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VIA AIRBORNE

August 13, 1996

Ms. Blanca S. Bayó
Director, Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

In Re: Comprehensive Review of the Revenue Requirements and Rate Stabilization Plan of
Southern Bell Telephone and Telegraph Company; Docket No. 920260-TL

Dear Ms. Bayó:

Enclosed for filing, is the original and fifteen (15) copies of Direct Testimony of Daniel
S. Vanderpool on behalf of Sprint Communications Company Limited Partnership in the above
captioned proceeding.

Please date stamp the additional copy of this transmittal letter and return to the
undersigned in the enclosed self addressed stamped envelope. All parties of record have been
served in accordance with the attached Certificate of Service.

Thank you for your cooperation.

Sincerely,

Benjamin W. Fincher
Benjamin W. Fincher

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STATE OF FLORIDA DEPARTMENT OF REVENUE

BWF:ls

cc: Everett Boyd
Parties of Record

DOCUMENT NUMBER-DATE

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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 920260-TL
DIRECT TESTIMONY
OF
DANIEL S. VANDERPOOL
ON BEHALF OF
SPRINT COMMUNICATIONS COMPANY LIMITED PARTNERSHIP
AUGUST 14, 1996

12 Q. Please state your name, occupation and business address.

13
14 A. My name is Daniel S. Vanderpool. I am employed by Sprint Communications
15 Company Limited Partnership ("Sprint") as a Manager in the Regulatory Access Planning
16 department. My business address is 7171 West 95th Street, Overland Park, Kansas
17 66212.

18
19 Q. Please summarize your professional background.

20
21 A. I began working for Sprint's Long Distance Division in October 1995. In my
22 current position, I represent Sprint's interests before state and federal regulatory
23 commissions regarding access issues and negotiate access pricing and rate structures with
24 LECs. I have previously testified on Sprint's behalf in Maryland, and prepared
25 comments for several other jurisdictions. Prior to joining the Long Distance Division, I
26 was employed by United Telephone of Indiana from 1979 through 1990. I held positions
27 of increasing responsibility in the Accounting, Finance and Revenues departments. In the
28 Revenues department, I assisted in completion of annual basic studies and assisted with
29 costing and pricing of access services. I then joined the Access Services department as a
30 Manager in the Access Billing area. In 1990, I transferred to the newly formed United -

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1 collections. In 1992, I transferred to Kansas City as a Manager in the Access Services
2 Staff Support group. My responsibilities included assisting in the development of a new
3 access billing system, participation in the development of new access offerings, and
4 representation of the Sprint Local Division on the Ordering and Billing Forum (OBF)
5 Billing Committee and the MECAB Committee.

6
7 Q. What is the purpose of your testimony?

8
9 A. The purpose of my testimony is to present Sprint's position on the disposition of
10 the unspecified year three reductions of \$48 million approved by this Commission in
11 Order No. PSC-94-0172-FOF-TL. Sprint recommends that the intrastate residual
12 interconnection charge (RIC) be eliminated from access charges and that the remainder of
13 the stipulated reductions be applied to reduce rates for PBX trunks, DID services and
14 mobile interconnection as specified in the Joint Proposal.

15
16 Q. BellSouth (BST) has recommended that \$12 million of the unspecified reductions
17 be applied to reduce the RIC element. As a signatory to the Joint Proposal, Sprint has
18 requested that the intrastate RIC be eliminated completely, accounting for \$35 million of
19 the unspecified reductions. What is Sprint's rationale for the complete elimination of the
20 RIC?

21
22 A. The elimination of the RIC charges is appropriate for a number of reasons. First,
23 as this Commission is aware, the RIC has no basis in cost. The RIC was created as a
24 "make whole" element to maintain LEC revenue requirements under rate of return
25 regulation during the restructure of local transport (LTR). BST is now under price
26 regulation rather than rate regulation. Revenue neutrality and revenue requirements are
27 concepts that must not apply under price regulation. Price regulation allows a LEC the
28 ability to maximize profits without sharing requirements, however, in return, the LEC
29 gives up the guaranteed minimum rate of return assured, in part, by the RIC under Rate of
30 Return regulation.

1 Second, the elimination of the RIC will send correct economic signals to potential
2 competitors. As there is no cost basis for the RIC, access rates are artificially maintained
3 at a much higher level than necessary for BST to recover the cost of providing access
4 services. If the RIC charge is eliminated for intrastate access, it will decrease the
5 composite access rate by 1.0318 cents per MOU (since the RIC is charged at the
6 originating and the terminating end of each call.) This additional reduction in access
7 charges is critical in sending correct economic signals to potential competitors, and will
8 also assist BST in meeting competitive pressure from Alternative Access Vendors
9 (AAVs).

10 Third, basing prices on cost is a major tenant of the Telecommunications Act of
11 1996 (the Act), and is a stated goal of this Commission. Removing this non-cost based
12 charge will provide BST with the opportunity to move prices somewhat closer to cost
13 with no additional revenue loss over and above what has already been agreed to in the
14 stipulation.

15 Additionally, the elimination of the RIC will help level the playing field for local
16 competition. BST currently has in place interconnection agreements with several
17 interconnectors who intend to compete with BST in the local market. The RIC element is
18 treated differently depending upon the negotiations with the interconnector. For instance,
19 the RIC is billed to ICI for interconnected MOU, but MCI Metro negotiated an agreement
20 with no RIC and no Carrier Common Line (CCL) charges for interconnected MOU.
21 Eliminating the RIC will help to limit any potential abuse of market power by BST.

