

030867-TL

# CONFIDENTIAL

1 BELL SOUTH TELECOMMUNICATIONS, INC.  
 2 REBUTTAL TESTIMONY OF JOHN A. RUSCILLI  
 3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
 4 DOCKET NO. 030867-TL, 030868-TL, 030869-TL, & 030961-TI  
 5 NOVEMBER 19, 2003  
 6

7 Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH  
 8 TELECOMMUNICATIONS, INC. ("BELLSOUTH") AND YOUR  
 9 BUSINESS ADDRESS.

10

11 A. My name is John A. Ruscilli. I am employed by BellSouth as Senior Director  
 12 - Policy Implementation and Regulatory Compliance for the nine-state  
 13 BellSouth region. My business address is 675 West Peachtree Street, Atlanta,  
 14 Georgia 30375.

15

16 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

17

18 A. Yes. I filed revised direct testimony in this docket on September 30, 2003.

19

20 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

21

22 A. The purpose of my rebuttal testimony is to respond to portions of the testimony  
 23 filed by witnesses on October 31, 2003. First, I respond briefly to the  
 24 testimony of Dr. John W. Mayo on behalf of AT&T of the Southern States,  
 25 LLC ("AT&T") and MCI WorldCom Communications, Inc. ("MCI"), Mr.

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1 Wayne Fonteix on behalf of AT&T and Mr. Felix L. Boccucci, Jr. on behalf of  
2 Knology of Florida, Inc. I respond in more detail to the testimony of witnesses  
3 Dr. David J. Gabel and Mr. Bion C. Ostrander on behalf of the Office of Public  
4 Counsel (OPC) and Dr. Mark N. Cooper on behalf of AARP. In addition, I  
5 briefly discuss the testimony of Staff witness Mr. Gregory L. Shafer.

6

7 Q. DO YOU HAVE ANY COMMENTS REGARDING THE TESTIMONY OF  
8 THE WITNESSES SPONSORED BY AT&T, MCI AND KNOLOGY?

9

10 A. Yes. Generally speaking, BellSouth supports the testimony of these witnesses  
11 and encourages the Florida Public Service Commission ("Commission") to  
12 give particular weight to those comments that describe the increased incentive  
13 Section 364.164 of Florida's Tele-Competition Innovation and Infrastructure  
14 Enhancement Act ("Act"), which became law on May 23, 2003, provides to  
15 companies to compete for residential customers in Florida. AT&T's witness  
16 Mr. Fonteix, at page 7, states that since passage of the Act, AT&T has entered  
17 the local residential service market in Florida and attributes this entry to the  
18 legislative provisions that allow for the support in basic service rates to be  
19 reduced. This is significant considering AT&T could have entered the market  
20 as early as 1996, but has chosen at this time to do so.

21

22 Similarly, Mr. Boccucci, at page 3 of his testimony, states that the new law  
23 "will enhance the competitive choices available to Florida citizens." As an  
24 example, Mr. Boccucci states that shortly after passage of the law, Knology  
25 entered into an agreement with Verizon Media Ventures, Inc. that will provide

1 opportunity to market voice, video and data services to approximately 275,000  
2 homes and businesses. These local service competitors provide positive  
3 evidence that elimination of the support to basic service rates as well as  
4 reduction of switched access charges will induce additional entry and  
5 competition into Florida's local service markets.

6

7 Q. DO YOU AGREE WITH ALL ASPECTS OF THESE WITNESSES  
8 TESTIMONY?

9

10 A. Not entirely. Although BellSouth generally agrees with AT&T's, MCI's and  
11 Knology's testimony, BellSouth takes exception to certain statements made by  
12 Dr. Mayo and Mr. Fonteix. First, BellSouth takes exception to the  
13 unsupported and speculative allegations of non-price discriminatory conduct  
14 mentioned in Dr. Mayo's testimony at pages 18-19. His allegations lack any  
15 evidence whatsoever and are not the subject of this case. Second, I refer to  
16 pages 2-3 of Mr. Fonteix's testimony. Although Mr. Fonteix clearly  
17 acknowledges that local exchange service rates are subsidized, he suggests that  
18 the "subsidy allows incumbent providers to subject their competitors to an anti-  
19 competitive price squeeze." In reality, the subsidy in basic service rates is a  
20 result of social pricing, which BellSouth has advocated for many years must  
21 end. Mr. Fonteix seems to suggest that several decades ago ILECs established  
22 this support just so they could leverage an anti-competitive price squeeze to  
23 thwart competition in 2003.

