

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Verizon Florida Inc. to reform)
intrastate network access and basic local)
telecommunications rates in accordance with)
Section 364.164, Florida Statutes.)

Docket No. 030867-TL

In re: Petition by Sprint-Florida, Incorporated to)
reduce intrastate switched network access rates to)
interstate parity in revenue-neutral manner)
pursuant to Section 364.164(1), Florida Statutes.)

Docket No. 030868-TL

In re: Petition for implementation of Section)
364.164, Florida Statutes, by rebalancing rates in a)
revenue-neutral manner through decreases in)
intrastate switched access charges with offsetting)
rate adjustments for basic services, by BellSouth)
Telecommunications, Inc.)

Docket No. 030869-TL

**DIRECT TESTIMONY OF
WAYNE FONTEIX**

**ON BEHALF OF
AT&T COMMUNICATIONS OF THE SOUTHERN STATES, LLC**

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FFS0-COMMISION CLERK

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

3 **A.** My name is Wayne Fonteix. My business address is One AT&T Way, Bedminster,
4 NJ 07921. I am employed by AT&T Corp. as Director – State Regulatory Affairs.

5
6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
7 **EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY.**

8 **A.** I received a BA degree from Drew University in Madison, NJ. I have 21 years
9 experience in the telecommunications industry, and am currently responsible for
10 managing the planning and implementation of public policy initiatives before state
11 regulatory bodies. I also have primary responsibility for AT&T's relationship with
12 the National Association of Regulatory Utility Commissioners (NARUC).

13
14 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE REGULATORY**
15 **COMMISSIONS?**

16 **A.** Yes, I have testified before state regulatory commissions in Illinois and Alabama, as
17 well as in U.S. Senate staff hearings and proceedings at the FCC.

18
19 **Q. WHAT ISSUES DOES YOUR TESTIMONY ADDRESS?**

20 **A.** My testimony addresses Issues 1(c), 2, 3, 4 & 5.

21
22 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

23 **A.** The purpose of my testimony is to describe the competitive market enhancement and

1 resulting benefits to Florida consumers that will accrue from proper implementation
2 of the Tele-Competition Act of 2003 (“the 2003 Act”). As evidenced by the 1995
3 amendments to Chapter 364, Florida Statutes, the State of Florida was a leader in
4 *permitting* competition in the telecommunications local exchange market. However,
5 the past eight years have demonstrated that mere permission to compete is insufficient
6 to create a competitive local exchange market. Proper implementation of the 2003
7 Act could allow Florida to become a leader in *implementing* competition.

8
9 **Q. PLEASE EXPLAIN.**

10 **A.** Local competition in Florida has developed at a slow pace. Seven years after passage
11 of the federal Telecommunications Act of 1996, most Floridians have yet to reap the
12 benefits of a truly competitive market for local telecommunications services. The
13 disappointing pace of local exchange competition in Florida is due, in part, to high
14 access charges. Excessive access charges retard competition in two ways. First, they
15 subsidize ILEC local exchange service. In fact, the access charge regime, which
16 stems from the AT&T divestiture, was specifically implemented to keep local
17 exchange rates artificially low by drawing a subsidy from high long distance rates.
18 Dr. John Mayo addresses the economic implications of subsidizing
19 telecommunications services, but as a practical matter, it is difficult for a
20 telecommunications company to enter the local exchange market and compete against
21 incumbent providers whose rates are subsidized; the subsidy allows incumbent
22 providers to subject their competitors to an anti-competitive price squeeze.

23 Excessive access charges further depress competition by limiting competitors’

1 ability to compete across the full range of service categories. The ILECs' per-minute
2 cost to terminate a telephone call is the same whether that call originated across the
3 street, across the state or across the continent; a minute-long telephone call uses a
4 minute of the terminating ILEC's network resources regardless of the distance it
5 traveled before reaching the ILEC network. However, competitors are charged
6 higher rates to terminate long distance calls, so they must charge their customers
7 higher rates for such calls, even though distance-based distinctions are increasingly
8 irrelevant to consumers. The 2003 Act allows the Commission to rebalance retail
9 service rates to reduce the outdated access subsidy, thereby reducing intrastate access
10 charges to parity with interstate access charges and limiting ILECs' ability to leverage
11 an anti-competitive price squeeze.

