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Communications Consultants, Inc.

Telecommunications Intervention
Tariff Analysis • Regulatory Affairs

Post Office Box 1148
Winter Park, FL 32790-1148
Phone (407) 628-2666
Fax (407) 628-3487

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June 26, 1995

Blanca S. Bayó, Director
Division of Records & Reporting
Florida Public Service Commission
Capitol Circle Office Center
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

RE: Docket No. 920260-TL
Southern Bell Rate Case

Dear Ms. Bayó:

Enclosed for filing please find a floppy disk in Wordperfect 5.1 and fifteen copies of the Direct Testimony of Douglas S. Metcalf on behalf of the Florida Ad Hoc Telecommunications Users' Committee in the above docket.

Service has been provided to all parties of record in accordance with the attached Certificate of Service.

Sincerely,

- ACK _____
- AFA 2 _____ Douglas S. Metcalf
- APP _____
- CAF _____
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05961 JUN 26 95

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Comprehensive review of the revenue)
requirements and rate stabilization plan of)
Southern Bell Telephone and Telegraph)
Company)

)

Docket No. 920260-TL
Filed: June 26, 1995

DIRECT TESTIMONY

of

DOUGLAS S. METCALF

ON BEHALF OF

FLORIDA AD HOC TELECOMMUNICATIONS USERS' COMMITTEE

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

1Q: **Please state your name, business affiliation, address, and on whose behalf you are
2 testifying?**

3 A: My name is Douglas S. Metcalf. I am President of Communications Consultants,
4 Inc., 631 S. Orlando Avenue, Suite 450, Winter Park, Florida 32790-1148. CCI provides
5 regulatory, tariff and management assistance to clients using or providing services affected
6 by regulation. My responsibilities include the examination of costing methodologies and
7 rate design policy. I am testifying on behalf of the Florida Ad Hoc Telecommunications
8 Users' Committee (Ad Hoc).

9
10 Q: **Have you previously participated on behalf of Ad Hoc in this docket?**

11 A: Yes.

12
13 Q: **What is the Florida Ad Hoc Telecommunications Users' Committee?**

14 A: It is an ad hoc group of large users of business telephone services within the state
15 of Florida. The members are major customers of the local exchange companies who are
16 vitally interested in the fairness of any tariff structure or rate changes affecting business
17 services. Further, they are users who are very interested in fostering full and fair
18 competition in the telecommunications marketplace. The current members of Ad Hoc are:

19 Advantis (Sears/IBM)	Great Western Bank
20 Alarm Assn. of Florida	Harris Corporation
21 American Express Co.	Honeywell Protection Svcs.
22 Barnett Technology Corp.	NationsBank of Florida
23 Burdine's	Publix Supermarkets
24 Dean Witter Reynolds	Seimens/Stromberg-Carlson
25 Equifax, Inc.	Southeast Switch (HONOR Group)
26 First Union National Bank	State of Florida - DMS
27 Florida Informagement Svcs. (FIS)	SunTrust Service Corp.

28 Q: **What is the purpose of your testimony?**

1 A: The purpose of my testimony is to comment on the three proposals which have been
2 made by Southern Bell Telephone Company ("SBT" or "Company"), McCaw Communica-
3 tions of Florida ("McCaw"), and the Communications Workers of America ("CWA").
4 These proposals were made to achieve the \$25 million (\$25M) rate reduction for 1995
5 which was agreed to and required by the Stipulation and Agreement dated January 5, 1994,
6 and the Implementation Agreement dated January 12, 1994 in settlement of SBT's 1994 rate
7 case.

8 Also, Issue 1 offers the opportunity for the Commission to propose its own
9 alternative to dispose of the \$25M and, in light of the directives included in the local
10 service and deregulation legislation which passed into law last week, I will offer the
11 Commission other alternatives they may wish to consider for the use of those funds. These
12 alternatives are directed at promoting a more competitive telecommunications market and
13 environment within Florida, a apparent intent of the Legislature in passing the recent bill.
14 I believe the Legislature wanted to create a competitive telecommunications market for local
15 and toll service within Florida, on the assumption that competition would bring more and
16 better services and lower prices to its citizens and business users.

