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August 3, 1998

Mrs. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Dear Mrs. Bayo:

Re: Docket No. 980696-TP

You will find enclosed an original and fifteen (15) copies of the Direct Testimony of Richard T. Guepe on behalf of AT&T, and an original and fifteen (15) copies of the Direct Testimony of John I. Hirshleifer and Direct Testimony of Michael J. Majoro^s Jr. on behalf of AT&T and MCI Telecommunications Corporation for filing in the above-referenced docket.

Copies of the foregoing are being served on the parties of record in accordance with the attached certificate of service.

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Yours truly,
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Tracy Hatch

TH/mr
Enclosures
cc: Parties of Record

<i>Guepe</i>	<i>Hirshleifer</i>	<i>Majoros</i>
DOCUMENT NUMBER-DATE	DOCUMENT NUMBER-DATE	DOCUMENT NUMBER-DATE
08193 AUG-3 88	08194 AUG-3 88	08195 AUG-3 88
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**CERTIFICATE OF SERVICE
DOCKET 980696-TP**

I HEREBY CERTIFY that a true and correct copy of the foregoing was furnished via *hand delivery/**Federal Express and U.S. Mail to the following parties of record on this 3rd day of August, 1998:

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ORIGINAL

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY OF

RICHARD T. GUEPE

ON BEHALF OF

AT&T COMMUNICATIONS OF THE SOUTHERN STATES, INC.

Docket No. 980696-TP

August 3, 1998

DOCUMENT NUMBER-DATE

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1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TITLE.

2 A. My name is Richard Guepe and my business address is 1200 Peachtree Street, N.E.,
3 Atlanta, Georgia 30309. I am employed by AT&T as a District Manager in the Law
4 & Government Affairs organization.

5
6 Q. BRIEFLY OUTLINE YOUR EDUCATIONAL BACKGROUND AND
7 BUSINESS EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY.

8 A. I received a Bachelor of Science Degree in Metallurgical Engineering in 1968 from
9 the University of Notre Dame in South Bend, Indiana. I received a Masters of
10 Business Administration Degree in 1973 from the University of Tennessee in
11 Knoxville, Tennessee. My telecommunications career began in 1973 with South
12 Central Bell Telephone Company in Maryville, Tennessee, as an outside plant
13 engineer. During my tenure with South Central Bell, I held various assignments in
14 outside plant engineering, buildings and real estate, investment separations and
15 division of revenues. At divestiture (1/1/84), I transferred to AT&T where I have
16 held numerous management positions in Atlanta, Georgia, and Basking Ridge, New
17 Jersey, with responsibilities for investment separations, analysis of access charges
18 and tariffs, training development, financial analysis and budgeting, strategic
19 planning, regulatory issues management, product implementation, strategic pricing,
20 and docket management.

21
22 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY STATE PUBLIC
23 SERVICE COMMISSIONS?

1 A. Yes, I have testified on behalf of AT&T in Alabama, Georgia, Mississippi, North
2 Carolina, South Carolina, and Tennessee on product implementation issues, pricing
3 issues, and policy issues.

4
5 Q. **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. The purpose of my testimony, and the testimony of other AT&T witnesses, is to
7 recommend to the Florida Commission the adoption of the HAI 5.0a Model as the
8 forward looking cost proxy model for the determination of costs for a permanent
9 universal service mechanism, to present results of the HAI 5.0 Model, and to
10 recommend specific policies concerning the implementation of a permanent universal
11 service mechanism.

12
13 Q. **HOW WILL AT&T ADDRESS THE ISSUES IDENTIFIED BY THE
14 COMMISSION?**

15 A. In its July 2, 1998 Order, the Commission set forth a list of issues to be addressed by
16 the parties in this docket. These issues are:

- 17 • For universal service purposes, what is the definition of basic local
18 telecommunications service?
- 19 • What is the appropriate cost proxy model to determine the total forward-
20 looking cost of providing basic local telecommunications service?
- 21 • Should the total forward looking cost of basic local telecommunications
22 service be determined by a cost proxy model on a basis smaller than a wire
23 center?
- 24 • What are the appropriate input values to the cost proxy model?