12
13 **Q, DOES THE 2003 ACT ALLOW ACCESS REDUCTIONS BELOW**
14 **INTERSTATE PARITY?**

15 **A.** Yes. Section 364.164 (5) states "...Nothing in this section shall prevent the company
16 from making further reductions in its intrastate switched network access rate, within
17 the revenue category established in this section, below parity on a revenue-neutral
18 basis, or from making other revenue neutral rate adjustments within this category."
19 Therefore, if an ILEC chooses to reduce access below parity, it is permitted to do so
20 on a revenue neutral basis.

21
22 **Q. WHAT MUST THE COMMISSION DO TO PROPERLY IMPLEMENT THE**
23 **2003 ACT?**

1 A. The keystone of the 2003 Act is reducing the access subsidy to ILEC local exchange
2 rates. The full benefits of the 2003 Act can only be realized to the extent that the
3 subsidy currently provided by in-state access charges is removed from ILEC local
4 exchange rates. Naturally, reducing access charges will tend to reduce ILEC
5 revenues. The Legislature elected to allow ILECs to recover these lost revenues by
6 implementing revenue-neutral price increases. Therefore the Commission must
7 rigorously ensure that ILEC rate rebalancing plans (a) result in a reduction of
8 intrastate access charges to parity with interstate access charges and (b) do not result
9 in a net increase in revenue for the ILECs. Proper implementation of the 2003 Act
10 requires careful attention to both of these goals so that any rate increases are
11 accurately balanced by access charge reductions.

12
13 **Q. HOW DO ACCESS RATES IN FLORIDA COMPARE WITH ACCESS**
14 **RATES IN OTHER SOUTHERN STATES?**

15 A. ILECs charge higher access rates in Florida than in virtually every other Southern
16 state. For example, BellSouth charges significantly higher switched access rates to
17 long distance carriers in Florida than in any other BellSouth state. In fact, as shown
18 in my Exhibit WF-1, BellSouth's access rates in Florida are nearly five times the rates
19 it charges in states like neighboring Georgia.

20
21 **Q. DO VERIZON AND SPRINT ALSO CHARGE HIGHER ACCESS**
22 **CHARGES?**

23 A. Yes. Sprint charges higher access rates in Florida than in any other Southern state in

1 which it conducts business. As shown in Exhibit WF-2, Sprint's access rates in
2 Florida are as up to three times the rates it charges in other Southern states. Verizon
3 charges equally high rates in several Southern states, but charges over three times
4 more in Florida than in South Carolina as demonstrated in Exhibit WF-3.

5
6 **Q. HOW WILL PROPER IMPLEMENTATION OF THE 2003 ACT ENHANCE**
7 **COMPETITION IN THE LOCAL EXCHANGE MARKET?**

8 **A.** Reducing intrastate access charges to parity with interstate rates in a truly revenue-
9 neutral fashion will significantly reduce the ILECs' advantage of receiving huge
10 access charge subsidies,¹ thereby moving ILECs and competitors closer to an equal
11 footing and enhancing competition. This step is vitally important. Only when the
12 competitive playing field is level on all parts of the end-to-end telecommunications
13 market can competition flourish.