24

25

1 Q. DO YOU HAVE ANY COMMENTS REGARDING THE TESTIMONY OF  
2 DR. GABEL AND MR. OSTRANDER SPONSORED BY OPC?

3

4 A. Yes, I have several comments. Although Dr. Banerjee, Dr. Gordon and Mr.  
5 Shell rebut the majority of Dr. Gabel's testimony, I wish to respond to certain  
6 of his statements. After addressing Dr. Gabel's testimony, I will respond to  
7 numerous points contained in Mr. Ostrander's testimony.

8

9 Q. AT PAGE 7, DR. GABEL ATTEMPTS TO ARGUE THAT THE  
10 LEGISLATURE SOMEHOW EXPECTS THAT TOTAL REVENUES  
11 SHOULD BE USED IN DETERMINING WHETHER OR NOT A SUBSIDY  
12 EXISTS IN BASIC LOCAL SERVICE. IS HIS ARGUMENT CONSISTENT  
13 WITH THE WORDING OF SECTION 364.164?

14

15 A. No. Dr. Gabel's statement that any rate rebalancing "implicitly acknowledges  
16 that ILECs look at the entire revenue package" is totally unsupported. Section  
17 364.164 describes rebalancing of intrastate switched access revenues with  
18 basic local telecommunications service revenues on a revenue neutral basis.  
19 Basic local telecommunications service as defined by Section 364.02(1) means  
20 voice-grade, flat-rate residential, and flat-rate single-line business local  
21 exchange services. The Statute is clear; revenue neutral rate rebalancing is to  
22 occur between switched access revenues and basic local service revenues.  
23 Nowhere in Section 364.164 or elsewhere in the Statute is there reference to  
24 other services being considered.

25

1 Q. IN DISCUSSING COMPLEMENTARY SERVICES AT PAGES 64-65, DR.  
2 GABEL ATTEMPTS TO COMPARE THE PROVISION OF BASIC LOCAL  
3 SERVICE TO RAZORS AND COMPUTER PRINTERS. IS THIS A  
4 REASONABLE COMPARISON?

5  
6 A. Absolutely not. Dr. Gabel describes how Gillette sells its razors at a low price  
7 but makes substantial profit on replacement blades. He further explains that  
8 printer manufacturers market their printers at low up front prices in order to  
9 lock in customers who must purchase expensive ink cartridges that only fit the  
10 specific printer purchased. Dr. Gabel's comparison simply doesn't wash.  
11 First, and most importantly, basic local service is a standalone product.  
12 Although there are complementary services a customer could purchase, there is  
13 no requirement that they do so. To the extent that any customer in BellSouth's  
14 territory wants only basic local service, BellSouth provides that service at a  
15 below cost rate that has been controlled by government regulation. Unlike dull  
16 razor blades and empty ink cartridges, our customers never run out of dial tone.  
17  
18 *Second, unlike Gillette and the printer manufacturer, BellSouth cannot enter*  
19 *and exit markets at will based on profitability or any other criteria. BellSouth*  
20 *must respond to any reasonable request for service, even if the customer only*  
21 *requests below cost basic local service. Gillette and the printer manufacturer*  
22 *are guaranteed complementary service revenues, but BellSouth has no such*  
23 *guarantee. And this is no small issue in Florida. In fact, if you look just at the*  
24 *line and complementary vertical features, a full 39% of BellSouth's non-*  
25 *packaged residence lines in Florida are just basic local service with no features.*

1           Particularly given the low rates for basic residence service in Florida, the  
2           opportunity to sell complementary features or bundles to this group of  
3           customers is small.

4

5 Q.       MUCH OF MR. OSTRANDER'S TESTIMONY RELIES ON THE PREMISE  
6           THAT SECTION 364.164 REQUIRES THAT BELLSOUTH'S PROPOSAL  
7           RESULT IN TANGIBLE NET BENEFITS TO RESIDENTIAL  
8           CUSTOMERS. IS HIS PREMISE CORRECT?