- 1 . What local exchange companies must use the cost proxy model?
- 2 . What are the results of the cost proxy model for these companies?
- 3 . What approach should be employed to determine the cost of basic local
- 4 telecommunications service for LECs that serve fewer than 100,000 lines?

5

6 AT&T is presenting the direct testimony of four witnesses in this proceeding to

7 address these issues identified by the Commission. I will address policy issues

8 concerning the selection of the cost model, the definition of supported services, and

9 the establishment of a permanent universal service mechanism. AT&T witness Don

10 Wood addresses the development of the HAI Model, its inputs and the resulting costs

11 to provide local service. AT&T witness John Hirshleifer addresses cost of capital

12 inputs, and AT&T witness Mike Majoros addresses depreciation inputs.

13

14 **Q. A REASON FOR THIS DOCKET IS TO EXAMINE COSTS OF LOCAL**

15 **TELECOMMUNICATIONS SERVICE FOR THE PURPOSES OF**

16 **ESTABLISHING A PERMANENT UNIVERSAL SERVICE MECHANISM.**

17 **WHAT IS MEANT BY A UNIVERSAL SERVICE MECHANISM?**

18 **A. A universal service mechanism is the process or system set up to maintain the**

19 objectives of universal service after the local market becomes competitive. The main

20 objective of universal service is to provide access to quality telecommunications

21 services at affordable rates to all consumers. In other words, to promote connectivity

22 to the telephone network. Consumers in all areas, including low-income consumers

23 and those in rural and high cost areas, should have the access and rates that are

24 reasonably comparable to those available for similar services in urban areas. If

1 universal service subsidies are required, the Telecommunications Act requires that
2 they be explicit; moreover, they should be no greater than necessary to cover the
3 forward looking economic cost of the supported services, and should be funded and
4 available on a competitively neutral basis.

5

6 **Q. HOW WOULD A UNIVERSAL SERVICE MECHANISM WORK?**

7 **A.** The implementation of a universal service mechanism requires the determination of
8 several factors. These include the identification of: (1) services to be supported by
9 the universal service fund; (2) who should receive universal service support; (3) what
10 constitutes an "affordable" rate for supported services; (4) what revenues and costs
11 are appropriate in determining whether subsidies are required; and (5) the funding
12 mechanism.

13

14 The process to determine universal service subsidy requirements has two principle
15 components – what are the costs to serve customers and what are the revenues from
16 customers. In general, the cost is compared to revenues to determine subsidy
17 requirements. An integral part of this process is to determine the cost of providing
18 universal service in geographic areas throughout the state. The HAI Model, which is
19 reviewed in detail by AT&T witness Don Wood, determines the forward looking
20 economic cost for the provision of universal service for each wire center.

21

22 **Q. IN THE CONTEXT OF THE ESTABLISHMENT OF A PERMANENT**
23 **UNIVERSAL SERVICE MECHANISM IN FLORIDA, WHAT IS MEANT BY**
24 **BASIC LOCAL TELECOMMUNICATIONS SERVICE?**

1 A. Florida statute Section 364.025(4)(b) states "To assist the Legislature in establishing
2 a permanent universal service mechanism, the commission, by February 15, 1999,
3 shall determine and report to the President of the Senate and the Speaker of the
4 House of Representatives the total forward looking cost, based upon the most recent
5 commercially available technology and equipment and generally accepted design and
6 placement principles, of providing *basic local telecommunications service* on a basis
7 no greater than a wire center basis using a cost proxy model to be selected by the
8 commission after notice and opportunity for hearing." Florida statute Section 364.02
9 (2) states "Basic local telecommunications service means voice-grade, flat-rate
10 residential and flat-rate single-line business local exchange services which provide
11 dial tone, local usage necessary to place unlimited calls within a local exchange area,
12 dual tone multi-frequency dialing, and access to the following: emergency services
13 such as "911," all locally available interexchange companies, directory assistance,
14 operator services, relay services, and an alphabetical directory listing. For a local
15 exchange telecommunications company, such term shall include any extended area
16 service routes, and extended calling service in existence or ordered by the
17 commission on or before July 1, 1995."