14
15 **Q. WHAT DO YOU MEAN BY "END TO END TELECOMMUNICATIONS**
16 **MARKET"?**

17 **A.** By "end to end telecommunications market," I mean the entire gamut of a
18 telecommunications customer's calling needs, whether across the street, across the
19 state or across the country. Increasingly, customers are rejecting the historical
20 landline distinction between local and long distance service in favor of non-distance
21 sensitive service commonly offered by wireless providers but increasingly available

¹ BellSouth, Sprint and Verizon function in two capacities: as both wholesalers of access service and retailers of toll service. Within their respective serving areas, each company is virtually the sole supplier of switched access service. Switched access is an essential component used by all interexchange carriers, including these

1 from ILECs such as BellSouth. A much smaller percentage of wireless carriers'
2 intrastate traffic is subject to inflated access charges and thus they are able to offer
3 customers the ability to place calls without a distance premium.² As I indicated
4 previously, the 2003 Act also envisions the ultimate reduction of intrastate switched
5 access rates to reciprocal compensation levels, as specified in Section 364.051(7)
6 Florida Statutes. This will further assist in making intrastate calls more competitive
7 with wireless options.

8
9 **Q. HOW WILL PROPER IMPLEMENTATION OF THE ACT BENEFIT**
10 **LOCAL SERVICE CUSTOMERS?**

11 **A.** The Legislature recognized that the subsidization of local exchange service “prevents
12 the creation of a more attractive competitive local exchange market for the benefit of
13 residential consumers” and that the removal of this subsidy will induce competitors to
14 enter the local exchange market. Section 364.164(1), Florida Statutes. This increase
15 in competition will benefit consumers of local exchange service in the same way that
16 increased competition has benefited consumers of long distance service – they will
17 have a wider choice of providers who will offer innovative services, a variety of
18 service plans, and ultimately, lower prices, in order to win and retain customers.
19 However, this will not be possible until the competitive playing field is leveled by
20 reducing the access subsidy.

ILECs' long distance affiliates, to provision toll service. Competing carriers must be able to purchase access on the same basis as ILEC affiliates in order to maintain a competitive long distance marketplace.

² Unlike IXCs, wireless carriers typically pay cost-based reciprocal compensation rates to terminate most intrastate calls within Metropolitan Statistical Areas. Reducing intrastate switched access rates paid by IXCs will bring in-state long distance wireline charges more in line with wireless prices and help remove the artificial distinction between in-state and state-to-state calls for wireline carriers.

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Q. HOW WILL PROPER IMPLEMENTATION OF THE 2003 ACT RESULT IN “INDUCED MARKET ENTRY” AS ANTICIPATED BY THE ACT?

A. Reduction of the existing access subsidy will make the market more attractive for traditional long distance companies to enter the telecommunications local market, as discussed by Dr. Mayo. For example, since the passage of the 2003 Act, AT&T has entered the local residential market in Florida. On October 6, AT&T filed its first residential local service offering with the Commission, and expanded that offering with another tariff filing on October 23.

Q. DO YOU VIEW THE PROPER IMPLEMENTATION OF THE 2003 ACT AS A CRITICAL FIRST STEP IN BRINGING ROBUST LOCAL SERVICE COMPETITION TO FLORIDA?

A. Absolutely. Reduction and eventual elimination of the access subsidy is critical. It will allow CLECs to compete on a more equal footing with the ILECs who already provide both local and long distance services to their customers.

Q. WILL PROPER IMPLEMENTATION OF THE ACT BENEFIT LONG DISTANCE CUSTOMERS?

A. Yes. The 2003 Act requires long distance providers to reduce their revenues in order to flow access charge reductions through to their residential and business customers. Thus, long distance customers will benefit from access charge reductions. Further, the 2003 Act requires all interexchange carriers charging in-state connection fees to

1 eliminate any such charges, so AT&T will eliminate its current in-state connection
2 fee of \$1.88 per month in compliance with the statute. Thus, even customers who
3 place few long distance calls will benefit from the Commission's implementation of
4 the Act.

5
6 **Q. WILL PROPER IMPLEMENTATION OF THE ACT BENEFIT FLORIDA'S**
7 **SENIOR CITIZENS?**

8 **A.** Yes. Florida's senior citizens will also benefit from the 2003 Act. Demographic
9 studies indicate that older Floridians who use wireline long distance service spend, on
10 average, approximately \$14 per month on such service.³ Furthermore, Florida's
11 seniors are less likely than younger consumers to be "zero users" of wireline long
12 distance services.⁴ Clearly these older consumers will benefit from increased
13 competition for bundled services and lower prices in intrastate long distance.

