

1 SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY
2 TESTIMONY OF JANICE OBUCHOWSKI
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 920260-TL
5 JULY 15, 1992
6
7

ORIGINAL
FILE COPY

8 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND YOUR
9 CURRENT EMPLOYMENT.
10

11 A. MY NAME IS JANICE OBUCHOWSKI. I AM THE PRESIDENT
12 OF FREEDOM TECHNOLOGIES, INCORPORATED, A
13 TELECOMMUNICATIONS RESEARCH AND CONSULTING FIRM,
14 WHICH IS LOCATED AT 1301 K STREET, N.W., SUITE 1025
15 EAST TOWER, WASHINGTON, D.C., 20005.
16

17 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND
18 AND EXPERIENCE.
19

20 A. I GRADUATED FROM WELLESLEY COLLEGE WITH A BACHELOR
21 OF ARTS DEGREE (WITH HONORS) IN 1973 AND RECEIVED A
22 JURIS DOCTOR DEGREE FROM THE GEORGETOWN UNIVERSITY
23 LAW CENTER IN 1976. I WAS ALSO AN EDITOR OF THE
24 GEORGETOWN LAW JOURNAL.
25

1 FROM 1976 TO 1980, I WAS AN ASSOCIATE AT BERGSON,
2 BORKLAND, MARGOLIS & ADLER, A WASHINGTON ANTITRUST
3 LITIGATION FIRM.

4
5 IN 1980, I JOINED THE FEDERAL COMMUNICATIONS
6 COMMISSION (FCC) WHERE I HELD VARIOUS POSITIONS OF
7 INCREASING RESPONSIBILITY IN THE COMMON CARRIER
8 BUREAU, CULMINATING AS THE SENIOR ADVISOR TO
9 CHAIRMAN MARK FOWLER. IN THAT CAPACITY, I ADVISED
10 THE CHAIRMAN ON ALL TELECOMMUNICATIONS POLICY AND
11 INTERNATIONAL ISSUES.

12
13 FROM 1987 TO APRIL 1989, I WAS THE EXECUTIVE
14 DIRECTOR, INTERNATIONAL AFFAIRS, FOR NYNEX, WHERE I
15 MANAGED ITS INTERNATIONAL GOVERNMENT AFFAIRS
16 PROGRAM.

17
18 I THEN SERVED AS ASSISTANT SECRETARY FOR
19 COMMUNICATIONS AND INFORMATION FOR THE DEPARTMENT
20 OF COMMERCE AND ADMINISTRATOR OF THE NATIONAL
21 TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION
22 (NTIA) UNTIL JANUARY 1992. AS ASSISTANT SECRETARY,
23 I WAS THE PRINCIPAL COMMUNICATIONS POLICY ADVISOR
24 TO PRESIDENT GEORGE BUSH. DURING MY TENURE, NTIA
25 PUBLISHED SEVERAL COMPREHENSIVE REPORTS, INCLUDING

1 THE NTIA INFRASTRUCTURE REPORT (OCTOBER, 1991) AND
2 U.S. TELECOMMUNICATIONS IN A GLOBAL ECONOMY:
3 COMPETITIVENESS AT A CROSSROADS (AUGUST, 1990),
4 ANALYZING A VARIETY OF DOMESTIC AND INTERNATIONAL
5 MARKET ISSUES FACING TELECOMMUNICATIONS REGULATORS
6 AND THE TELECOMMUNICATIONS INDUSTRY IN THE 1990'S.
7 IN ADDITION TO THE INDEPENDENT RESEARCH OF THE NTIA
8 STAFF, THE ANALYSIS AND POLICY RECOMMENDATIONS
9 CONTAINED IN THESE REPORTS WERE BASED UPON
10 VOLUMINOUS PUBLIC FILINGS, AS WELL AS
11 NTIA-SPONSORED FIELD HEARINGS THROUGHOUT THE UNITED
12 STATES.

13

14 I AM CURRENTLY A SENIOR FELLOW AT THE ANNENBERG
15 WASHINGTON PROGRAM IN COMMUNICATIONS POLICY STUDIES
16 OF NORTHWESTERN UNIVERSITY. I HAVE ALSO SERVED AS
17 AN ADJUNCT PROFESSOR OF INTERNATIONAL
18 TELECOMMUNICATIONS LAW IN THE MASTERS OF LAW
19 PROGRAM AT THE GEORGETOWN UNIVERSITY LAW CENTER.

