thirty miles in length would incur a usage charge
13 of ten cents per minute for the first minute, and five cents per minute for any
14 additional minutes (time of day discounts would apply). As an alternative to
15 these per minute charges, Staff suggests a twenty five cents per message charge
16 for residential subscribers as an effective per-call "cap" on usage charges. All
17 calls within thirty miles would be dialed on a seven digit basis. In order to
18 provide a benefit under the Plan for those subscribers who make toll calls
19 greater than thirty miles, the Staff recommends that the Commission
20 immediately open a docket to proceed toward implementation of "1+"

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1 The Staff Plan advocates that "1+" presubscription be implemented for the
2 IntraLATA toll services¹¹ of all carriers. This element of the Staff's proposal
3 expands the benefits of the Plan to subscribers who make intraLATA toll calls
4 beyond the local mileage boundary by providing more convenient access to the
5 services provided by their carrier of choice. These subscribers will also be able
6 to take advantage of services offered by interexchange carriers that are only
7 available via "1+" dialing.

8
9 The Staff also states that their Plan should allow a number of other EAS-type
10 plans to be discontinued. Their proposal represents an attempt to design a rate
11 structure that provides a more uniform response to subscriber requests for
12 expanded local calling.

13
14 These elements of the Staff Plan are integral components of any local/toll rate
15 structure adopted by the Commission. Changes to some other elements are
16 needed, however, to make the Staff Plan beneficial to a broader base of
17 subscribers.

18 ¹¹ For a local/toll rate structure based on this element of the Staff Plan, the
19 IntraLATA Toll market would be composed of existing intraLATA toll
20 calls, minus those calls within the local mileage boundary.

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1 Q: HOW CAN THE STAFF PROPOSAL BE IMPROVED?

2

3 A: For calls greater than ten miles but less than thirty miles, the Staff Plan includes
4 either a "per minute" or a "per message" usage charge. As the extensive Staff
5 analysis supporting these recommendations indicates, it is difficult to determine
6 which usage rate element will make customers better off. Such a determination
7 requires that detailed data regarding customer calling patterns and call durations
8 be collected and assumptions made regarding customer preferences and
9 behavior, the rates to be charged for each type of usage, and the application of
10 discounts. The complexity of this analysis, and the uncertainty of the
11 conclusions due to the number of assumptions that must be made, presumably
12 led to the Staff's decision to include two alternative recommendations on rate
13 structure.

14

15 While it is difficult to determine whether subscribers would be better off under
16 the "per minute" or "per message" structure for usage charges, it is clear that
17 customers will benefit most under the Staff Plan when making those "local"
18 calls that fall within the ten mile boundary. This is because these calls will
19 continue to be made in a way that is consistent with subscribers' current
20 understanding of "local" calling: they will be included in the flat rate monthly

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1 charge that the customer pays for the service. The customer confusion caused
2 by applying usage charges to calls dialed using seven digits is avoided. If such
3 a structure is most beneficial to customers for calls within the first ten miles,
4 then it will also prove to be the most beneficial structure for all calling within
5 the entire mileage-defined "local" calling area.

6
7 As the Staff describes in its recommendation¹², the details of any proposed
8 plan of this type are a trade-off between the usage rates established (including
9 discounts) and the distance or mileage to the "local" calling boundary. In other
10 words, higher usage rates will permit a larger calling area, while a smaller
11 calling area will make lower usage rates possible. If the flat rate structure
12 advocated by the Staff for calls less than ten miles is adopted for all calling
13 within the new "local" calling area, the distance to this new "local calling
14 boundary" will be determined by the level of revenues that the Commission
15 determines are available to implement such a plan.

16
17 This solution (extending the flat rate calling area to include all calls within the
18 new "local calling boundary") to the tradeoff identified by the Staff includes a

19 ¹² October 24, 1991 Staff Memorandum, p. 4.