9

10 A.       No. Mr. Ostrander relies on an erroneous premise, and as such, much of Mr.  
11           Ostrander's testimony is irrelevant. There is nothing in Section 364.164 that  
12           requires such an outcome. For all of Mr. Ostrander's protests about legislative  
13           intent, the Legislature could easily have included language requiring net  
14           tangible benefits to residential customers if they believed it was appropriate.  
15           However, the Statute contains no such language. The requirement of Section  
16           364.164 is that support for basic service rates be removed. The Statute  
17           presumes, and rightfully so, that removal of support will create a more  
18           competitive local market which will be to the benefit of residential customers.  
19           Section 364.164 establishes a process by which ILECs are able to reduce  
20           switched access revenues and recover any revenue losses by increasing basic  
21           local rates. In other words, the reductions and increases are to be revenue  
22           neutral. The type of net tangible benefits that Mr. Ostrander describes can  
23           hardly be the outcome when the goal is revenue neutrality. The benefits  
24           accruing to residential customers as envisioned by the Statute are clearly in the  
25           new choices of providers and services that additional competition will bring as

1 well as in the pass-through of access reductions in the form of reduced toll  
2 rates.

3

4 Q. AT PAGES 5-6 MR. OSTRANDER LISTS FIVE AREAS WHERE HE SAYS  
5 THAT THE ILEC PROPOSALS CANNOT PROVE A NET BENEFIT TO  
6 RESIDENTIAL CUSTOMERS. FOR THE FIRST AREA, AT PAGES 9-10,  
7 MR. OSTRANDER COMPLAINS THAT BELLSOUTH'S PROPOSAL  
8 WILL NOT ENHANCE COMPETITION. PLEASE RESPOND.

9

10 A. As explained above, net benefits are not a requirement of the statute.  
11 However, a natural outcome of removing support from basic local service will  
12 be to move prices closer to market-based levels. As discussed in Dr.  
13 Banerjee's testimony, by moving prices closer to market-based levels,  
14 competitors will be induced to market to those customers formerly protected  
15 by below cost pricing. Further, Mr. Ostrander's testimony is belied by the  
16 testimony of AT&T, MCI and Knology. These competitors state without  
17 reservation that the prospect of removing the support in local service rates has  
18 clearly caused them to be more aggressive in the residential market in Florida.

19

20 Q. IN HIS SECOND AREA, MR. OSTRANDER ARGUES THAT LOCAL  
21 RATE INCREASES EXCEED TOLL RATE REDUCTIONS FOR THE  
22 AVERAGE CUSTOMER. PLEASE COMMENT.

23

24 A. Shortly I will address certain of Mr. Ostrander's assumptions regarding his  
25 analysis. However, here I wish to point out that Section 364.164 does not

1 require revenue neutrality between basic service revenues and toll revenues.  
2 Instead, it requires revenue neutrality between basic service revenues and  
3 switched access revenues. BellSouth can only ensure that switched access  
4 revenue reductions are revenue neutral with increased local service revenues.  
5 BellSouth does not control the interexchange carriers' ("IXC") toll prices in  
6 the state of Florida. As provided for in the Statute, the Commission will  
7 ensure that switched access reductions will be passed through to toll customers  
8 in the form of reduced toll prices.

9  
10 Q. IN THE THIRD AREA DESCRIBED IN PAGES 40-41, MR. OSTRANDER  
11 DEMANDS THAT ILECS PROVE THAT THEIR PROPOSALS WILL  
12 RESULT IN NEW OR UNIQUE SERVICE INTRODUCTIONS. IS THERE  
13 SUCH A REQUIREMENT?

14  
15 A. No. Although the natural result of additional competition will be the  
16 introduction of new services and service bundles to the benefit of residential  
17 customers, there is no specific requirement contained in the Statute. Mr.  
18 Ostrander also suggests that these new services should be "unique to Florida  
19 and not available in other states." There is no such requirement contained in  
20 the Statute.

21  
22 Q. IN HIS FOURTH AREA, COVERED IN PAGES 38-40, MR. OSTRANDER  
23 ARGUES THAT BELL SOUTH'S PROPOSAL WILL PRODUCE NO  
24 UNIQUELY ASSOCIATED BENEFITS OF CAPITAL INVESTMENT.  
25 PLEASE COMMENT.



1

2 A. The Statute contains no reference to increased capital investment. However,  
3 the testimony of Mr. Boccucci does support the contention that the ILEC  
4 proposals will enhance competitive choices for Florida customers. Naturally,  
5 increased competition will mean new capital investment will be attracted to  
6 Florida. Mr. Boccucci states at page 2 of his testimony that Knology believes  
7 that "364.164 creates the framework to promote facility-based local exchange  
8 competition." Facilities-based competition requires capital investment.

9

10 Q. FIFTH, AND FINALLY, MR. OSTRANDER, INVENTS A CRITERIA OF  
11 THE LEGISLATION THAT PROPOSALS MUST INSURE SERVICE  
12 QUALITY IMPROVEMENT. PLEASE COMMENT?