20

21 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

22

23 A. THE PURPOSE OF MY TESTIMONY IS TO PROVIDE A CONTEXT
24 FOR SOUTHERN BELL'S PROPOSED PRICE REGULATION PLAN
25 BY REVIEWING COMPETITIVE TRENDS IN

1 TELECOMMUNICATIONS THAT EXIST NATIONALLY AND
2 INTERNATIONALLY AS WELL AS SUMMARIZING REGULATORY
3 RESPONSES TO SUCH COMPETITION.

4

5 A. NATIONAL COMPETITION

6

7 Q. HOW EXTENSIVE IS THE COMPETITION THAT LOCAL
8 EXCHANGE COMPANIES (LECS) FACE NATIONALLY?

9

10 A. COMPETITIVE ALTERNATIVES TO THE SERVICES AND
11 FACILITIES TRADITIONALLY PROVIDED BY LECS ARE
12 PROLIFERATING THROUGHOUT THE UNITED STATES. ONE
13 TYPE OF COMPETITOR, SO-CALLED ALTERNATIVE ACCESS
14 VENDORS (AAVS), HAS DEPLOYED DIGITAL FIBER OPTIC
15 NETWORKS IN APPROXIMATELY 30 METROPOLITAN AREAS,
16 PROVIDING DEDICATED SPECIAL ACCESS AND LOCAL
17 PRIVATE LINE SERVICES TO LARGE BUSINESS CUSTOMERS
18 AND LONG DISTANCE CARRIERS. ACCORDING TO THE NTIA
19 INFRASTRUCTURE REPORT, THE NUMBER OF ALTERNATIVE
20 SERVICE NETWORKS GREW FROM THREE NETWORKS IN THREE
21 CITIES IN 1987 TO 38 NETWORKS IN 25 CITIES BY 1990.
22 THE FCC'S FIBER DEPLOYMENT UPDATE - END OF YEAR
23 1991 REPORTED THAT IN 1991 ALONE AAVS INVESTED
24 \$82.6 MILLION IN FIBER BACKBONE FACILITIES.

25

1 FOR EXAMPLE, METROPOLITAN FIBER SYSTEMS (MFS)
2 CURRENTLY OPERATES IN CHICAGO, MINNEAPOLIS, BOSTON,
3 PITTSBURGH, PHILADELPHIA, BALTIMORE, HOUSTON, LOS
4 ANGELES, SAN FRANCISCO, NEW YORK CITY, AND DALLAS.
5 IT RECENTLY ACQUIRED INSTITUTIONAL COMMUNICATIONS
6 COMPANY IN WASHINGTON, D.C., BRINGING ITS TOTAL
7 ESTIMATED INVESTMENT TO MORE THAN \$120 MILLION. IN
8 JUNE 1992, MFS ANNOUNCED THAT WITHIN THE NEXT 30
9 MONTHS IT WILL COMPLETE MAJOR EXPANSIONS OF ITS
10 CURRENT NETWORKS IN DALLAS, LOS ANGELES, NEW YORK
11 CITY, CHICAGO, HOUSTON, AND WASHINGTON, D.C. MFS
12 IS 80% OWNED BY KIEWIT COMMUNICATION COMPANY, WHICH
13 HAS BEEN INVOLVED IN CONSTRUCTION OF A NUMBER OF
14 INTEREXCHANGE CARRIER (IXC) FIBER NETWORKS.

15
16 ANOTHER MAJOR AAV, TELEPORT COMMUNICATIONS GROUP
17 (TELEPORT), ONE OF THE NATION'S FIRST AAVS, STARTED
18 IN MANHATTAN AND HAS NOW EXTENDED ITS OPERATIONS TO
19 BOSTON, CHICAGO, SAN FRANCISCO, HOUSTON, DALLAS,
20 AND LOS ANGELES; IT HAS BEEN ATTEMPTING TO ENTER
21 WASHINGTON, D.C. AS WELL. IT ALSO SERVES A NUMBER
22 OF SMALLER CITIES IN NEW JERSEY ALONG THE NEW YORK
23 - NEW JERSEY CORRIDOR, INCLUDING GARDEN CITY,
24 JERSEY CITY, NEWARK, NORTH BRUNSWICK, PRINCETON,
25 AND WEEHAUKEN, AS WELL AS CAMBRIDGE AND OTHER