22 Finally, since lower prices to consumers is one of the primary goals of
23 competition, BST should not be allowed to target the reductions stipulated in this Docket
24 to specific services where they anticipate competition in the near future or to business
25 services where they are beginning to feel competitive pressures for the first time. Instead,
26 targeting these reductions primarily towards bottleneck services, as is done in the Joint
27 Proposal, assures all customers making toll calls, including intraLATA toll calls, will
28 share in the benefits of the rate reductions. Elimination of the RIC will lower the
29 minimum imputed intraLATA toll rate, and should help to ease EAS concerns in Florida.

1 Q. Why should the remainder of the unspecified reduction be applied to reduce PBX,
2 DID and Mobile interconnection rates.

3

4 A. The reduction of PBX and DID rates is essential to establish consistency between
5 functionally equivalent services. BST's ESSX service is considerably less expensive
6 than PBX and DID services although the services provide very similar functions. By
7 utilizing \$11 million of the unspecified reductions to reduce PBX and DID rates, the
8 Commission will allow like services to be priced in a similar manner.

9 The reduction in mobile interconnection rates is critical in that it will re-establish
10 a reasonable parity between the rates IXCs pay for access charges and the rates mobile
11 service providers pay for access to the local network. Again, the justification is that
12 prices for like services should be priced in a similar manner.

13

14 Q. What are Sprint's concerns with BST's proposal to use a portion of the
15 unspecified reductions to implement Zone Pricing?

16

17 A. Sprint supports Zone Pricing, since it allows access charges to more accurately
18 reflect the cost of providing the service. However, Sprint feels that it is most appropriate
19 for the Commission to use this last opportunity to dispose of overearnings by eliminating
20 a non-cost-based rate element. If BST needs to invoke Zone Pricing to meet competitive
21 pressures, it should be done outside of this proceeding, and not as a part of the stipulated
22 reductions.

23

24 Q. BST has proposed that about \$31.7 million, would be applied to non-access
25 services. What is Sprint's response to the BellSouth proposal?

26

27 A. Sprint finds a major inconsistency in BST's proposed treatment of non-recurring
28 charges. Mr. Hendrix states, "BellSouth does not support utilizing any of the \$48
29 million to eliminate non-recurring charges for interconnection trunks ordered by ALECs.
30 BellSouth believes the cost of installing interconnection trunks is appropriately recovered

1 through its non-recurring charges and reflects costs incurred to perform these functions¹.”
2 However, Mr. Varner’s testimony proposes to utilize over \$10 million of the unspecified
3 reductions to reduce or eliminate non-recurring charges for end user customers, primarily
4 business customers.² It follows that if the cost-causer should bear the cost of non-
5 recurring charges, the same rule should hold true for any type of customer, whether the
6 customer is an AAV or a business customer.

7 The joint stipulation applies \$11 million, or nearly 23% of the total stipulated
8 reductions towards business services (DID and PBX). It is estimated that, on average,
9 access costs the LEC about 1/2 cent per end for a total cost of 1 cent per intrastate minute
10 of use. Even with the reductions that BST proposes, the composite charge for that same
11 minute of use would be about 600 % of cost. It is unlikely that the non-access services
12 BST proposes to discount exceed their cost by that amount. Eliminating the RIC simply
13 applies reductions to the service which is currently most in excess of its cost.

14 BellSouth is attempting to steer the stipulated reductions to services where they
15 anticipate competition, and where the current rates are in jeopardy of being underpriced
16 by new competitors with more cost-based pricing. While these prices must come down
17 for BST to compete, it is inappropriate to allow the disposition of overearnings to place
18 BST in a more competitive position with regard to the business market. If BST’s current
19 prices for business and residence services are not sustainable in a competitive market,
20 they will need to reduce these rates in order to compete. This is an anticipated, and a
21 favorable outcome of competition in all market segments. However, BST should reduce
22 these rates through increased efficiencies and by removing cost from their business, just
23 like potential local competitors must do. With the advent of competition in the local
24 market, the rates for these services will naturally move towards cost. To allow these rates
25 to be reduced with the stipulated, unspecified reductions would be to preempt the normal
26 forces of a competitive market. This would serve only to dilute the benefits of local
27 competition to Florida customers. It is Sprint’s position that the public interest would be
28 better served by reducing the price of bottleneck services required by all potential

¹ Direct Testimony of Jerry D. Hendrix, pg 9

² Direct Testimony of A. J. Varner, pgs 3-4

1 competitors. This will allow more rapid entry of competition in all markets and will
2 hasten the benefits of competition to Florida customers.

3

4 Q. Please summarize your testimony.

5

6 A. The RIC element was implemented to assure revenue neutrality for BST after the
7 restructure of Local Transport. As a “make-whole” element, the RIC is no longer
8 appropriate of necessary. The Commission has a unique opportunity to totally eliminate
9 this non-cost-based relic without financial impact to BST. The BellSouth proposal is not
10 in the public interest because it will not lower bottleneck costs to the extent possible, and
11 it will alleviate competitive pressures on BST to reduce existing rates for service. Left
12 alone, reductions in prices for competitive services are virtually guaranteed. Elimination
13 of the RIC element will hasten competition and will provide a greater benefit to Florida
14 customers through increased choices and reduced rates for toll and local services.

15

16 Q. Does this conclude your testimony?

17

18 A. Yes.

19

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and exact copy of the within and foregoing Direct Testimony via United States Mail, first class postage paid and properly addressed to the following:

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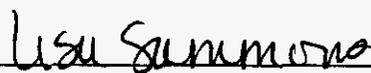
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This 13th day of August, 1996.



Lisa Sammons
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