13

14 A. Not only is there no such requirement in the Statute, the entire idea is  
15 completely inconsistent with a competitive local service market. In a  
16 competitive market, service quality does not need to be regulated or mandated.  
17 The market itself will dictate good service quality. If a customer is not  
18 satisfied with the service provided by their current service provider, they will  
19 choose another service provider. Any carrier that provides poor service cannot  
20 expect to retain and certainly cannot expect to increase its market share. Good  
21 service quality is another positive outcome of a highly competitive market.

22

23 Q. EARLIER YOU MENTIONED YOU HAD COMMENTS REGARDING MR.  
24 OSTRANDER'S TESTIMONY WHERE HE PURPORTS TO CONDUCT A

25

1 TOLL ANALYSIS TO SHOW THAT TOLL REDUCTIONS DO NOT  
2 OFFSET LOCAL SERVICE INCREASES. PLEASE ELABORATE.

3

4 A. As I noted earlier, there is no requirement that local service increases be offset  
5 by toll reductions. There is only a requirement that decreases in switched  
6 access revenues be offset by increases in local service revenues. Beyond this  
7 fundamental problem with Mr. Ostrander's argument, there are other problems  
8 with his analysis. First, Mr. Ostrander uses the FCC's Trends in Telephone  
9 Service Report dated August 2003 to come up with 44 minutes<sup>1</sup> of nationwide  
10 average intrastate toll minutes by residential customers in a month. However,  
11 Mr. Ostrander has in his possession an EXCEL spreadsheet provided by  
12 BellSouth in response to Production of Documents ("POD") # 3 in OPC's First  
13 Set of Interrogatories and PODs, showing the actual intrastate toll usage for  
14 residential customers in Florida of **begin proprietary 93 end proprietary**  
15 **minutes per month**. Even after Mr. Ostrander doubles the 44 minutes to 88  
16 minutes, the intrastate toll usage in his analysis is still **begin proprietary 5%**  
17 **end proprietary** below the actual usage in Florida.

18

19 Although he correctly excludes interstate minutes from his calculation, he fails  
20 to do so in another area of his analysis. Interestingly, he cites to the same FCC  
21 report at page 30 to show that the nationwide average toll rate is 8 cents per  
22 minute. Mr. Ostrander attempts to argue that with a low average toll rate of 8

23

24 <sup>1</sup> Although Table 14.2 of the FCC's August 2003 *Trends in Telephone Service Report* is titled "Average  
25 Residential Monthly Toll Calls", Mr. Ostrander has apparently recognized that previous versions of the  
report, i.e. May 2002 indicate that Table 14.2 is actually the average residential monthly toll minutes,  
not toll calls.

1 cents per minute, it would be very difficult for IXCs to lower this rate to make  
2 toll rate reductions cover increases in local rates. However, the 8 cents used in  
3 Mr. Ostrander's analysis (found in Table 13.4 of the FCC's Report), represents  
4 interstate revenues, not intrastate revenues. With intrastate access charges  
5 considerably higher than interstate charges, it is reasonable to assume that  
6 intrastate per minute revenues would be higher than interstate revenues. The  
7 point is Mr. Ostrander excludes interstate minutes where it helps his case and  
8 includes interstate revenues when it helps his case, which casts doubt on the  
9 credibility of his analysis.

10

11 Q. AT PAGES 33-34, MR. OSTRANDER ARGUES THAT ANY TOLL  
12 REDUCTIONS THAT RESULT FROM THE ILECS' PROPOSALS CAN  
13 EASILY BE TAKEN AWAY AT A LATER TIME. PLEASE COMMENT.

14

15 A. While it is true that, theoretically, IXC toll reductions occurring due to the  
16 ILECs' proposals could be reversed at a later date, such an event is unlikely to  
17 occur. Mr. Ostrander completely ignores the dynamics of a competitive  
18 marketplace. In a highly competitive market such as the toll market,  
19 competitors are constantly attempting to reduce their cost in order to be more  
20 competitive. The higher priced competitor would quickly lose market share  
21 to the lower priced competitors. Long distance, like gasoline, is of similar  
22 quality no matter who provides the product. The public will quickly find the  
23 lowest gas prices just as they will quickly find the lowest long distance prices  
24 or lowest package deal.