18

19 Section 364.02 defines basic local telecommunications service in the context of
20 alternative regulation for local exchange carriers and it specifies the obligations of
21 incumbent local exchange carriers that choose alternative regulation.

22 In this context, basic local telecommunications service is defined as that minimal
23 service which carriers selecting alternative regulation must make available to
24 consumers in the state of Florida. However, for the purposes of determining the size

1 of a universal service subsidy, it is appropriate to include all forward-looking costs
2 incurred to provide this functionality (the loop and the switch) to consumers. In
3 other words, the full cost of the loop and switch to provide all services that can be
4 furnished to consumers should be included, which is the costing process included in
5 the HAI Model. Including all these costs further provides consistency when
6 comparing costs to revenues to determine subsidy needs as I discuss further later in
7 my testimony.

8

9 **Q. SHOULD A PERMANENT UNIVERSAL SERVICE MECHANISM INCLUDE**
10 **SUPPORT FOR BUSINESS SERVICES OR ADDITIONAL (SOMETIMES**
11 **LABELED SECOND) RESIDENTIAL LINES?**

12 **A.** No. The support for universal service should not include support for any business
13 line service and should be limited only to the first residential line. Generally,
14 business services are priced above costs and, in the interests of economic efficiency
15 and the burden such a business subsidy would place on other users, should not be
16 subsidized. Businesses have a means of recovering their telecommunications costs
17 through the prices they charge in the market. Multiple residential lines go beyond the
18 goal of universal service of ensuring that customers are connected to the network.
19 Households with incomes capable of sustaining multiple lines into the house or
20 subscribing to advanced technological services should not receive subsidies for
21 additional telephone lines. In some cases, there are economic substitutes for second
22 telephone lines, such as cable TV-based internet access, or mobile phones.
23 Subsidizing multiple telephone lines could cause customers to make uneconomic
24 purchase decisions and inhibit growth of additional technologies. Subsidizing

1 multiple residential lines and business lines increases the size of the fund
2 unnecessarily; it must be remembered that for every dollar of subsidy provided, a
3 dollar must be taken from a Florida consumer.

4 A Florida universal service fund should have as its objective to provide assistance to
5 those Florida consumers who require assistance to stay connected to the
6 telecommunications network.

7
8 **Q. WHAT COSTS ARE APPROPRIATE IN DETERMINING THE EXISTENCE**
9 **OF ANY SUBSIDY AND NEED FOR FUTURE SUBSIDY SUPPORT FROM**
10 **UNIVERSAL SERVICE?**

11 **A.** On the cost side of the equation, both for purposes of federal and state universal
12 service support mechanisms, costs used in any universal service mechanism should
13 be consistent with the pricing of Unbundled Network Elements ("UNEs") -- both the
14 methodology and the level of aggregation should be consistent. The FCC
15 encouraged states to use consistent methodologies for setting unbundled network
16 element prices and for determining universal service support levels. (FCC Report and
17 Order CC Docket No. 96-45, Par. 251).