17
18 **Q. What changes were directed by the legislation which make you believe the**
19 **Commission may want to consider an alternative to the three that are currently**
20 **proposed?**

21 A. The three proposals which are pending before the Commission do not create more
22 competition or improve the market environment to encourage more competition. Obviously
23 the Commission understands the Legislature's recent intent when it states in Section
24 364.01(3):

1 "The Legislature finds that the competitive provision of telecommunications
2 services, including local exchange telecommunications service, is in the
3 public interest and will provide customers with freedom of choice,
4 encourage the introduction of new telecommunications service, encourage
5 technological innovation, and encourage investment in telecommunications
6 infrastructure. The Legislature further finds that the transition from the
7 monopoly provision of local exchange service to the competitive provision
8 thereof will require appropriate regulatory oversight to protect consumers
9 and provide for the development of fair and effective competition, ..."

10
11 Furthermore, the Legislature reiterated its commitment to competition in the recently passed
12 legislation by the enactment of Section 364.01(4)(b) which states as follows:
13

14 "The commission shall exercise its exclusive jurisdiction to ... [e]ncourage
15 competition through flexible regulatory treatment among providers of
16 telecommunication services in order to ensure the availability of the widest
17 possible range of consumer choice in the provision of telecommunications
18 services."
19

20 **Q. Why should the Commission consider alternative suggestions for the use of this**
21 **money?**

22 **A.** As stated above, the Legislature was very specific that the PSC encourage the
23 development of a more competitive telecommunications market within Florida. It is my
24 opinion that none of the three proposals before the Commission will encourage or achieve
25 that goal.

26 SBT's proposal will discourage that intent by, in effect, remonopolizing the
27 southeast LATA, something which appears contrary to the PSC's intent with their
28 presubscription Order in Docket 930330-TP, and which effectively forecloses the market
29 to further competition by the IXCs.

30 McCaw's proposal is speculative and in any event, does not need to be resolved in
31 this docket.

32 CWA's proposal will lower rates for certain groups of subscribers, but does not
33 enhance competition for any services or users. I believe that some enhancement of
34 competition would be the best use for this money.

1 Q. **How can increased competition and customer choice best be achieved in this**
2 **docket?**

3 A. Ad Hoc submits that increased competition and customer choice can better be
4 achieved by using the available revenues to review those tariffed elements and rates for
5 which there is competition, but which are the most overpriced using, as a benchmark, the
6 relative contribution of various competitive services provided by Southern Bell.

7

8 Q. **Give some examples.**

9 A. One example is the cost of PBX service compared to ESSX service (and hence the
10 relative contributions of the two services). Two particular elements of PBX service, PBX
11 trunks and Direct Inward Dial (DID), are items which have functionally equivalent features
12 as compared to ESSX. Yet the rates are significantly higher for PBX, even though similar
13 facilities are used and the costs of the elements are essentially the same. Disparities like
14 these make PBX uncompetitive with ESSX, thereby hurting competition in the marketplace.

15

16 Q. **What is the problem when PBX is overpriced?**

17 A. The key problem is that telecommunications markets become competitive when
18 similar services compete for customers. The PBX market has lost tremendous market share
19 in the last few years because customers have switched from PBX systems to ESSX service
20 because of its lower price.

21

22 Q. Does ESSX service *cost* less to provide than PBX service?

23 A. No. In fact, if the cost of the service is based on the cost of the facilities used to
24 provide it — the most logical way to view the cost of a service — ESSX should be priced
25 significantly higher than PBX service, because ESSX uses more plant and facilities to

1 operate than does PBX. Accordingly, if the aim of the Commission is to foster competition
2 for SBT's services, it must take these cost considerations into account.

3
4 **Q. Why did this occur?**

5 A. The story is too long to recount in full detail. Suffice it to say that PBX rates were
6 initially set long ago based on an index of its perceived "value of service" relative to a B-1
7 line. ESSX, a newer offering, came along later and was priced based on the additional
8 "incremental cost" of providing that service. If the Commission were to direct that PBX
9 service be "incrementally costed" and priced to produce relatively the same percent of
10 contribution as ESSX, vendors would have an opportunity to again compete in the large
11 user market, and customers would have an opportunity to purchase their customer provided
12 equipment (CPE) based on the features of the equipment rather than the nonsensical cost
13 of the telephone lines that connect it.