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1 number of important benefits. First, the flat rate monthly charge paid by a
2 customer for local service will allow him to make calls to an expanded area.
3 Second, a customer's access to other subscribers within this expanded "local
4 calling area" will not be restricted by the requirement that he pay usage charges
5 when making these calls. Third, the well-understood dialing distinction between
6 "local" and "toll" calls will be maintained: customers will know that when they
7 dial seven digits, the call is part of the "free" local calling area covered by their
8 monthly rate, and that when they dial a "1" or "0" before the number, long
9 distance charges will apply. Fourth, the cost of additional calling directories -
10 describing to customers which seven digit calls will have usage charges applied
11 and which will not - is avoided. The available revenue dollars that would have
12 been required for the printing and distribution of these "confusing and difficult
13 to use" tables can be applied instead toward making more routes available
14 within the "local" calling boundary. Finally, the difficulty in determining
15 whether a "per minute" or "per message" charge is better for subscribers is
16 avoided; all subscribers will benefit from an expanded flat rate calling area.
17
18 Based on these considerations, the structure of the Staff proposal should be
19 modified to eliminate the distinction between calls of less than ten miles and
20 calls between ten miles and the new "local" boundary. For any local/toll rate

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1 structure proposal adopted by the Commission, all seven digit dialed "local"
2 traffic should be provided to customers on a flat rate basis.

3 Q: PLEASE DESCRIBE THE ACTION THAT NEEDS TO TAKE PLACE TO
4 ALLOW END USERS TO UTILIZE THEIR CARRIER OF CHOICE FOR
5 INTRALATA TOLL CALLING WITHOUT USING AN "ACCESS CODE."

6
7 A: In order for end users to have convenient access for the carrier of their choice
8 for these calls, the Commission must order Southern Bell to install switching
9 software that will make equal access presubscription possible. The Commission
10 has initiated Docket No. 930330-TP for this purpose. As the October 28, 1993
11 staff recommendation in that docket indicates, the switched software that will
12 provide intralata presubscription is presently available and should be deployed.

13
14 Q: PLEASE DESCRIBE THE CURRENT LEVEL OF SOUTHERN BELL'S
15 FLORIDA INTRASTATE ACCESS CHARGES.

16
17 A: The rates charged by Southern Bell-Florida to interexchange carriers for
18 intrastate access are currently among the highest in the nine state BellSouth
19 region. These rates are significantly in excess of the underlying cost to SBT
20 provide the service.

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1 Q: IS IT REASONABLE TO EXPECT THIS RELATIONSHIP BETWEEN THE
2 RATES FOR INTRASTATE ACCESS IN FLORIDA AND THE RATES IN
3 OTHER BELLSOUTH STATES?

4
5 A: No. In fact, it is reasonable to expect the opposite to be true. The Commission
6 has allowed Southern Bell-Florida to deploy the latest digital switching, fiber-
7 optic transmission, and intelligent network equipment available. This
8 investment has reduced the cost to Southern Bell of providing services,
9 including intrastate access service. These cost savings have not adequately been
10 reflected in rate reductions, however.

11
12 A significant portion of the funds used by Southern Bell to make these
13 investments has been provided by the interexchange carriers through the
14 payment of access charges that are substantially in excess of cost. Because the
15 contribution to Southern Bell from access charges has made much of this
16 investment possible, it is both reasonable and equitable for the payers of access
17 (the IXCs and, ultimately, their customers) to benefit from the resulting cost
18 savings through lower rates. To date, this has not been the case.

19

TESTIMONY OF DON J. WOOD ON BEHALF OF MCI
FPSC DOCKET NO. 920260-TL, NOVEMBER 8, 1993

1 Q: WHY ELSE IS IT IMPORTANT THAT INTRASTATE ACCESS CHARGES
2 BE REDUCED?

3
4 A: First, excessive intrastate access rates result in higher toll rates for end users.
5 Access charges are the single largest cost of doing business for the
6 Interexchange Carriers (typically, around 50% of the IXC's total cost of
7 providing service), and as a result have a significant impact on the rates that
8 IXCs must charge. In other words, while the end user making an intrastate toll
9 call does not pay an access charge to Southern Bell directly, he ultimately does
10 so in the rate he pays to the IXC. Higher access charges translate into higher
11 intrastate toll rates, while reductions in access charges typically mean reductions
12 in intrastate toll rates.