1 SIMILARLY SIZED CITIES IN THE BOSTON, MASSACHUSETTS
2 AREA. CABLE TELEVISION COMPANIES, COX ENTERPRISES,
3 INC. (COX) AND TELE-COMMUNICATIONS, INC. (TCI),
4 RECENTLY EXERCISED THEIR OPTIONS TO PURCHASE
5 MERRILL LYNCH'S SHARE OF TELEPORT. ASSUMING THE
6 TRANSACTIONS RECEIVE THE REQUISITE STATE AND
7 FEDERAL APPROVALS, COX AND TCI WILL OWN 50.1% AND
8 49.9% OF TELEPORT RESPECTIVELY. TELEPORT, ITSELF,
9 RECENTLY ACQUIRED DFW METROLINK IN DALLAS, TEXAS.
10
11 NATIONALLY, LEC FACILITIES BYPASS LOSSES IN 1991
12 WERE ESTIMATED AT 591,000 PRIVATE LINE CIRCUITS,
13 31.8 BILLION MINUTES OF SWITCHED SERVICE, \$595
14 MILLION IN PRIVATE LINE REVENUE, AND \$1.146 BILLION
15 IN SWITCHED SERVICE REVENUE. INCREASED DEPLOYMENT
16 OF FIBER SUGGESTS THAT BYPASS IS INCREASING; IN
17 1987, AAVS HAD INSTALLED 7,770 FIBER MILES AS
18 COMPARED WITH 101,932 IN 1991 -- A 1,211% INCREASE.
19 REVENUES FROM SUCH NETWORKS AMOUNTED TO
20 APPROXIMATELY \$150 MILLION IN 1991 WITH ESTIMATED
21 REVENUES OF \$580 MILLION BY 1995. INDEED, JOHN C.
22 SHAPLEIGH, PRESIDENT OF THE ASSOCIATION FOR LOCAL
23 TELECOMMUNICATIONS SERVICES (ALTS) IS QUOTED AS
24 ESTIMATING THAT AAV ANNUAL REVENUES COULD BE AS
25 HIGH AS \$5 BILLION BY THE YEAR 2000. LECS ALSO

1 FACE SUBSTANTIAL COMPETITION FROM IXCS. FOR
2 EXAMPLE, THE STRENGTH OF TOLL COMPETITION BY IXCS
3 CAN BE SEEN IN THE ROBUST GROWTH OF SERVICES SUCH
4 AS AT&T'S MEGACOM, MCI'S PRISM AND SPRINT'S
5 ULTRAWATS.
6
7 SIMILARLY, VERY SMALL APERTURE TERMINALS (VSAT)
8 SATELLITE SERVICE AND MICROWAVE SERVICES NETWORKS
9 ARE ALSO EXPANDING RAPIDLY AND ARE COMPRISING A
10 GROWING SHARE OF THE DATA TRANSPORT MARKET,
11 PARTICULARLY IN THE AREA OF CREDIT CARD
12 VERIFICATION AND INVENTORY CONTROL. THE NATIONAL
13 VSAT MARKET IS EXPECTED TO GROW AT A RATE OF 17% TO
14 23% DURING THE NEXT 3 YEARS. REVENUES REACHED \$230
15 MILLION IN 1990 AND ARE PROJECTED TO REACH \$400
16 MILLION BY THE END OF 1993. THE TOTAL MARKET FOR
17 NEW VSAT TERMINALS IS PROJECTED TO GROW FROM \$319
18 MILLION IN 1991 TO \$743 MILLION IN 1994. BYPASS
19 COMPETITION RESULTS IN MORE COSTS MOVING THROUGH
20 THE SEPARATIONS PROCESS TO THE STATE RATE BASE.
21 THIS IS THE CASE BECAUSE, IN SUBSTANTIAL PART, THE
22 SEPARATIONS PROCESS IS DEPENDENT UPON RELATIVE USE
23 OF CARRIERS' PLANT FOR INTERSTATE AND INTRASTATE
24 TELECOMMUNICATIONS. AS INTERSTATE COMPETITION
25 CAUSES LESS INTERSTATE PLANT TO BE USED, A LOWER

1 PERCENTAGE OF ASSOCIATED COSTS AND SPARE PLANT WILL
2 BE ASSIGNED TO THE FEDERAL JURISDICTION, AND A
3 HIGHER PERCENTAGE OF THESE COSTS WILL BE ASSIGNED
4 TO STATES.

5

6 Q. IS THIS TREND REFLECTED IN FLORIDA?

7

8 A. YES. IN 1991, SOUTHERN BELL REPORTED TO THE FCC
9 NET LOSSES OF \$47.7 MILLION TO SERVICE BYPASS,
10 \$19.3 MILLION TO SPECIAL ACCESS FACILITY BYPASS,
11 AND \$18.1 MILLION TO SWITCHED FACILITIES BYPASS.
12 IT ALSO ESTIMATED \$8.5 MILLION IN INTRALATA TOLL
13 LOSSES TO PRIVATELY OWNED MICROWAVE SYSTEMS AND
14 \$44.5 MILLION IN PRIVATE LINE LOSSES TO MICROWAVE.
15 FURTHERMORE, AS DESCRIBED IN MORE DETAIL IN ANTHONY
16 LOMBARDO'S TESTIMONY, SOUTHERN BELL ESTIMATES ITS
17 TOTAL QUANTIFIED REVENUE LOSSES IN 1991 AS OVER
18 \$200 MILLION.