18
19 **Q. WHY SHOULD UNIVERSAL SERVICE COST STUDIES BE CONSISTENT**
20 **WITH COST STUDIES FOR PERMANENT UNE PRICES?**

21 **A.** The cost basis of the network facilities used to serve the customer should be the same
22 whether it is the incumbent local exchange carrier serving the customer directly or it
23 is the competitive local exchange carrier leasing those same facilities (as network
24 elements). In either instance, the relevant standard should be the forward-looking,

1 efficient cost of the facilities used to provide service. UNE prices and universal
2 service costs must be based on forward-looking, least cost technology. The effect of
3 calculating universal service subsidies and network element prices from different
4 cost studies would be a competitively distorted universal service fund. In order for a
5 fund to be competitively neutral, both the UNE-based entrant and the incumbent
6 should receive the same effective subsidy. However, if competitive providers pay
7 UNE prices based on one cost analysis, and subsidies to support universal service are
8 calculated from a different cost study, then there will be instances in which the
9 subsidy available to the competitive provider would be either too small or too large.
10 Both network element prices and universal service costs should be calculated from a
11 cost study that estimates the forward-looking, efficient cost of a local network --
12 which is precisely an output of the HAI Model. In its determination of any subsidy
13 requirements, the permanent universal service mechanism should use costs
14 aggregated at the same level that UNE costs are offered. If unbundled network
15 elements are priced on a statewide basis, then statewide costs are appropriate to use
16 for universal service purposes.

17

18 **Q. ARE CURRENT UNBUNDLED NETWORK ELEMENT PRICES BASED ON**
19 **FORWARD LOOKING LEAST COST TECHNOLOGY?**

20 **A.** No. While the establishment of UNE rates is not the subject of this proceeding, it
21 should be noted that the existing UNE rates were not set pursuant to any model being
22 proposed in this proceeding. For example, the majority of UNE rates set in the
23 BellSouth/AT&T arbitration were set based on BellSouth's proposed cost model.
24 The rates for the remainder of UNEs were set earlier this year based on a

1 significantly different BellSouth model. Moreover, there are substantial differences
2 in certain significant inputs used to set the rates this year as compared to the rates set
3 in the initial arbitration proceeding in Docket No. 960833-TP. The model that GTE
4 is anticipated to file in this proceeding, the Integrated Cost Model, appears to be
5 substantially different from the model used by the Commission to set the UNE rates
6 in the AT&T/GTE arbitration proceeding in Docket No. 960847-TP. The diversity
7 in the manner in which current UNE prices were set underscores the need for the
8 Commission to adopt a comprehensive consistent cost model independent of the
9 ILECs that can be used as the basis for both universal service and network element
10 costs.

11

12 **Q. ON WHAT GEOGRAPHIC BASIS SHOULD THE TOTAL FORWARD-**
13 **LOOKING COST OF UNIVERSAL SERVICE BE DETERMINED; E.G.**
14 **GRIDS, CBGS, WIRE CENTERS, ETC.?**

15 **A.** The total forward-looking cost of universal service should be determined on a wire
16 center basis. The HAI Model already provides cost estimates for universal service
17 and UNEs at the wire center level. This is consistent with the FCC which requires
18 that any USF cost study or model used to calculate the forward-looking economic
19 costs of providing universal service in rural, insular and high cost areas must
20 deaverage support calculations at least to the wire center level. (FCC Report and
21 Order CC Docket No. 96-45, Par. 250).

22

1 Q. SHOULD THE GEOGRAPHIC BASIS FOR DETERMINING THE
2 FORWARD-LOOKING COST OF UNIVERSAL SERVICE BE THE SAME
3 BASIS ON WHICH THE NEED FOR A SUBSIDY IS DETERMINED?

4 A. Not necessarily; as previously indicated, in the process to determine subsidy
5 requirements, the permanent universal service mechanism should use costs
6 aggregated at the same level that UNE costs are offered. The basis to determine
7 costs is a separate and distinct issue from the basis to determine any subsidy needs.
8 If unbundled network elements are priced on a statewide basis, then statewide costs
9 are appropriate to use for universal service purposes; if unbundled network elements
10 are deaveraged by density zone, then density zone costs are appropriate to use for
11 universal service purposes. The critical relationship is between the geographic area
12 used to determine the need for a subsidy and the geographic area at which UNE costs
13 are averaged. These must be the same. There is no such required relationship
14 between the geographic basis for determining the forward looking cost of service and
15 the geographic area used to determine the need for a subsidy.