25

1 Q. DO YOU HAVE ANY GENERAL COMMENTS REGARDING THE  
2 TESTIMONY OF DR. MARK COOPER, WITNESS FOR AARP?

3  
4 A. Yes. Dr. Cooper, like Mr. Ostrander, supports the faulty premise that Section  
5 364.164 requires that residence customers receive net tangible benefits from  
6 implementation of the ILECs' proposals. For example, at page 14, Dr. Cooper  
7 states that residence customers should receive "actual net financial benefits in  
8 the form of lower overall monthly bills through offsetting reductions in  
9 intrastate toll rates required by the new law." He, like Mr. Ostrander, is  
10 incorrect and totally misses the point of Section 364.164. This section is all  
11 about the ability of ILECs to remove the support from basic service through  
12 offsets in switched access revenues.

13  
14 Dr. Cooper also relies heavily on another faulty premise; that competition must  
15 be proven to result from increases in residence and single-line business rates.  
16 Beginning at page 12, Dr. Cooper bases his premise on what he perceives as  
17 legislative intent. However, once again, had the Legislature intended that  
18 competition must be proven to result from the ILECs proposals, language to  
19 that effect would have been included in Section 364.164. Instead, the  
20 Legislature concluded that pricing subsidies inhibit competition while pricing  
21 based on market conditions induces entry and stimulates competition. The  
22 Legislature reasonably concluded that, as evidenced by the language of the  
23 Statute, supporting a service prevents the creation of a more attractive local  
24 market. Removal of that support, therefore, eliminates an artificial barrier to  
25 competition and the resulting increase in competitive choices will be beneficial

1 to residence customers. The fact remains, as Mr. Shell demonstrates, that  
2 residential service is priced below its relevant cost, a condition that cannot be  
3 allowed to continue if a truly competitive local service market is the goal. Dr.  
4 Cooper and the AARP cannot simply wish away the cost evidence presented in  
5 this case.

6

7 Q. BEGINNING AT PAGE 28, DR. COOPER ARGUES THAT BECAUSE  
8 COMPETITORS OFFER BUNDLES OF SERVICES, IT IS IRRELEVANT  
9 THAT BASIC SERVICE IS PRICED BELOW COST. DO YOU AGREE?

10

11 A. No. While it is true that most competitors offer bundles of services versus  
12 basic service only, Dr. Cooper fails to recognize the importance of pricing  
13 basic service above cost. By increasing the price of basic service to a more  
14 market-based level, the bundles that competitors offer will become more  
15 attractive. As noted earlier, currently 39% of non-packaged residence lines in  
16 Florida are receiving basic local service only with no features. Raising the  
17 price of basic service to cover its cost will induce competitors to more  
18 aggressively market their services to these customers and a customer that is  
19 paying a market rate for basic service is more likely to consider other service  
20 options.

21

22 Q. DR. COOPER COMPLAINS AT PAGES 30-31 THAT THE MAJORITY OF  
23 REVENUE INCREASES IN THE ILECS' PROPOSALS ARE ON  
24 RESIDENCE SERVICE; THAT MULTI-LINE BUSINESS AND BIG

25

1 BUSINESS CUSTOMERS WILL EXPERIENCE NO RATE INCREASES  
2 AT ALL. PLEASE COMMENT.

3  
4 A. Dr. Cooper is correct that the majority of revenue increases will apply to  
5 residential customers, and for good reason. The Statute calls for the removal  
6 of the support in basic service and, with the one exception of single-line  
7 business rates in Rate Group 2, it is only residence service where the support  
8 resides. Historically it has been primarily switched access service and business  
9 services that have contributed to the support in basic service rates; therefore, it  
10 would be nonsensical to raise business rates in order to eliminate the support in  
11 residence service rates.

12  
13 As explained in my revised direct testimony, the support resides in basic  
14 service rates and is more pronounced in the more rural rate groups. However,  
15 to be sensitive to the potential rate increases that could affect the most rural  
16 customers, BellSouth proposes that all residential rate groups be increased by  
17 the same amount. Although this proposal does not move rural rates to cover  
18 their cost, it does move in the right direction without creating rate shock. Dr.  
19 Cooper's proposal would only exacerbate the current situation where residence  
20 rates, particularly in rural areas, are already far from covering their costs. Such  
21 a philosophy only shifts the support rather than removing it as required by the  
22 Statute.

23  
24 Q. IN A SIMILAR VEIN, AT PAGE 32, DR. COOPER SUGGESTS THAT  
25 "THE COMMISSION SHOULD REQUIRE THAT THE INCREASE IN

1 BASIC RATES BE ALLOCATED IN PROPORTION TO ACCESS  
2 MINUTES OF USE BETWEEN THE CLASSES.” SHOULD THE  
3 COMMISSION CONSIDER HIS SUGGESTION?