14
15 **Q. DO THE ILEC-PROPOSED ACCESS REDUCTIONS PROPERLY**
16 **IMPLEMENT THE ACT?**

17 **A.** Sprint's proposal appears to satisfy the statute, as does BellSouth's "mirroring"
18 proposal. However, BellSouth's "typical network" proposal and Verizon's proposal
19 do not fully comply with the Act's requirements.

20
21 **Q. PLEASE COMMENT ON BELL SOUTH'S PROPOSALS.**

³ TNS Telecoms Market Monitor and Bill Harvesting, 3Q02 – 2Q03.

⁴ *Id.*

1 A. BellSouth offered two proposals: a “mirroring” proposal and a “typical network”
2 proposal. Under its “mirroring” proposal, BellSouth simply quantified the revenue
3 impact of the intrastate rate reductions necessary to achieve parity by multiplying
4 demand times the delta between its intrastate and interstate tariffed rates. This
5 methodology results in a proper calculation of revenue impact. However, BellSouth’s
6 “typical network” methodology is inappropriate because it targets only a select set of
7 rate elements to equal interstate rate levels, and thus fails to address all of the rate
8 elements in the statutory definition of intrastate switched network access rate.

9
10 **Q. PLEASE EXPLAIN YOUR CONCERNS AND RECOMMENDATIONS**
11 **REGARDING VERIZON’S PROPOSAL.**

12 A. First, Verizon proposes to include a Terminating Carrier Common Line
13 (“Terminating CCL”) charge in its intrastate switched network access rate under its
14 proposal to achieve interstate parity. The Terminating CCL charge is an explicit
15 subsidy charge not found in Verizon’s interstate switched access charge. Verizon’s
16 proposed intrastate access rates thus do not equal and are not at parity with its
17 interstate access rates as required by the Act. Verizon admits that it is appropriate to
18 eliminate Originating CCL from its intrastate calculations because it eliminated the
19 charge at the interstate level;⁵ that same policy should apply to the Terminating CCL
20 rate as well. The Commission should require Verizon to remove this pure subsidy
21 from its calculations in order to properly implement the Act.

⁵ Direct Testimony of Orville Fulp, pages 15 – 16.

1 Further, Verizon improperly includes a rate element in its proposed access
2 charges that is not permitted by the 2003 Act. Section 364.164(6) of the Act defines
3 “intrastate switched network access rate” as follows:

4 As used in this section, the term "intrastate switched network
5 access rate" means the composite of the originating and
6 terminating network access rate for carrier common line, local
7 channel/entrance facility, switched common transport, access
8 tandem switching, interconnection charge, signaling,
9 information surcharge, and local switching.

10
11 Arguing that it is a “federal common line charge”, Verizon includes a primary
12 interexchange carrier charge (“PICC”) rate element in its proposed access rate in
13 addition to the originating and terminating carrier common line charges permitted by
14 statute.⁶ Mr. Fulp confuses the straightforward requirements of the statute.

15 “Common line charges” are related to recovery of costs allocated to loops. The CCL,
16 PICC and subscriber line charge are all types of “common line charges”. However,
17 the legislature contemplated only originating and terminating carrier common line
18 charges in intrastate access rate calculations, thereby excluding other types of
19 common line charges such as the PICC and SLC, which are assessed on a per line
20 basis. The PICC simply is not an “originating or terminating carrier common line
21 charge” and therefore cannot be included in Verizon’s intrastate access rate
22 calculations.

23 Additionally, Verizon improperly developed its proposed PICC, effectively
24 *doubling* Verizon’s proposed intrastate access rates. Mr. Fulp states at page 12 of his
25 testimony that Verizon developed its interstate access rate (for which its intrastate rate
26 must provide parity) by dividing its total *interstate* PICC revenues by *intrastate*

⁶ *Id.* at 13.