16
17 Q. SHOULD ALL ILECS BE REQUIRED TO USE THE SAME COST MODEL?

18 A. Not at this time. All non-rural LECs, that is, BellSouth, GTE, United, and Centel,
19 should be required to use the same cost methodology. It may not be appropriate at
20 this time for small rural LECs to use the same cost model as the non-rural companies.
21 The FCC has determined, for interstate high cost fund purposes, rural LECs will not
22 be required to use a forward-looking cost methodology at least until January 1, 2001.
23 Florida statute Section 364.024(4)(c) permits the Commission to determine small
24 LECs costs based either on a cost proxy model or an embedded cost basis.

1 Q. SHOULD UNIVERSAL SERVICE COST STUDIES BE COMPANY
2 SPECIFIC OR GENERIC?

3 A. The cost studies should be representative of an efficient firm providing service in
4 specific geographic areas. The cost study model should be generic in order to be
5 appropriately independent of the incumbent LEC's embedded network and
6 operations. However, the input factors should be relevant to the geographic areas
7 being served.

8
9 Q. WHAT IS THE COST TO PROVIDE UNIVERSAL SERVICE IN FLORIDA?

10 A. The total forward looking cost to provide universal service for areas served by
11 BellSouth in Florida is \$680.6M, this equates to an average of \$ 15.11 per residence
12 line per month in the BellSouth serving area. The total cost to provide universal
13 service for areas served by GTE in Florida is \$255.1M, this equates to \$ 15.07 per
14 residence line per month. The total cost to provide universal service for areas served
15 by United in Florida is \$209.2M, this equates to \$ 17.86 per residence line per
16 month. The total cost to provide universal service for areas served by Centel in
17 Florida is \$68.7, which equates to \$ 26.23 per residence line per month. The
18 underlying data for these costs is presented in the testimony of AT&T witness Don
19 Wood.

20
21 Q. PLEASE DISCUSS YOUR RATIONALE FOR WHAT REVENUES AND
22 COSTS SHOULD BE INCLUDED IN THE ANALYSIS OF BASIC LOCAL
23 RESIDENTIAL EXCHANGE SERVICE FOR THE PURPOSE OF
24 ESTABLISHING A PERMANENT UNIVERSAL SERVICE MECHANISM?

1 A. The costs used in the provision of local residential service should be the forward
2 looking economic costs associated with all services that utilize the local loop, which
3 are the dial tone related elements, state and interstate access services, and
4 discretionary service arrangements. The costs should be examined at the wire center
5 level. The revenues that should be included in the analysis of local residential
6 service are the same elements for which cost data is developed. These revenues, as
7 recommended by the Federal-State Joint Board on Universal Service, should include
8 local, discretionary, access services and other appropriate revenues, such as, yellow
9 pages¹. These are the revenues any company serving an individual residential
10 customer would anticipate to receive to offset the cost of serving that customer. For
11 purposes of federal universal service high cost support, the benchmark revenue per-
12 line will be a nationwide average of revenues derived from local services (including
13 revenues from discretionary services), and interstate and intrastate access. This
14 would equate to the per-line revenue that is paid to the local exchange carrier by the
15 end-user for services included in the local exchange market and by the interexchange
16 carriers for services included in the local exchange access market. The determination
17 of a subsidy is based on these revenues and the cost of serving customers. It is not
18 merely the revenues associated with basic local service, but all the revenues
19 associated with customers that both the incumbent and new entrant carriers evaluate
20 when analyzing the desirability of serving a particular market area. The revenue
21 benchmark basically sets the standard of a reasonable revenue level that a carrier
22 should expect to receive from its customers before it is able to draw from a subsidy
23 fund. Subsidy requirements should be determined by the elementary rule that
24 subsidy is only needed where the revenues expected to be received from customers

1 are inadequate to cover costs. The amount of subsidy required in each ILEC's area
2 would then be determined by comparing the geographic specific costs to the
3 associated revenues. In geographic areas where costs exceed revenues a subsidy
4 would be provided.