4

5 A. No. The support in basic local service rates did not evolve based on the  
6 allocation of access minutes of use between the classes and should not be  
7 removed on that basis. Dr. Cooper’s proposals to apply rate increases to  
8 business and to allocate increases based on access minutes of use would simply  
9 result in shifting the support around and not removing it as called for by  
10 Section 364.164. Dr. Banerjee also addresses Dr. Cooper on this point from an  
11 economic perspective.

12

13 Q. DR. COOPER, CONTINUES ON PAGE 32 BY EXPRESSING CONCERN  
14 THAT HIS CLIENTS, OLDER FLORIDIANS, ARE LIKELY TO BE  
15 HARDEST HIT BY RATE REBALANCING BECAUSE THEY MAKE  
16 FEWER LONG DISTANCE CALLS. PLEASE COMMENT.

17

18 A. First, as noted previously, there is no direct relationship in Section 364.164  
19 between basic rate increases and toll reductions, particularly for purposes of  
20 the ILECs’ rebalancing proposals. The Commission, however, as noted in its  
21 Order # PSC-03-1240-PCO-TL, dated November 4, 2003, will be addressing  
22 the issues surrounding toll reductions by consolidating this proceeding with  
23 Docket No. 030961-TI (Flow-through of LEC Switched Access Reductions by  
24 IXC’s, Pursuant to Section 364.163(2), Florida Statutes).

25

1 Next, BellSouth is sensitive to the needs of older Floridians as well as that  
 2 segment of the population that can least afford increases in services such as  
 3 telephone, gas, electric, etc. The Lifeline and Link Up programs are designed  
 4 to provide assistance to those in need. However, being an older Floridian does  
 5 not automatically mean that raising basic service rates to market levels will  
 6 cause a hardship. To demonstrate this point, following is Figure 1 that  
 7 compares Florida's citizens, aged 65 and older, to other states in BellSouth's  
 8 region. Not surprisingly, Florida has the largest percentage of persons 65 years  
 9 and older of any BellSouth state, representing 17.6% of the general Florida  
 10 population. However, of that 17.6%, only 8.4% are considered to be below the  
 11 poverty level compared to the other states that range between 10.3% and  
 12 17.7% in poverty.

13

14 **Figure 1**

State	% 65 + of Population	% 65 + In Poverty	RG 1 Res. Rate	RG 12 Res. Rate
FL	17.6	8.4	\$7.57	\$11.04
AL	13.0	15.3	\$14.60	\$16.30
GA	9.6	10.3	\$12.50	\$17.45
KY	12.5	13.3	\$15.20	\$18.40
LA	11.6	16.8	\$10.97	\$12.64
MS	12.1	17.7	\$14.79	\$19.01
NC	12.0	12.7	\$10.96	\$13.91
SC	12.1	12.6	\$12.70	\$15.40
TN	12.4	15.2	\$7.55	\$12.15

15  
16  
17  
18  
19  
20 Source of Age 65 + Data: US Census Bureau, Census 2000 Sample Data File. Extracted from Table compiled by the US Administration on Aging. Service rates are from BellSouth's GSST.

21 This data is far more significant when viewed in the context of the basic  
 22 residence service rates compared across the nine BellSouth states. The data is  
 23 clear; Florida's older citizens not only pay less for residence telephone service  
 24 than their age group in other states, but they are also more financially capable  
 25 of paying those rates than their counterparts in other states. Even with the



1 \$3.89 monthly increases proposed in three annual increments under  
2 BellSouth's mirroring methodology, Florida's local residence service rates will  
3 be \$11.46 in the lowest rate group and \$14.93 in the highest rate group.  
4 Florida's rates will still be the 4<sup>th</sup> lowest in the region, and this assumes no  
5 increases in rates in the other states.

6

7 Q. IS THERE COMMISSION DATA AVAILABLE THAT SUPPORTS THE  
8 AFFORDABILITY OF THE BASIC SERVICE INCREASES CONTAINED  
9 IN BELLSOUTH'S PROPOSAL?