19

20 IN ADDITION, SOUTHERN BELL ALSO FACES SIGNIFICANT
21 COMPETITION FROM AAVS. ITS QUANTIFIED PRIVATE LINE
22 AND TOLL LOSS TO FIBER COMPETITION IN FLORIDA WAS
23 \$39.2 MILLION IN 1991. AS OF FEBRUARY 1992,
24 FLORIDA'S LARGEST AAV, INTERMEDIA COMMUNICATIONS OF
25 FLORIDA (INTERMEDIA), HAD 200 CUSTOMERS IN FLORIDA

1 WITH ESTIMATED ANNUAL REVENUES OF \$15 MILLION.
2 INTERMEDIA OPERATES FIBER NETWORKS IN MIAMI,
3 ORLANDO AND TAMPA, AND IT HAS ANNOUNCED PLANS TO
4 EXPAND INTO JACKSONVILLE AND ST. PETERSBURG. AMONG
5 ITS ACTIVITIES, INTERMEDIA OFFERS SERVICE TO A
6 NUMBER OF IXCS AS WELL AS TO SEVERAL LARGE END USER
7 CORPORATE CUSTOMERS, INCLUDING BRITISH WEST INDIAN
8 AIR, BARNETT BANK, PRICE WATERHOUSE, SUN BANK,
9 GENERAL MILLS, AND DISNEY RESERVATIONS.

10

11 IT IS REPORTED THAT MFS AND TELEPORT ARE ALSO
12 ATTEMPTING TO ESTABLISH NETWORKS IN MIAMI.

13

14 Q. WHAT FACTORS HAVE CONTRIBUTED, AND ARE EXPECTED TO
15 CONTRIBUTE, TO THE GROWTH IN COMPETITIVE SERVICES
16 NATIONALLY?

17

18 A. REGULATORY CHANGES PERMITTING COMPETITIVE ENTRY AND
19 FACILITATING INTERCONNECTION ARE MAJOR FACTORS
20 PROMOTING THE GROWTH IN COMPETITIVE SERVICES. THE
21 IMPACT OF INTERSTATE ACCESS COMPETITION NATIONALLY,
22 AS WELL AS IN FLORIDA, WILL UNDOUBTEDLY INCREASE
23 DRAMATICALLY WITH THE RULINGS THAT THE FCC IS
24 EXPECTED TO ISSUE. THESE RULINGS ARE LIKELY TO
25 REQUIRE THAT SOUTHERN BELL AND OTHER LECS OFFER

1 EXPANDED INTERCONNECTION WITH THEIR NETWORKS TO
2 AAVS FOR THE PROVISION OF SPECIAL, AND CENTRALLY
3 SWITCHED, ACCESS SERVICES. IT IS CURRENTLY
4 ANTICIPATED THAT THE FCC WILL MANDATE EXPANDED
5 LOCAL EXCHANGE INTERCONNECTION FOR SPECIAL ACCESS
6 IN THE SUMMER OR EARLY FALL OF 1992. IT IS LIKELY
7 TO COMPLETE EXAMINATION OF EXPANDED INTERCONNECTION
8 FOR SWITCHED ACCESS BY THE SPRING OF 1993.

9
10 ANOTHER IMPETUS FOR COMPETITIVE GROWTH IS COST
11 SAVINGS. FOR EXAMPLE, FEDERAL ACCESS CHARGE
12 REGULATIONS REQUIRE IXCS TO PAY LOCAL CARRIERS FOR
13 CALL ORIGINATION AND TERMINATION. INTENSIFIED
14 INTERSTATE LONG-DISTANCE COMPETITION HAS GREATLY
15 INCREASED INTEREXCHANGE CARRIER AND END USER
16 INCENTIVES TO SEEK LOWER COST OPTIONS FOR
17 INTERSTATE ACCESS AND TOLL SERVICES.

