

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

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

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

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

FLOW-THROUGH OF LEC SWITCHED
ACCESS REDUCTIONS BY IXCs,
PURSUANT TO SECTION
364.163(2), FLORIDA STATUTES.

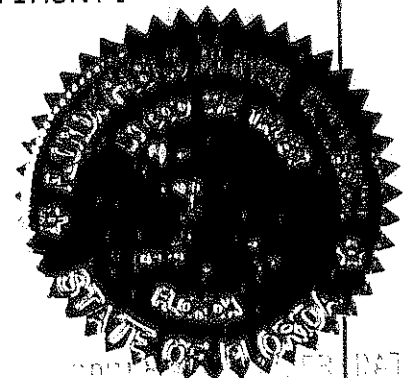
DOCKET NO. 030961-TI

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PROCEEDINGS: HEARING



FLORIDA PUBLIC SERVICE COMMISSION

CONTACT CENTER DATA
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FPSC-COMMISSION CLERK

1 BEFORE: CHAIRMAN LILA A. JABER
2 COMMISSIONER J. TERRY DEASON
3 COMMISSIONER BRAULIO L. BAEZ
4 COMMISSIONER RUDOLPH "RUDY" BRADLEY
5 COMMISSIONER CHARLES M. DAVIDSON

6 DATE: Thursday, December 11, 2003

7

8 TIME: Commenced at 8:40 a.m.
9 Concluded at 8:45 p.m.

10

11 PLACE: Betty Easley Conference Center
12 Room 148
13 4075 Esplanade Way
14 Tallahassee, Florida

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REPORTED BY: TRICIA DeMARTE, RPR
Official FPSC Reporter
(850) 413-6736

APPEARANCES: (As heretofore noted.)

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PETITION TO REDUCE ACCESS RATES
FILED: AUGUST 27, 2003

1 ‘Competitors are more likely to enter high-cost areas if the
2 incumbent LECs’ rates are closer to cost...’ *Cost Review*
3 *Proceeding for Residential and Single-Line Business Subscriber*
4 *Line Charge (SLC) Caps, Access Charge Reform, Price Cap*
5 *Performance Review for Local Exchange Carriers*, Order, 17
6 FCC Rcd. 10868.

7
8 **Q.** Why would Sprint, as an incumbent local telephone company in Florida, want to
9 encourage competition?

10 **A.** Competition is a fact, and it is here in Florida today. But in many cases, the type of
11 competition that exists is not particularly healthy or sustainable, nor is it taking place on
12 a level playing field. First, cream-skimming and arbitrage opportunities account for
13 much of the competitive activity we see. This leaves the incumbent carrier, with its
14 carrier-of-last-resort status, in the unenviable position of losing the customers whose
15 revenues cover the costs of serving them, and retaining the customers whose revenues
16 do not cover the costs of serving them. Second, incorrect signals are sent to potential
17 competitors. Competitors that might actually be less efficient than the incumbent can
18 enter a market in pursuit of the margin (subsidy) that the customers provide. Third,
19 advances in technology are quickly blurring the competitive lines across different
20 service offerings as inter-modal competition grows at a rapid pace. Competition from
21 standard telephony providers is matched by competition from wireless companies, cable
22 television companies, and even electric power companies. Not only do these forms of
23 competition also erode the much-needed implicit subsidies—particularly in the case of
24 wireless calling replacing wire-line long distance, and the associated loss of access
25 revenue—but they exacerbate the problem created by the incumbent’s carrier-of-last-

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1 resort status. For example, when a customer "cuts the cord" and replaces his or her
2 wireline phone with a wireless phone, the revenues associated with that customer go
3 away, but some of the costs of serving that customer do not; the company is still
4 obligated to maintain the network to the customer's premises.

5
6 By allowing local rates to approach costs for more and more customers, a true win-win
7 situation is created in the competitive market: A larger number of basic local service
8 customers become attractive to competitors (which means more customers will be
9 offered choices). And competitive entry will occur when it is efficient and sustainable,
10 not when it is inefficient. With rate rebalancing, incumbents will still incur competitive
11 losses. But when the incumbent loses a customer it will only lose that customer's
12 revenues, not the revenues needed to cover the costs of serving that customer plus
13 another (subsidized) customer. The incumbent will still be affected negatively, because
14 it will have to continue to incur some costs for customers from whom it receives no
15 revenues. But every loss will not be a "double-hit" to much-needed revenues.