10

11 A. Yes. This Commission has published data that indicates that the increases in  
12 basic service rates contained in BellSouth's proposal are fair and reasonable  
13 and would not "compromise the affordability of residential basic local service  
14 for the vast majority of customers."<sup>2</sup> More specifically, the Commission  
15 concluded that "Price regulated companies should be allowed to increase  
16 residential and single line business basic local rates by an amount not to exceed  
17 \$5 per month, as part of a Commission-verified revenue-neutral rate  
18 rebalancing plan. Any such monthly rate increase should be phased in over a  
19 three to five year period at not more than \$2 per year."<sup>3</sup> BellSouth's proposal  
20 to increase basic service rates in a revenue neutral manner with switched  
21 access reductions is consistent with the Commission's conclusions.

22

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23 <sup>2</sup> See, *Report of the Florida Public Service Commission on the Relationships Among the Costs and*  
24 *Charges Associated with Providing Basic Local Service, Intrastate Access, and other Services Provided*  
25 *by Local Exchange Companies, in Compliance with Chapter 98-277, Section 2(1), Laws of Florida*  
*AND The Conclusions of the Florida Public Service Commission as to the Fair and Reasonable Florida*  
*Residential Basic Local Telecommunications Service Rate, in Compliance with Chapter 98-277, Section*  
*2(2)(A), Laws of Florida*; dated February 15, 1999, page 125.

<sup>3</sup> *Id*

1

2 Q. DR. COOPER EXPRESSES CONCERN THAT LIFELINE RATES ARE  
3 ONLY "TEMPORARILY" PROTECTED FROM INCREASES UNDER THE  
4 ILECS' PROPOSALS. PLEASE COMMENT.

5

6 A. First, Section 364.164 expanded Lifeline support to eligible customers who  
7 meet an income eligibility test of 125% or less of federal poverty income  
8 guidelines. Second, Section 364.10(3)(c) specifies that an ILEC cannot  
9 increase Lifeline rates until the ILEC reaches parity with interstate switched  
10 access rates, or until the customer no longer qualifies or unless otherwise  
11 determined by the Commission. Beyond that requirement, BellSouth's  
12 proposal contains a voluntary provision that would protect against Lifeline  
13 increases for four years. However, at page 33, in an unbelievable statement,  
14 Dr. Cooper states that, "it is questionable whether the law will allow such  
15 expansion." The question I would pose to Dr. Cooper is: "Exactly who would  
16 oppose such a provision; who would question the law?" BellSouth would  
17 certainly not oppose it, not the OPC or the Commission, or I assume, not  
18 AARP. In fact, it is highly unlikely that "any" party would question the law on  
19 this point.

20

21 Q. WITH RESPECT TO THE 125% LIFELINE INCOME ELIGIBILITY TEST,  
22 DURING THE RECENT SERVICE HEARINGS, MR. TWOMEY'S  
23 QUESTIONING OF SOME WITNESSES INDICATES THAT AARP  
24 BELIEVES THAT EXPANSION OF LIFELINE ELIGIBILITY WOULD

25

1 OCCUR INDEPENDENT OF THE APPROVAL AND IMPLEMENTATION  
2 OF BELLSOUTH'S PROPOSAL. IS HE CORRECT?

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4 A. No, Mr. Twomey is incorrect. Section 364.10(3)(a) of the Statute specifically  
5 associates the income eligibility test of 125% or less of the federal poverty  
6 income guidelines with implementation of Section 364.164 as follows:

7 "Effective September 1, 2003, any local exchange telecommunications  
8 company authorized by the commission to reduce its switched network  
9 access rate pursuant to s. 364.164 shall have tariffed and shall provide  
10 Lifeline service to any otherwise eligible customer or potential  
11 customer who meets an income eligibility test at 125 percent or less of  
12 the federal poverty income guidelines for Lifeline customers. Such a  
13 test for eligibility must augment, rather than replace, the eligibility  
14 standards established by federal law and based on participation in  
15 certain low-income assistance programs."

16 It is clear from the language of the Statute, that the 125% income eligibility  
17 test is tied explicitly to the terms of Section 364.164. Although this is not an  
18 issue with BellSouth, because BellSouth's Lifeline tariff has supported the  
19 125% income eligibility test since March 2002, it is important to clarify this  
20 point. The citizens of Florida should not be misled by AARP as to the specific  
21 Language of the Statute and the clear association the Legislature made between  
22 reduction in switched access rates pursuant to Section 364.164 and the Lifeline  
23 income eligibility increase to 125%.

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1 Q. AT PAGE 35, DR. COOPER SUGGESTS THAT IF THE COMMISSION  
2 GRANTS THE ILECS' PROPOSALS THE COMPANIES "MAY  
3 UNILATERALLY DEPRIVE THE COMMISSION OF ITS QUALITY OF  
4 SERVICE JURISDICTION ONCE PARITY IS REACHED." DO YOU  
5 AGREE?