5

6 **Q. HOW SHOULD THE REVENUE BENCHMARK BE DETERMINED?**

7 **A.** The revenue benchmark should include all revenues that a local telecommunications
8 carrier can expect to receive, in addition to local service, from the discretionary
9 services and intrastate and interstate switched access services that are associated with
10 the provision of local exchange service. This is the same method to calculate the
11 revenue benchmark that the FCC used (and the Federal/State Joint Board
12 recommended) in determining the interstate benchmark.

13 The FCC explained the make-up of its revenue benchmark: "As the Joint Board
14 recommended, the revenue benchmark should take account not only of the retail
15 price currently charged for local service, but also of other revenues the carrier
16 receives as a result of providing service, including vertical service revenue and
17 interstate and intrastate access revenues. Failure to include all revenues received by
18 the carrier could result in substantial overpayment to the carrier." (FCC Report and
19 Order CC Docket No. 96-45, Par. 200)

20

21 **Q. WHY SHOULD THIS APPROACH TO CALCULATING THE REVENUE**
22 **BENCHMARK BE ADOPTED?**

23 **A.** This methodology is the only approach which really makes sense. The revenue
24 potential of a customer is not determined solely by revenue from basic local

1 exchange service. Carriers will expect to receive revenues from other services they
2 provide their customers, as well as revenues from access charges imposed on other
3 carriers when customers make toll calls. Moreover, customers do not subscribe to
4 telephone service simply to make and receive local calls. Telecommunications
5 service providers do not seek customers based solely on expected revenues from
6 basic local exchange service. It is the entire basket of services associated with each
7 customer's line in each wire center (i.e., the loop and the switch) that is important to
8 determine profitability and the need for a universal service subsidy. This is
9 particularly true in the context of the "one-stop shopping" environment expected in
10 the future. Carriers which control the loop and switch will endeavor to become the
11 provider of all services made possible by these facilities and will compete to attract
12 customers with a variety of pricing strategies. Competition will determine how
13 carriers recover the cost of the loop and switch across the basket of retail services
14 made possible by the loop and switch.

15
16 Additionally, the facilities which provide local exchange service do not provide just
17 local exchange service. The facilities that provide basic local service also provide
18 vertical services, switched access service, and other intraLATA services. Thus, a
19 customer cannot get local service from one provider and vertical services from
20 another. Likewise, a customer cannot order basic local exchange service without
21 also receiving the capability of receiving vertical services and access. Discretionary
22 services, access as well as basic local exchange service are all inherent, inseparable
23 capabilities of the loops and switches which serve customers in Florida. Because the

1 full cost of the loop and switch are included in the cost of universal service, all of the
2 revenues associated with these facilities should be included in the benchmark.

3

4 **Q. WHAT ARE THE CONSEQUENCES IF THE REVENUES FROM THESE**
5 **ASSOCIATED SERVICES WERE IGNORED?**

6 **A.** If all the revenues associated with the provision of local exchange service (and the
7 local loop and switch facilities) were not included in the revenue benchmark, then the
8 universal service fund would be sized too large because it would provide subsidies
9 where profits already provide incentives to serve. An inflated universal fund harms
10 consumers.

11 For example, an inflated universal service fund would mean that consumers would
12 face prices for telecommunications services that are too high. Consumers, through
13 the prices paid for all telecommunications services, ultimately fund universal service.
14 An inflated universal service fund unnecessarily takes too much from some to give it
15 to others. After all, universal service funding is a form of taxation and, like all
16 taxation, its administrators should be as judicious as possible in determining need
17 before imposing the tax.