1 traffic sensitive demand. This is inappropriate; this calculation does not produce an
2 interstate per-MOU equivalent. Even if the Act allowed Verizon to include the PICC
3 in its rate calculations – which it does not – Verizon’s proposal would be
4 unacceptable because an interstate switched access rate should be based on interstate
5 traffic sensitive demand, while Verizon’s calculation incorrectly assumes that
6 *intrastate* demand must produce the same revenue currently received from *interstate*
7 charges to business customers.

8 Verizon’s proposal to include the PICC in its calculations (by recovering its
9 revenue through a Terminating CCL rate) also is objectionable on another ground.
10 Verizon’s interstate PICC applies only to multi-line business customer lines.
11 Including this revenue rate element in access calculations allows Verizon to recover
12 business line revenue from all Florida IXC customers, both business and residential.
13 In effect, Verizon’s calculation forces residential customers to subsidize business
14 customers.

15
16 **Q. UPON IMPLEMENTATION OF THE ACT, WILL AT&T ONLY REDUCE**
17 **RATES FOR LARGE BUSINESS CUSTOMERS?**

18 **A.** No. The statute is very clear. AT&T and all IXCs must reduce both business and
19 residential customers’ long distance rates. The competitive market for long distance
20 service will dictate reductions for both residential and business customers. Further,
21 the in-state connection fee is charged only to residential customers, so they alone will
22 receive the exclusive benefit from elimination of the fee.

23

1 **Q. ARE THERE ANY SAFEGUARDS THAT ENSURE THAT LONG DISTANCE**
2 **RATES WILL REFLECT ANY ACCESS CHARGE REDUCTIONS**
3 **ORDERED BY THE COMMISSION?**

4 **A.** Yes. First, the statute is unequivocal; long distance rates must be reduced and in-state
5 connection fees eliminated. Furthermore, the legislature authorized the Commission
6 to ensure that access charges are flowed through to Florida long distance consumers.
7 In fact, the Commission has already opened Docket No. 303961-TI to ensure the
8 proper flow through of access charge reductions.

9
10 **Q. YOU HAVE STATED THAT REMOVAL OF THE ACCESS SUBSIDY IS**
11 **INTENDED TO INDUCE COMPETITORS TO ENTER THE LOCAL**
12 **EXCHANGE MARKET. DO YOU HAVE ANY REAL-LIFE PROOF THAT**
13 **THIS WILL HAPPEN?**

14 **A.** One need only look to Michigan and Georgia to see that vibrant end-to-end
15 competition follows low access charges and true TELRIC UNE rates. In Michigan,
16 for example, the Michigan PSC has enforced the state statutory requirement for SBC
17 to cap its intrastate access rates at its corresponding interstate access rate levels, and
18 has established TELRIC-based UNE-P charges. MCI, AT&T and a host of other
19 CLECs began entering the local market in Michigan with bundled offers as early as
20 2001. In response, SBC has reduced rates for residential local calling plans several
21 times over the last two years, and has introduced new service offerings to respond to
22 this new competition. SBC has recently gained approval from the FCC to offer long
23 distance service in Michigan, and has introduced residential packages which provide

1 for unlimited local and long distance usage, in direct competition with even wireless
2 providers.

3 In Georgia, BellSouth's intrastate access rates are much lower than the rates
4 BellSouth charges here in Florida. In fact, Georgia law already requires that
5 intrastate switched access rates be set at parity with interstate switch access rates.⁷
6 Coupled with TELRIC-based UNE rates, these closer-to-cost access rates provided
7 adequate incentive for numerous CLECs, including AT&T, to enter the end-to-end
8 market in all three geographic zones.