18
19 THESE FORCES HAVE CREATED A GROWING MARKET FOR
20 HIGH-BANDWIDTH ACCESS FROM THE USER'S PREMISES TO
21 LONG DISTANCE CARRIERS. PARTICULARLY IN AREAS
22 WHERE THESE INTERSTATE CARRIERS ARE GENERATING HIGH
23 VOLUMES OF TRAFFIC, THEY SEEK LOWER, OFTEN
24 SPECIALLY TAILORED, RATES FROM AAVS. WITHOUT
25 HAVING THE REGULATORY OBLIGATIONS IMPOSED ON LECS,

1 THESE AAVS ARE OFTEN POSITIONED TO QUICKLY RESPOND
2 TO REQUESTS FOR LOWER PRICES.

3
4 FURTHERMORE, AS TELECOMMUNICATIONS TECHNOLOGY HAS
5 BECOME MORE SOPHISTICATED AND BUSINESSES HAVE
6 BECOME MORE INFORMATION-DEPENDENT, LOCAL
7 COMMUNICATIONS USERS HAVE INCREASINGLY DEMANDED
8 FASTER TRANSMISSION SPEEDS, GREATER DISASTER
9 PROTECTION ASSURANCES, HIGHER CIRCUIT
10 AVAILABILITIES, LOWER BIT ERROR RATES, AND MORE
11 RAPID INSTALLATION INTERVALS.

12
13 LEC COMPETITORS HAVE SUCCESSFULLY RESPONDED TO THIS
14 DEMAND BY DEPLOYING STATE-OF-THE-ART FIBER NETWORKS
15 THAT HAVE THE POTENTIAL TO SIGNIFICANTLY INCREASE
16 CAPACITY, IMPROVE TRANSMISSION QUALITY, AND SHARPLY
17 REDUCE PER-CIRCUIT COSTS. COMBINED WITH THEIR
18 DIVERSE PATHS AND CONTINUOUS MONITORING OF
19 CIRCUITS, THESE NETWORKS ARE POSITIONED TO BRING
20 CUSTOMERS ADDITIONAL REDUNDANCY AND RESPONSIVENESS
21 IN THE HIGH CAPACITY VOICE, DATA, AND VIDEO
22 TRANSMISSION SERVICES, AT NON-TARIFFED, "BARE
23 BONES" COSTS. AS DISCUSSED IN MORE DETAIL BELOW,
24 LECS SUCH AS SOUTHERN BELL HAVE BEEN CONSTRAINED
25 FROM RESPONDING IN KIND BECAUSE OF THEIR REGULATORY

1 OBLIGATIONS.

2

3 B. REGULATORY RESPONSE TO COMPETITION

4

5 Q. HOW HAVE FEDERAL REGULATORS REACTED TO THIS
6 COMPETITIVE TELECOMMUNICATIONS ENVIRONMENT?

7

8 A. FEDERAL REGULATORS HAVE INCREASINGLY RECOGNIZED
9 THAT THE EXISTENCE OF INCREASED COMPETITION IMPACTS
10 LEC RATE LEVELS AND RATE STRUCTURES IN WAYS THAT
11 NECESSITATE A RE-EXAMINATION OF THE REGULATORY
12 METHODOLOGY TRADITIONALLY APPLIED TO SUCH CARRIERS.
13 AS THE NTIA INFRASTRUCTURE REPORT CONCLUDED, "TO
14 PERMIT INCUMBENT LECS TO RESPOND TO NEW ENTRANTS
15 AND TO ENSURE THAT ENTRY IS ECONOMICALLY EFFICIENT,
16 EXISTING PRICING POLICIES WILL NEED TO BE REFORMED.
17 THIS WILL ENTAIL DEREGULATING, OR ALLOWING
18 SIGNIFICANT PRICING FLEXIBILITY, FOR SERVICES THAT
19 FACE COMPETITION."

20

21 THE NTIA INFRASTRUCTURE REPORT RECOMMENDED THAT THE
22 MORE COMPETITION A SERVICE FACES, THE MORE PRICING
23 FLEXIBILITY IT SHOULD ENJOY. SPECIFICALLY, WHERE
24 COMPETITION EXISTS IN A PARTICULAR SERVICE MARKET,
25 NTIA PROPOSED THAT FEDERAL AND STATE REGULATORS

1 REMOVE RATE REGULATION FOR ALL PROVIDERS OF THAT
2 SERVICE, INCLUDING LECS. WHERE COMPETITION IS
3 STILL EMERGING, BUT NOT FULLY EFFECTIVE, REGULATED
4 COMPANIES SHOULD BE GIVEN THE FLEXIBILITY TO CHANGE
5 THEIR REGULATED RATES TO RESPOND TO COMPETITIVE
6 ENTRY AS LONG AS SUCH RATES REMAIN ABOVE COST.
7 NTIA DEEMED BOTH OF THESE POLICIES NECESSARY TO
8 ENSURE THAT ANY COMPANY'S SUCCESS IN THE
9 MARKETPLACE IS DUE TO ITS SUPERIOR PERFORMANCE,
10 RATHER THAN TO THE REGULATORY BURDENS BORNE BY SOME
11 OR ALL OF ITS RIVALS, AS WELL AS TO ENSURE THAT
12 CONSUMERS HAVE THE MAXIMUM OPPORTUNITY TO PROFIT
13 FROM THE BENEFITS OF COMPETITION.