13
14 Second, reducing access rates to a level more representative of their cost sends
15 more accurate pricing signals to the marketplace. Artificially high intrastate toll
16 rates, caused by excessive access charges, can cause customers to take their
17 traffic off the public network. Lower access charges can help to keep these
18 customers on the public network by making it more economically appealing than
19 other alternatives.

20

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1 Third, high intrastate access rates contribute to the pressure for expanded local
2 calling by causing toll rates to be higher than they would otherwise be. As I
3 described previously in my testimony, the local/toll rate design adopted by the
4 Commission should make toll calling both convenient and affordable for
5 customers.

6
7 Finally, the rates charged for toll services are as much a part of the state's
8 telecommunications infrastructure as the carriers' physical networks.

9 Artificially high intrastate toll rates, caused by excessive access charges,
10 influence business relocation and expansion decisions.

11
12 In summary, the current level of access charges negatively impacts Florida
13 ratepayers in a number of ways, and the Commission should take this
14 opportunity to reduce these charges to a level that is more representative of the
15 cost to Southern Bell of providing the service.

16
17 Q: PLEASE DESCRIBE YOUR PROPOSAL FOR A FLORIDA LOCAL/TOLL
18 RATE STRUCTURE.

19

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FPSC DOCKET NO. 920260-TL, NOVEMBER 8, 1993

1 A: A local/toll rate structure adopted by the Commission should be designed to
2 accomplish the following objectives:

3

4 1) The structure of local and toll calling should be designed to meet the
5 needs of Florida subscribers. It should provide a uniform response to
6 any pressures for the expansion of the local calling area.

7

8 2) The local/toll rate design should also be responsive to consumer
9 pressures for lower rates for toll services by including reductions in the
10 rates charged for intrastate access, and will allow customers to utilize the
11 toll services of the carrier of their choice using the most convenient form
12 of access available.

13

14 3) The local/toll rate design should be based on dialing patterns that
15 subscribers are familiar with using. The potential for subscribers to be
16 billed unexpected usage charges for calls dialed on a seven digit basis
17 should be avoided. Similarly, the rate design adopted should be
18 structured so that an additional dialing directory, or customer knowledge
19 of the location of rate centers and call mileages, is not needed.

20

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1 4) A rate design for local and toll calling should benefit all subscribers, and
2 an individual customer's ability to be better off under the new structure
3 should not require that he make calls of a given frequency, duration, or
4 length.

5
6 In order to meet these objectives, I am recommending that the Commission
7 adopt a local/toll rate design with the following characteristics:

8
9 - "Local" and "Toll" calling should be defined from the point of view of the
10 subscriber. "Local" calls should continue, as subscribers expect, to be dialed
11 on a seven digit basis and to be included as part of the flat rate monthly charge
12 for the service. Unexpected usage charges should not apply to any calls that are
13 designated as "local." "Toll" calling, conversely, should retain the "1+" or
14 "0+" dialing pattern so that customer will know to expect usage charges for
15 these calls.

16
17 - A mileage-defined boundary for the local calling area should be established
18 by the Commission. The location of this mileage boundary should be a function
19 of both the Commission's evaluation of any existing EAS pressures that might

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1 exist, and the availability of the Southern Bell revenues required to implement
2 an expanded local calling area of a given size.

3

4 - Calls within the local calling area established by the Commission according to
5 the above criteria will be seven digit dialed and provided on a flat rate basis.
6 Calls within the LATA, but beyond the local calling mileage boundary, should
7 be provided so that the subscriber can reach his carrier of choice on a "1+" or
8 "0+" basis.

9

10 - The adverse effects of excessive rate for intrastate access services should be
11 recognized and these charges should be reduced to a level more representative
12 of the cost to Southern Bell of providing the service. Cost reductions realized
13 from the network investment should be routinely reflected in the rates for access
14 services.

15

16 Q: DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

17 A: Yes.