9
10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

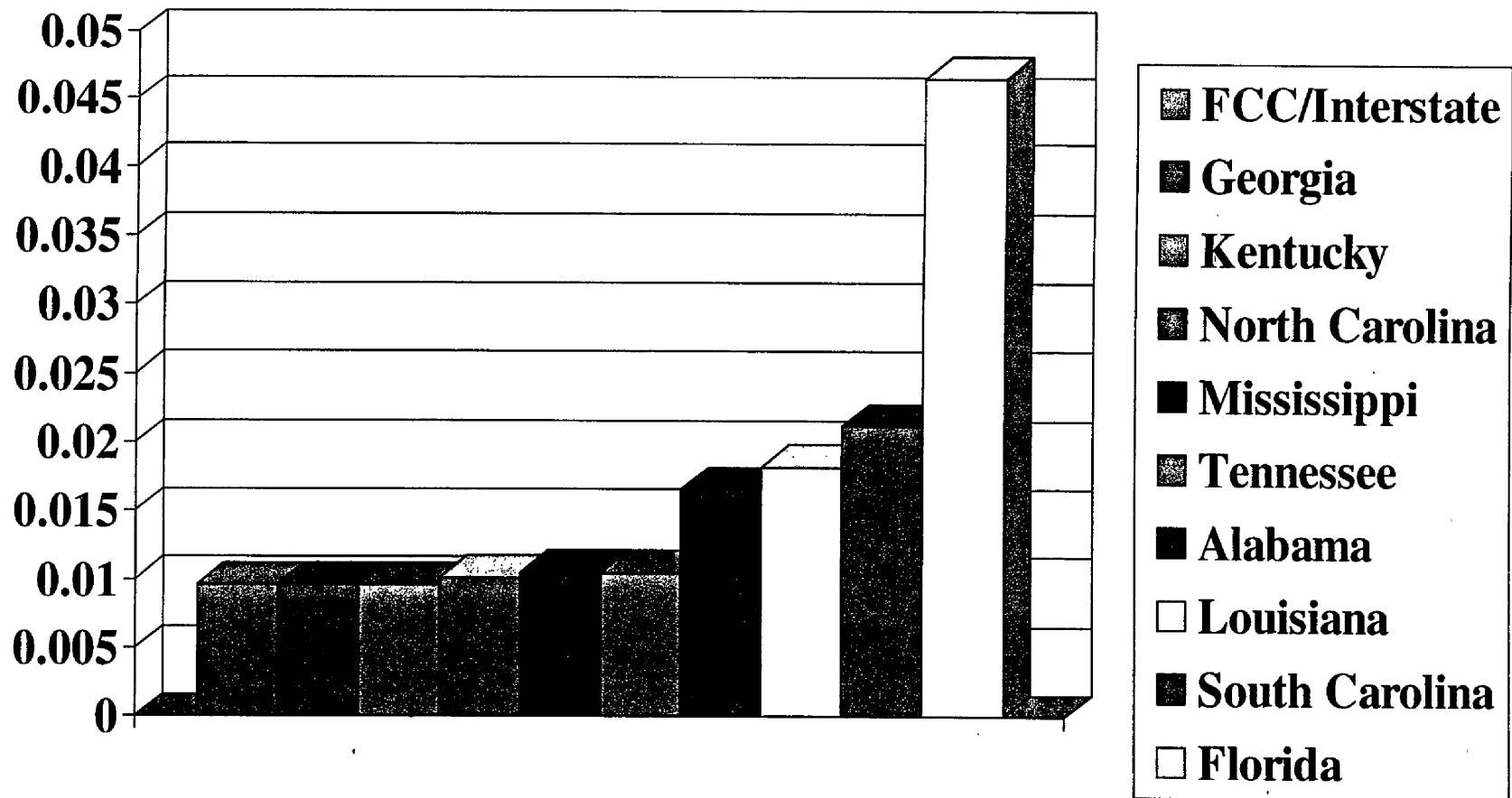
11 **A. Yes.**

⁷ Section 46-5-166, Georgia Code.