18

19 Furthermore, the entire point of the federal Telecommunications Act of 1996 is to
20 provide consumers choice with the intention that competition will drive overall
21 telecommunications prices down. The universal service fund is an exception to this
22 process because universal service subsidies are a protected revenue source not
23 subject to competitive forces. Because competitive forces can never "compete

1 down" the size of a universal service fund made too large, Care must be taken in the
2 original formulation of a fund.

3

4 **Q. HAVE YOU ESTIMATED A PER LINE "REVENUE BENCHMARK" FOR**
5 **THE LARGE ILEC'S RESIDENTIAL CUSTOMERS IN FLORIDA?**

6 **A.** I have calculated an estimate of the "revenue benchmark" for residential lines in
7 BellSouth, GTE, United and Centel serving areas in Florida; however, the data to
8 calculate a precise revenue benchmark is controlled by the ILECs and is not publicly
9 available. In response to an FCC data request, the ILECs provided data which shows
10 that the average residential revenue for the basket of local services (not including
11 intraLATA toll or access revenues) in June, 1996. To complete the calculation of the
12 residential revenue benchmark requires adding to these amounts average residential
13 interstate access revenue and intrastate access revenue.

14

15 **Q. DO YOU HAVE THE DATA NECESSARY TO CALCULATE THE**
16 **AVERAGE ACCESS REVENUES SPECIFIC TO EACH ILEC'S**
17 **RESIDENTIAL CUSTOMERS?**

18 **A.** No. I am not aware of any publicly available access revenue information that is
19 specific to residential customers. The benchmark I have estimated relies on the
20 statewide (i.e., business and residential) average access revenue. The benchmark
21 calculation is summarized in Table 1 below:

22

1
2
3
4
5
Table 1: The Florida Residential Revenue Benchmark per Line

Revenue Category Line	Average Residential Revenue per		
	BellSouth	GTE	United/Centel
Local Service Revenue (with SLC)	\$ 18.90	\$ 11.56	\$ 24.98
IntraLATA Toll Revenue	\$ 1.07	\$ 4.92	\$ 2.06
Interstate Access Revenue (not SLC) ²	\$ 6.99	\$ 8.09	\$ 6.19
Intrastate Access Revenue ³	\$ 2.81	\$ 6.34	\$ 8.09
Directory	\$ 0.34	\$ 4.56	\$ 2.14
Total	\$30.12	\$35.47	\$43.47

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7 The above analysis provides a reasonably reliable estimate of the residential revenue
8 benchmark. However, the data for the precise revenue benchmark is controlled by
9 the ILECs. In addition, the expected intrastate access revenues should be
10 recomputed to reflect the implementation of cost based access charges. Table 2
11 estimates the revenue benchmark with cost based intrastate access charges.

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**Table 2: The Florida Residential Revenue Benchmark per Line
with Cost Based Intrastate Access**

	BellSouth	GTE	United/Centel
Average Residential Revenue per Line	\$ 27.17	\$ 29.37	\$ 35.64

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17 Q. HOW WOULD AN ANALYSIS TO DETERMINE WHETHER
18 RESIDENTIAL CUSTOMERS IN FLORIDA REQUIRE AN EXTERNAL
19 SUBSIDY BE DONE?

20 A. There are two ways to analyze whether residential customers in Florida are
21 subsidized overall. One method is to compare the cost per line with the revenue
22 benchmark (with access priced at cost) for residence lines in each wire center. The
23 total revenue shortfall (costs exceed revenues) or revenue surplus (revenues exceed
24 costs) for each wire center is determined by multiplying the difference between the