6

7 A. No, I do not agree. Quality of service standards do not automatically go away  
8 when the ILECs' switched access rates reach parity with interstate rates.  
9 Section 364.051(6) discusses this situation in detail as follows:

10

11 The company's retail service quality requirements that are not already  
12 equal to the service quality requirements imposed upon the competitive  
13 local exchange telecommunications companies shall thereafter be no  
14 greater than those imposed upon competitive local exchange  
15 telecommunications companies unless the commission, within 120 days  
16 after the company's election, determines otherwise. In such event, the  
17 commission may grant some reductions in service quality requirements in  
18 some or all of the company's local calling areas. The commission may  
19 not impose retail service quality requirements on competitive local  
20 exchange telecommunications companies greater than those existing on  
21 January 1, 2003.

22

23 The Statute is clear that service quality standards remain under the control of  
24 the Commission. However, the Statute also recognizes that in a fully

25

1 competitive market, service quality standards must be the same for all  
2 competitors.

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4 Q. AT PAGE 30 OF HIS TESTIMONY, DR. COOPER STATES THAT  
5 LOWERING UNE PRICES IS ONE OF THE KEYS TO STIMULATING  
6 COMPETITION. DO YOU AGREE?

7

8 A. No, I do not agree with Dr. Cooper or with Dr. Gabel who makes a similar  
9 point in his testimony at page 40. UNE rates are sufficiently low to attract  
10 competitors assuming retail rates are not set at artificially low levels making  
11 further entry unattractive. The Commission appears to agree as evidenced by  
12 the Annual Report on Competition dated December 2002. At page 33, in  
13 discussing UNE-P margins for CLECs, the report states, "It should be  
14 emphasized that low margins may be more the result of low local rates than  
15 high UNE-P rates. The residential rates in Florida are lower than most other  
16 states. Thus, even though UNE rates in Florida may be comparable to other  
17 states, ALECS may find the residential market less attractive because of the  
18 low local rates."

19

20 Q. DO YOU WISH TO COMMENT ON THE TESTIMONY OF STAFF  
21 WITNESS, MR. SHAFER?

22

23 A. Yes, I do. First, the Staff has appropriately confined its analysis of the ILECs'  
24 proposals to the provisions set forth in Florida Statutes. Unlike witnesses for  
25 OPC and AARP, the Staff relies on the language contained in Section 364.164

1 and other provisions of the Statute without speculating on what individual  
2 Legislators might have been thinking or without inventing requirements not  
3 contained in the Statute. As such, the Staff's analysis of the ILEC proposals is  
4 considerably different from those of OPC and AARP. Following are a few  
5 statements contained in Mr. Shafer's testimony that are directly opposed to the  
6 views and the testimony of OPC and AARP.

7 Page 7, Lines 5-7: "To the degree that basic local service rates are below cost,  
8 that is a significant deterrent to market entry for that particular service."

9 Page 7, Lines 11-13: "There are strong theoretical reasons to believe that the  
10 proposed changes to intrastate access charges and basic local service rates will  
11 improve the level of competition in many markets."

12 Page 8, Lines 9-15: "Thus, the price of local exchange service is a critical  
13 element for competitors to consider when choosing whether to enter a  
14 particular market but is not the only factor. The profitability of these other  
15 services also plays a role in the market entry decision. This phenomenon also  
16 explains why some residential competition persists even in light of the  
17 evidence that basic local exchange service on its own is priced below cost on  
18 average."

19 Page 8, Lines 20-23: "As a result of the proposed changes, one can reasonably  
20 expect that there will be additional market entry, particularly in markets that  
21 may have previously been only marginally profitable or slightly unprofitable."

22 Page 10, Line 22 – Page 11, Line 4: "I should note that the petitions are  
23 limited to what the incumbent local exchange companies are permitted to do  
24 by the statute in terms of the tools at their disposal. I would not view the  
25 petitions as deficient on the basis that they do not address factors other than the

1 cost/price relationships of intrastate access charges and basic local exchange  
2 service. These issues and factors lie outside the statutory framework and  
3 petitioners are not required by the statute to address them.”

4 Page 12, Lines 5-8: “In my opinion achieving parity between intrastate access  
5 charges and interstate access charges will lead to more competitively priced  
6 bundled service offerings for residential consumers, which will provide  
7 benefits to those consumers whose calling patterns match those offerings.

8

9 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

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11 A. Yes.

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