16
17 One additional point is worth making with regard to competition. Because the
18 telecommunications industry is witnessing such significant growth in inter-modal
19 competition, the absence of a level playing field increases the potential for competitive
20 distortion. As cable companies, wireless companies and even electric power companies
21 compete with ILECs for customers, the maintaining of implicit subsidies (which the
22 ILEC has but which these other firms are not obligated to have) combined with a lack of
23 pricing freedom (which the other firms *do* have but ILECs do not) create an even greater
24 hurdle that ILECs must overcome in order to remain financially viable in an
25 increasingly competitive marketplace.

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The cable television industry is quickly moving into the voice market and conducting telephony trials across the nation, including the state of Florida. Many of these trials utilize voice over Internet protocol (VOIP) technology, which raises important questions regarding the long-term sustainability of the implicit subsidies found in access charges. And because of the extensive penetration of cable television networks, it is highly likely that many residential customers in less-urban areas will, if cable companies are given the right incentives to enter, be able to choose between telephone companies and cable companies for their telephony services. Removing the implicit subsidies that currently exist in prices will help competition to develop in two ways: it will level the playing field between inter-modal competitors, and it will not force other technologies such as cable telephony to compete head-to-head against *subsidized* prices for basic local service.

Another potential competitor, with a network even more ubiquitous than that of the cable industry, is the electric power industry. The FCC is currently examining the state of broadband offerings over power lines (BPL) (FCC Docket No. ET 03-104), and BPL technology is capable of providing voice telephony service. As with the case of the cable industry, the electric power industry is in a position to provide alternatives to customers in less-urban areas if the proper pricing incentives exist in the market and therefore, as stated above, competition is better served when alternate providers are not forced to compete with artificially subsidized prices.

Last, but perhaps most importantly, in purely economic terms it is the wireless industry that is, in many ways, best suited to offer an alternative to wireline basic local service in

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1 all areas of Florida, including the less urban regions. If wireless companies are faced
2 with the correct economic incentives—again, such as not needing to compete against
3 artificially subsidized prices for basic local service—they will find it financially feasible
4 to offer Florida's residents even more alternatives for basic local service.

5
6 **Q. Will rate re-balancing have a different competitive impact for customers who only**
7 **purchase basic local service on (essentially) a stand-alone basis, compared to**
8 **customers who purchase additional services or large amounts of toll?**

9 **A.** In many cases, such as the UNE-P based offerings discussed above, it is the customers
10 who purchase only basic local service that are currently least attractive to competitors.
11 Rate rebalancing will make them relatively more attractive since it will be more
12 profitable for competitors to serve them when their rates cover—or come closer to
13 covering—the costs of providing service.

14
15
16 **III. IMPLICIT SUBSIDIES IN THE AREAS SERVED BY SPRINT-FLORIDA**

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18 **Q. How does the magnitude of implicit subsidies found in Sprint's serving territory**
19 **compare with the areas served by BellSouth and Verizon?**

20 **A.** As Sprint witness John Felz discusses in his testimony, Sprint's basic local service rates
21 are lower, on average, than both BellSouth's and Verizon's basic local service rates. If
22 Sprint's costs were also lower than BellSouth's and Verizon's then the magnitude of
23 implicit subsidy might be roughly the same. However, evidence supports the conclusion
24 that the costs that a competitor would incur in Sprint's territory are, on average, higher
25 than the costs a competitor would incur in BellSouth's or Verizon's territories. This

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1 fact, combined with Sprint's lower rates, translates to a larger degree of implicit
2 subsidization and a greater hurdle for would-be competitors to overcome in Sprint's
3 service areas.

4
5 **Q. What evidence supports the conclusion that the cost a competitor would incur in**
6 **Sprint's territory are, on average, higher than the costs a competitor would incur**
7 **in BellSouth's and Verizon's territory?**

8 **A.** All else held equal, the cost of providing basic local service is dominated by the cost of
9 the local loop. On average, throughout Sprint's local serving territory the cost of the
10 loop accounts for over 90% of the cost of providing basic local service. And average
11 loop costs (as well as the overall costs of service) increase as density and concentration
12 of customers decrease. This is simply a function of the economies of networks,
13 combined with the presence of a certain fixed costs. For example, the FCC, in its
14 universal service cost model proceeding, indicated that "the most significant portions of
15 network costs" were affected by "the location of customers relative to the wire center."
16 *Fifth Report and Order* in CC Docket Nos. 96-45 and 97-160, released October 28,
17 1998, ¶ 27.

18
19 If we compare density and concentration characteristics among Sprint, BellSouth, and
20 Verizon in Florida we find dramatic differences. As Exhibit BKS-1 shows, BellSouth
21 and Verizon serve regions that are, respectively, three and four times more concentrated
22 than Sprint's serving territory. For a new competitor this difference would translate to a
23 measurable cost difference, whether the competitor was overbuilding or simply
24 purchasing unbundled elements.