14
15 FURTHERMORE, AS COMPETITION ERODES SOURCES OF
16 SUBSIDY, EVEN SERVICES NOT YET SUBJECT TO
17 COMPETITION SHOULD BE PRICED TO REFLECT COSTS.
18 TARGETED SUBSIDIES FOR THE NEEDY ARE AN
19 ECONOMICALLY SUPERIOR METHOD TO ACHIEVE UNIVERSAL
20 SERVICE THAN ACROSS-THE-BOARD UNDERPRICING.
21 HISTORICALLY, AND PARTICULARLY IN THE LAST DECADE,
22 THE FCC HAS REACTED TO THE EMERGENCE OF
23 TELECOMMUNICATIONS COMPETITION BY FURTHER
24 ATTEMPTING TO ENCOURAGE NEW ENTRY, WHILE GIVING
25 INCREASING FREEDOM TO OPERATING COMPANIES TO

1 RESPOND TO THAT COMPETITION. FOR EXAMPLE, IN ORDER
2 TO FACILITATE THE GROWTH OF THE ENHANCED SERVICE
3 INDUSTRY, THE FCC'S COMPUTER III PROCEEDING RELAXED
4 VARIOUS ACCOUNTING, INFORMATIONAL, AND TECHNICAL
5 REGULATIONS APPLICABLE TO AT&T AND THE BELL
6 OPERATING COMPANIES. THE FCC BELIEVED THAT
7 ALLOWING THESE PHONE COMPANIES TO COMPETE IN THE
8 ENHANCED SERVICES MARKET ON A MORE EFFICIENT BASIS
9 WOULD EXPAND THE COMPETITIVE OPTIONS AVAILABLE TO
10 CONSUMERS AND PROVIDE AN INCENTIVE FOR FASTER
11 MODERNIZATION OF THE PUBLIC SWITCHED NETWORK. IN
12 RETURN FOR SUCH REGULATORY FREEDOMS, THE FCC
13 REQUIRED THESE CARRIERS TO MAKE THE BASIC SERVICE
14 COMPONENTS NECESSARY TO OFFER ENHANCED SERVICES
15 AVAILABLE TO COMPETING ENHANCED SERVICE PROVIDERS
16 ON TERMS AND CONDITIONS SIMILAR TO THOSE AVAILABLE
17 TO THE CARRIERS' ENHANCED SERVICES OPERATIONS.

18
19 SIMILARLY, IN THE PENDING VIDEO DIALTONE
20 PROCEEDING, THE FCC HAS PROPOSED A REGULATORY
21 STRUCTURE DESIGNED TO PROMOTE DIVERSITY AND
22 COMPETITION IN VIDEO MARKETS AND TO ENCOURAGE LEC
23 DEPLOYMENT OF THE INFRASTRUCTURE NECESSARY FOR
24 USERS TO ACCESS VIDEO PROGRAMMING AND OTHER
25 HIGH-BANDWIDTH INFORMATION SERVICES. LEGISLATION

1 IS PENDING IN THE U.S. CONGRESS TO ALLOW LECS TO
2 PROVIDE VIDEO PROGRAMMING DIRECTLY TO CUSTOMERS IN
3 THEIR SERVICE AREAS IN COMPETITION WITH CABLE
4 TELEVISION OPERATORS.

5
6 MEANWHILE, THE FCC IS EXAMINING RULES FOR PERSONAL
7 COMMUNICATIONS SERVICES (PCS) THAT COULD
8 SUBSTANTIALLY INCREASE COMPETITION. SOME INDUSTRY
9 OBSERVERS ANTICIPATE THAT THIS FAMILY OF MICRO-
10 CELLULAR SERVICES COULD REACH THIRTY MILLION
11 SUBSCRIBERS WITHIN A DECADE OF INTRODUCTION. MANY
12 BELIEVE THAT PCS WILL BE A MAJOR COMPETITIVE
13 ALTERNATIVE TO THE LOCAL LOOP, PARTICULARLY WHEN
14 THE MICRO-CELLS BECOME LINKED BY CABLE COMPANIES'
15 INFRASTRUCTURE.