1 needs, state and interstate, for the company. It is appropriate to sum not merely the
 2 subsidies for each wire center, but both the revenue shortfalls (wire centers where
 3 costs exceed revenues) and the revenue surpluses (wire centers where revenues
 4 exceed costs) across all wire centers to determine the overall subsidy requirement.
 5 Until competition drives prices toward costs in these exchanges where a surplus
 6 exists and cost based unbundled network elements are not only deaveraged but easily
 7 available for use, it is appropriate to determine the total subsidy by netting the
 8 revenue and cost differences across all wire centers. It is not appropriate to look only
 9 at the wire centers that have a negative contribution (costs exceed revenues) and
 10 ignore the revenues from those wire centers that have a positive contribution. All
 11 relevant revenues with each ILECs serving areas should be taken into account.
 12 The netting process is equivalent to the second analysis method which is to compare
 13 the ILEC's total residential revenues (with intrastate access priced at cost) to the
 14 aggregate residential cost calculated by the HAI Model. This comparison of
 15 residential revenues and aggregate residential costs is summarized in Table 3 below.
 16 The aggregate residential revenues were calculated based on the number of
 17 residential lines in Florida from the HAI model and the revenue benchmark per line.

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Table 3: Comparison of Residential Revenues and Costs
 (\$ millions/year)

	BellSouth	GTE	United	Centel
Estimated Residential Revenues	\$ 1,223.7	\$ 497.1	\$ 417.5	\$ 93.4
Estimated Residential Costs				
HAI Model	\$ 680.6	\$ 255.1	\$ 209.3	\$ 68.7

1 Table 3 shows that the revenues received from residential customers far exceed the
2 cost to serve these customers.

3

4 **Q. WHAT SHOULD BE THE AMOUNT OF SUPPORT IN A FLORIDA**
5 **UNIVERSAL SERVICE SUPPORT SYSTEM?**

6 **A.** Current revenues for BellSouth, GTE, United and Centel local residential and
7 associated services exceed the costs of providing those services. Consequently,
8 Florida does not now require an intrastate universal service fund.

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10 **Q. IS THIS RESULT CONSISTENT WITH THE TELECOMMUNICATIONS**
11 **ACT OF 1996?**

12 **A.** Yes it is. The Telecommunications Act of 1996 directs the Federal Communications
13 Commission to set up procedures for a federal universal service fund and it allows
14 states to set up a fund if the states determine it is necessary.

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16 **Q. WHAT ACTIONS DO YOU RECOMMEND TO THE FLORIDA**
17 **COMMISSION?**

18 **A.** I recommend that the Commission 1) adopt the HAI Model to determine the forward
19 looking economic cost to provide universal service and report these costs to the
20 legislature, 2) recommend to the legislature that the universal service mechanism
21 process analyze the potential need for any explicit subsidy by comparing the
22 incumbent LEC's statewide residential revenues to the statewide cost to serve
23 residential customers (a statewide calculation is the most appropriate basis to
24 determine whether an intrastate universal service fund is necessary because

1 residential customers (a statewide calculation is the most appropriate basis to
2 determine whether an intrastate universal service fund is necessary because
3 competitive conditions for residential customers are reasonably uniform across the
4 state today, and in an environment of statewide average network element prices --
5 and OSS systems which are incapable of supporting mass-market residential
6 competition even if network element prices were deaveraged -- there is no reason to
7 analyze the need for subsidy at a more granular level until competition develops and
8 unbundled network elements are deaveraged), and 3) recommend to the legislature
9 that only single line residential lines be eligible for support.

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11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 **A. Yes.**

1 Historically, Yellow Pages have provided support for universal service, and, in fact, Judge Green decided that these would remain with the Bell Operating Companies at divestiture because the revenue from this source was used to support universal service.

2 Source: 1996 ARMIS Reports 43-01 and 43-04.

3 ILEC ARMIS data reports total intrastate access revenue without separately identifying the switched and special access categories. To remove an estimate of intrastate special access, the intrastate total access revenue was reduced by the same proportion that interstate special access is to interstate total access. Because most special access is interstate, this adjustment is likely to result in an understated estimate of intrastate switched access per line and thus produces a revenue benchmark which is too low.