14
15 **Q. How do you know that PBX is overpriced compared to ESSX?**

16 A. This PBX/ESSX pricing disparity has been the subject of some discussion in the
17 most recent United, GTE and Southern Bell rate proceedings. Staff witness Cimerman
18 testified in the United docket that all services should be costed and priced based on
19 facilities, electronics and usage while utilizing a similar cost methodology. Ad Hoc agrees
20 that this methodology is particularly apt here, and it has testified as to the propriety of that
21 methodology in prior GTE and SBT proceedings.

22 To verify that ESSX and PBX service and loops are still disproportionately priced
23 based on their costs, Ad Hoc has asked to see any updated data in SBT's possession related
24 to the costs of both services. We will file a supplemental exhibit as soon as the data has
25 been reviewed.

1 **Q. How does repricing PBX service create a more competitive market which**
2 **benefits all users?**

3 **A. A more active and competitive market between PBX and ESSX would invariably**
4 **spur not only greater competition in price, but also in new and innovative services. Such**
5 **competition based on service and features, in addition to price, has been a hallmark of**
6 **competition as it has taken root in various telecommunications markets over the past several**
7 **years. All users have benefitted from the new offerings available whenever the telephone**
8 **company, as well as the equipment and service providers, have actively competed to**
9 **produce a more innovative way to provide new features. Benefits and more options for all**
10 **users have almost always come soon after the introduction of new bells and whistles to large**
11 **users.**

12

13 **Q. Summarize your reasons why the \$25M should be applied first to repricing**
14 **PBX trunks and DID to levels of contribution equivalent to ESSX service?**

15 **A. That "leveling of the playing field" would meet the Legislature's intent to "..**
16 **provide customers with freedom of choice, encourage the introduction of new telecommuni-**
17 **cations service[s], encourage technological innovation, and ... provide for the development**
18 **of fair and effective competition, ...". Further, it would meet the PSC's directive to foster**
19 **competition, and work towards staff's expressed intention in past rate cases of pricing**
20 **services more on the basis of relative costs.**

21

22 **Q. Are there alternative services for which prices could be adjusted other than**
23 **those you have mentioned?**

24 **A. I'm sure there are. While I would like to see the rates adjusted for those business**
25 **services which I think are most out of line in the evolving competitive marketplace, I would**

1 be happy to see the Commission require a contribution study on all of the tariffed services
2 and lower any of them that they felt were out of line with competitive alternatives.

3

4 **Q. Custom calling features (CCF) are among those items which have huge**
5 **markups. Should the cost of those services be lowered?**

6 A. That decision is the Commission's. However, I would suggest that the profitability
7 of a total service should be looked at when assessing the elements or features to be lowered.
8 SBT has asserted in the past that R-1 service is underpriced, and that the profitability of
9 custom calling features and residential toll access charges offset some of the loss from the
10 R-1 category. I have never seen a cost study for R-1 service but, if SBT's assertions are
11 correct, lowering CCF rates would not assist in making the residential category more
12 profitable. SBT has, in the past, asserted that all of the different business service categories
13 are contributors.

14

15 **Q. Are there any other rates you could suggest lowering that would help all users,**
16 **but would not be directly to the advantage of your clients?**

17 Y. Yes. Access charges are going down on a specific schedule because of the
18 settlement agreement. \$50 million was applied to that purpose last year, \$55 million is to
19 be applied to that purpose this year and approximately \$35 million next year. But interstate
20 access charges have decreased further since the standard was set during the settlement
21 discussions last year, and yet another decrease is expected soon. The \$25 million could be
22 applied to that category, further lowering intrastate long distance rates for all users, but
23 assuring that, with the \$35 million reduction next year, Florida's access charges would
24 remain closer to the interstate average.

25

1 **Q. Wouldn't large users be a big beneficiary of that alternative?**

2 A. Large users would certainly benefit, but less in general than other users. This is
3 because the largest users have purchased dedicated access circuits directly to their IXCs,
4 and often avoid the originating or terminating access charge for calls to their facilities
5 connected by those means. The biggest beneficiaries would be the residential and
6 small/medium business users of toll service.

7

8 **Q. To what other alternatives could the \$25M be applied?**

9 A. I have one suggestion that would directly impact those users Southern Bell is
10 seeking to assist with their proposal. If the \$25 million were applied specifically to access
11 charges in the less than 40 mile bands, the rates for all of SBTs' short-haul toll users would
12 lowered. With full presubscription, that segment of the market will become more
13 competitive because of the rivalry among IXCs, and with the lower access charges, all short
14 distance users throughout SBTs territory would benefit. Presumably, the southeast users
15 would benefit more because of their greater numbers, but the short-haul users throughout
16 SBT's territory would be treated equally.