BELLSOUTH

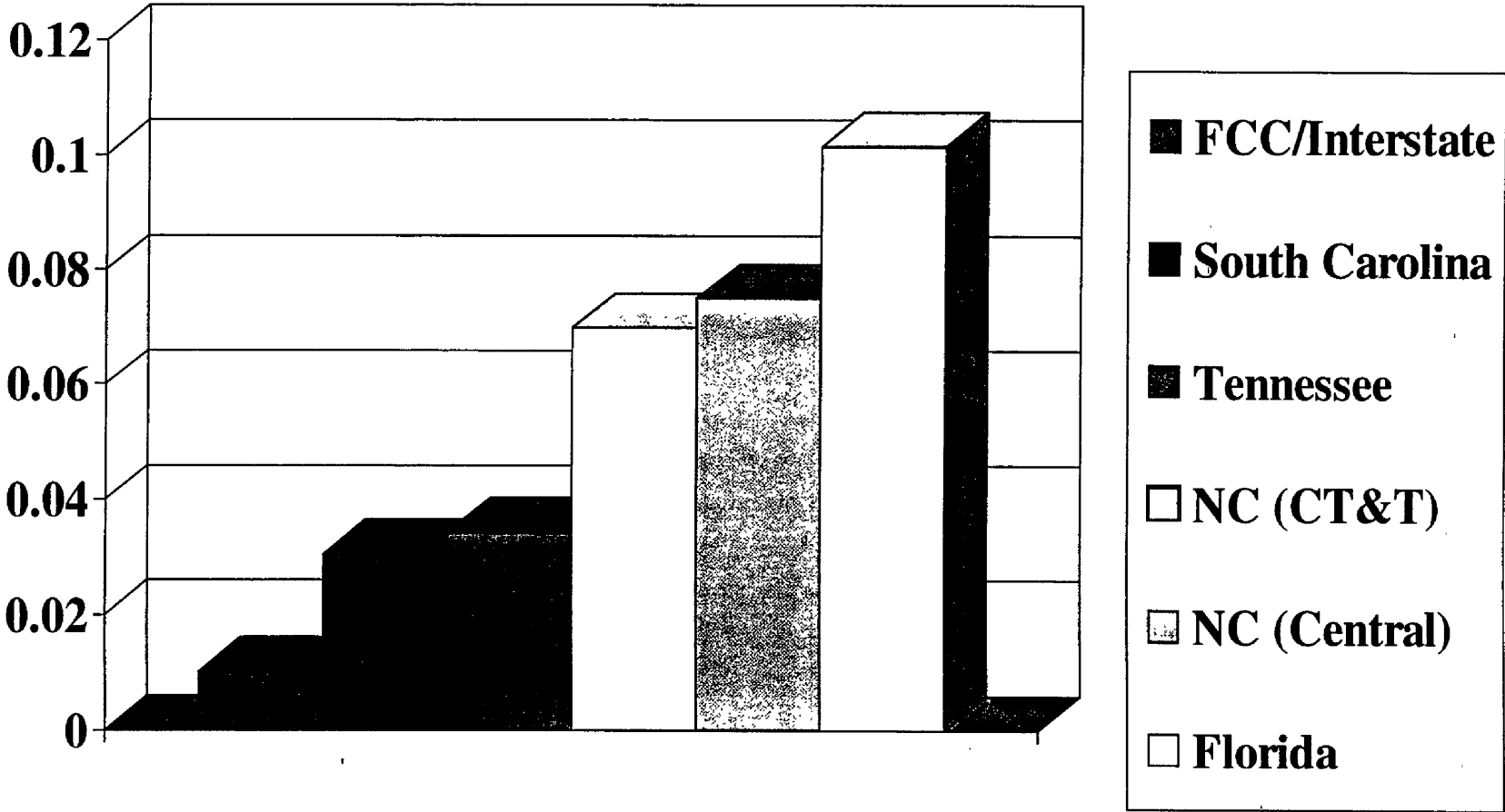
Southern Region Switched Access Rates

Docket Nos. 030867-TL, 030868-TL and
030869-TL
Wayne Fonteix Exhibit WF-1
BellSouth Access Rates



SPRINT

Southern Region Switched Access Rates



VERIZON

Docket Nos. 030867-TL, 030868-TL and
030869-TL
Wayne Fonteix Exhibit WF-3
Verizon Access Rates

Southern Region Switched Access Rates