16
17 IN ADDITION, THE FCC'S PRICE CAP PROCEEDING
18 ATTEMPTED TO PROVIDE CARRIERS WITH INCENTIVES TO
19 PRICE ON A MORE ECONOMICALLY EFFICIENT BASIS THAN
20 EXISTED UNDER TRADITIONAL RATE OF RETURN
21 REGULATION. RATHER THAN REGULATING PRICES
22 INDIRECTLY THROUGH A "COST PLUS" METHODOLOGY, THE
23 FCC BEGAN TO REGULATE PRICES DIRECTLY BY ADOPTING A
24 PRICE CAP FORMULA THAT REFLECTS A CARRIER'S
25 PRODUCTIVITY, THE IMPACT OF INFLATION AND OTHER

1 EXOGENOUS FACTORS. THIS FORMULA WAS DESIGNED TO
2 REWARD CARRIERS THAT OPERATE EFFICIENTLY BY
3 ALLOWING THEM TO RETAIN A GREATER SHARE OF THEIR
4 PROFITS. IN CONTRAST, RATE OF RETURN REGULATION
5 ENCOURAGED COST PADDING AND OTHER INEFFICIENCIES.

6
7 IN ADDITION, THE FCC'S PRICE CAP FORMULA PROVIDES
8 CARRIERS WITH A DEGREE OF PRICING FLEXIBILITY.
9 PRICE CAPS ALLOW CARRIERS SOME FLEXIBILITY TO PRICE
10 THEIR AGGREGATE SERVICES AS WELL AS SOME
11 FLEXIBILITY FOR INDIVIDUAL SERVICES WITHIN BASKETS
12 OF SERVICE; RATEPAYERS ARE PROTECTED FROM "RATE
13 CHURN" BY THE EXISTENCE OF PRICE CEILINGS AND
14 FLOORS. PRICE CAP CARRIERS ARE BETTER ABLE TO
15 RESPOND TO THE MARKETPLACE AND CUSTOMER DEMANDS
16 BECAUSE OF STREAMLINED TARIFF PROCEDURES AND
17 PRESUMPTIVE APPROVAL OF PRICE CHANGES WITHIN THE
18 PRICE BANDS.

19
20 DESPITE THE INCREASED PRICE FLEXIBILITY MADE
21 POSSIBLE BY PRICE CAPS, THE FCC IS CURRENTLY
22 CONSIDERING PROVIDING LECS WITH ADDITIONAL PRICING
23 FLEXIBILITY (E.G. DEAVERAGED OR CUSTOMER SPECIFIC
24 PRICING) TO ENABLE LECS TO BETTER RESPOND TO THE
25 INCREASED COMPETITION EXPECTED AS A RESULT OF THE

1 FCC'S EXPANDED INTERCONNECTION PROCEEDING.

2

3 THE FCC LIKELY WILL CONTINUE ITS AGGRESSIVE EFFORTS
4 TO PROMOTE COMPETITION GENERALLY AND WITHIN
5 PARTICULAR LECS. THE COMPETITIVE INNOVATION OF THE
6 LAST DECADE IS LIKELY TO PROCEED WITHOUT ABATEMENT
7 IN THE NEXT DECADE. WITHIN THE NEXT SEVERAL MONTHS
8 ALONE, THE FCC IS EXPECTED TO MANDATE AND TO
9 AUTHORIZE THE INTRODUCTION OF EXPANDED
10 INTERCONNECTION WITH LEC SPECIAL AND SWITCHED
11 ACCESS SERVICES, AND NEW SERVICES AND TECHNOLOGIES,
12 SUCH AS PCS, WHICH, IN THE LONG-TERM, PROMISE TO
13 ACT AS POTENT FORMS OF COMPETITION.

14

15 LOOKING TO THE FUTURE, INCREASED "INTERMODAL"
16 COMPETITION, SUCH AS ENTRY BY CABLE COMPANIES INTO
17 TELEPHONY VIA PCS, CAN BE ANTICIPATED. POSSIBLE
18 INTERNATIONAL AND NATIONAL NUMBERING PLAN CHANGES
19 FURTHER FACILITATE COMPETITION. IN ADDITION, AS
20 REQUIRED UNDER DIVESTITURE, EQUAL ACCESS DEPLOYMENT
21 IS NOW IN ITS CLOSING STAGES, WITH THE FCC
22 REPORTING 90.9% CONVERSION FOR THE INDUSTRY AS A
23 WHOLE AND 97.2% FOR THE BELL OPERATING COMPANIES.