17

18 **Q. What is your intent in offering your suggestions?**

19 A. The bottom line is I believe that all users would be better served by an increase in
20 competition, which is presumably what Southern Bell fought for in the legislation. With
21 the deregulatory benefits of the legislation now in hand, Southern Bell should not be
22 allowed to implement a plan to remonopolize a market that would become more competitive
23 if presubscription was implemented and access charges were further lowered.

24

25 **Q: What are your concerns with SBT's Extended Calling Service proposal?**

1 A: As I testified on SBT's similar Optional Expanded Local Service plan (OELS) in
2 the last rate case, the company's extended calling service proposal (ECS) will implement
3 a form of mandatory local measured service (LMS) by offering a larger local seven-digit
4 calling area. While the public would like lower rates and the substantial expansion of local
5 calling areas proposed in this case, they might not like seven-digit mandatory LMS for the
6 privilege. Further, some minor and short term benefits might accrue to the users from this
7 proposal, but the long term benefits accrue only to SBT.

8

9 **Q: Why do you say that SBT's users will only benefit users in the short term?**

10 A: The expansion of calling areas as proposed by SBT will, practically speaking,
11 foreclose effective toll competition within SBT's territory. Even though the Commission
12 allowed intraLATA toll competition effective January 1, 1992, and recently ordered
13 intraLATA presubscription in the docket on that issue, SBT's scheme creates conditions that
14 will limit an IXC's ability to enter the marketplace because SBT's discounted toll rates are
15 lower than the access charges that IXCs must pay to serve their customers. This diminution
16 of choice may, in the long term, cause customers to pay higher rates and to have fewer
17 choices. In sum, under their ECS scheme, the only long term beneficiary appears to be
18 Southern Bell.

19

20 **Q. What problems are created for business users by SBT's seven-digit dialing**
21 **plan?**

22 A. The primary problem is a loss of corporate control over toll calling by employees.
23 Many of the PBX and key systems currently in use can be programmed to block toll calls
24 but most allow any seven-digit number to be dialed. The additional equipment necessary
25 to block individual NXXs costs as much as \$10,000 for some PBXs. There is strong

1 sentiment among the Ad Hoc members both for 1+ presubscription and for intralata
2 competition, which should, over time, achieve toll rates for all similar to those proposed
3 by SBT.
4

5 **Q. What comments do you have on the proposal of the Communications Workers**
6 **of America?**

7 A. I see little benefit to the users of Florida from this proposal. This money can be
8 better applied directly to some item that makes Florida's economic climate more competitive
9 or that lowers rates for some group of services. The Legislature handled its only
10 educational item of concern when it provided for wideband offerings to the schools and
11 encouraged distance learning. I do not think that Florida or its telecommunications users
12 will benefit from CWA's proposal, and I do not advocate that the Commission select this
13 option.
14

15 **Q. What comments do you have on the proposal of McCaw?**

16 A. Of the three suggestions on the table, this is the least worst. However, the
17 Commission should not limit itself to any of these three proposals.
18

19 **Q: What is your recommendation to the Commission in this case?**

20 A: The Commission should take a first major step toward proactively fostering "... the
21 development of fair and effective competition, ..." by using available funds for some
22 purpose that encourages direct competition between Southern Bell and existing or emerging
23 players in the telecommunications marketplace. I believe this can best be done by lowering
24 the cost of all Southern Bell PBX trunks to an amount which provides the same level of
25 contribution for those loop/path facilities as for Southern Bell's proprietary ESSX product.

1 DID service is similarly overpriced and should also be adjusted. Should the Commission
2 wish another alternative, I recommend the revenue be used to further lower SBT's intrastate
3 access charges toward interstate access levels. I specifically recommend that the
4 Commission not accept the company's ECS proposal as it directly contravenes the result
5 sought by the legislation. Having offered competition as a carrot to achieve deregulation,
6 the Commission should not allow Southern Bell to renege on its part of the bargain.

7

8 Q: Does this conclude your testimony?

9 A: Yes, it does.

CERTIFICATE OF SERVICE
Docket No. 920260-TL

I certify that a correct copy of the foregoing was sent by
U.S. Mail to the following parties on June 26, 1995.

Nancy B. White
SOUTHERN BELL TELEPHONE CO.
150 S. Monroe St., Suite 400
Tallahassee, FL 32301

Michael W. Tye
AT&T COMMUNICATIONS
106 E. College Ave., Suite 1410
Tallahassee, FL 32301

Laura L. Wilson
FLORIDA CABLE TELEVISION ASSN.
310 N. Monroe St.
P.O. Box 10383
Tallahassee, FL 32302-0383

Joseph P. Gillan (FIXCA)
GILLAN ASSOCIATES
1050 Big Horn Road
Huson, MT 59846

Ms. Charlotte Brayer (AARP)
275 John Knox Road, EE102
Tallahassee, FL 32303

Rick Wright, Reg. Analyst
Division of Audit and Finance
Florida Public Service Comn.
Capitol Circle Office Center
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Dan B. Hendrickson (FCAN)
P.O. Box 1201
Tallahassee, FL 32302-1201

Gerard B. Curington
Assistant Attorney General
DEPT. OF LEGAL AFFAIRS
2020 Capitol Circle, SE
Tallahassee, FL 32399-1050

Charles J. Beck
OFFICE OF THE PUBLIC COUNSEL
111 W. Madison St., Rm. 812
Tallahassee, FL 32399-1400

Benjamin H. Dickens (Ad Hoc)
BLOOSTON, MORDKOFKY,
JACKSON & DICKENS
2120 L Street, Suite 300
Washington, DC 20037-1527

Cecil O. Simpson (DOD)
Office of the JAG - Regulatory
Department of the Army
901 N. Stuart St.
Arlington, VA 22203-1837

Vicki Gordon Kaufman (FIXCA)
McWhirter, Grandorf, et al
315 S. Calhoun St., Suite 716
Tallahassee, FL 32301-1838

Donald L. Bell (AARP)
104 E. Third Avenue
Tallahassee, FL 32303

Robin Norton, Docket Coordinator
Division of Communications
Florida Public Service Comn.
Capitol Circle Office Center
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0866

Monte Belote
FLORIDA CONSUMER ACTION NETWORK
4100 W. Kennedy Blvd., Suite 128
Tampa, FL 33609

Thomas F. Woods (Hotel/Motel)
GATLIN, WOODS, CARLSON & COWDERY
1709-D Mahan Drive
Tallahassee, FL 32308

Michael J. Henry
MCI TELECOMMUNICATIONS CORP.
780 Johnson Ferry Rd, Suite 700
Atlanta, GA 30342

Kenneth A. Hoffman (PayPhone)
Rutledge, Ecenia, Underwood,
Purnell & Hoffman
215 S. Monroe St, Suite 420
P.O. Box 551
Tallahassee, FL 32302-0551

Chanthina R. Bryant
SPRINT COMMUNICATIONS CO.
3100 Cumberland Circle
Atlanta, GA 30339

Michael Fannon
Cellular One
2735 Capitol Circle, NE
Tallahassee, FL 32308

Mark Richard (CWA)
304 Palermo Avenue
Coral Gables, FL 33134

Richard D. Melson (MCI)
HOPPING, BOYD, GREEN & SAMS
P.O. Box 6526
Tallahassee, FL 32314

Angela Green (PayPhone)
Florida Public Telecom. Assn.
125 S. Gadsden St. Suite 200
Tallahassee, FL 32301

C. Everett Boyd (Sprint & Mobile)
ERVIN, VARN, JACOBS, ODOM et al
305 S. Gadsden St.
P.O. Drawer 1170
Tallahassee, FL 32302-1170

Floyd R. Self (McCaw)
MESSER, VICKERS, CAPARELLO et al
P.O. Box 1876
Tallahassee, FL 32302-1876

Tracy Hatch
Division of Legal Services
FLORIDA PUBLIC SERVICE COMM.
Capitol Circle Office Center
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0863

Stan Greer
Division of Communications
Florida Public Service Comm.
Capitol Circle Office Center
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0863



Douglas S. Metcalf (Ad Hoc)
COMMUNICATIONS CONSULTANTS INC.
631 S. Orlando Ave., Suite 450
P.O. Box 1148
Winter Park, FL 32790-1148
Phone (407) 628-2666
FAX (407) 628-3487