24

25 THESE FEDERAL EFFORTS WILL UNDOUBTEDLY IMPACT

1 FLORIDA. IN THE PAST, EVERY MAJOR DEVELOPMENT ON
2 THE FEDERAL LEVEL HAS HAD A CLOSELY PARALLEL IMPACT
3 AT THE STATE LEVEL. AS A RESULT, I ANTICIPATE THAT
4 THE FLORIDA PUBLIC SERVICE COMMISSION INCREASINGLY
5 WILL NEED TO ADDRESS DRAMATIC COMPETITION GROWTH
6 AND INCREASED PENETRATION BY COMPETITORS INTO
7 ALMOST ALL MAJOR LINES OF TELECOMMUNICATIONS
8 SERVICES.

9

10 Q. HOW HAVE STATE COMMISSIONS RESPONDED TO THE
11 INCREASED COMPETITION FACED BY LECS?

12

13 A. ALTHOUGH STATE REGULATORY RESPONSES VARY, THE
14 MAJORITY OF STATE COMMISSIONS NOW PERMIT SOME
15 DEGREE OF RATE FLEXIBILITY, OFTEN IN THE FORM OF
16 PRICE REGULATION PLANS, OR THE DETARIFFING OF LEC
17 SERVICES THAT FACE COMPETITION. ACCORDING TO THE
18 FEBRUARY 1992 REPORT ON TELECOMMUNICATION
19 ALTERNATIVE REGULATION PLANS BY STATE, PREPARED FOR
20 THE NARUC WINTER MEETING, SOME 30 STATES HAVE
21 RESTRUCTURED THEIR TELECOMMUNICATIONS REGULATIONS
22 ON THIS BASIS.

23

24 C. IMPACT OF THE PROPOSED PRICING MECHANISM

25

1 Q. HOW WILL FLORIDA BE AFFECTED IF THE FLORIDA PSC
2 AUTHORIZES SOUTHERN BELL'S PRICE REGULATION PLAN?

3
4 A. AUTHORIZING SOUTHERN BELL TO OPERATE UNDER ITS
5 PROPOSED PRICE REGULATION PLAN WILL OFFER TWO
6 PRINCIPAL BENEFITS TO FLORIDA AND ITS RATEPAYERS.
7 FIRST, IT WILL ENSURE THAT THE BENEFITS OF
8 COMPETITION FLOW TO CONSUMERS. AND SECOND, IT WILL
9 ENCOURAGE SOUTHERN BELL TO MAKE EFFICIENT
10 INFRASTRUCTURE INVESTMENT WHICH WILL PROMOTE
11 ECONOMIC DEVELOPMENT FOR FLORIDA AND ITS CITIZENS.

12
13
14 SOUTHERN BELL'S PROPOSED PRICE REGULATION PLAN IS
15 GENERALLY SUPERIOR TO ITS EXISTING INCENTIVE
16 REGULATION PLAN. THE INCENTIVE REGULATION PLAN
17 REMAINS BASED ON RATE OF RETURN REGULATION. IN MY
18 ESTIMATION, A REGULATORY MECHANISM WITH A RATE OF
19 RETURN COMPONENT HELPS TO SUSTAIN A CORPORATE
20 CULTURE THAT CANNOT BE FULLY EFFICIENT. MY
21 EXPERIENCE INDICATES THAT ONE OF THE MOST DIFFICULT
22 TRANSITIONS TO MAKE WHEN FACING A COMPETITIVE
23 ENVIRONMENT IS TO CHANGE THE MINDSETS OF EMPLOYEES
24 WHO GREW UP IN THE "COST PLUS" ENVIRONMENT OF RATE
25 OF RETURN REGULATION. ELEMENTS OF THIS CONTINUE

1 WITHIN INCENTIVE REGULATION AND ITS REMAINING LINKS
2 TO RATE OF RETURN REGULATION. IN CONTRAST, PRICE
3 REGULATION, EVEN WITH A TRANSITIONAL SHARING
4 MECHANISM SUCH AS THAT PROPOSED BY SOUTHERN BELL,
5 CREATES GREATER INCENTIVES FOR EMPLOYEES TO BECOME
6 MORE PRODUCTIVE AND EFFICIENT EACH YEAR, MUCH MORE
7 AKIN TO THE SITUATION THAT EXISTS IN THE
8 COMPETITIVE MARKETPLACE.

9

10 1. PROMOTES COMPETITION

11

12 Q. HOW DOES ADOPTION OF SOUTHERN BELL'S PROPOSAL
13 PROMOTE COMPETITION?

14

15 A. THE PROPOSED STREAMLINED PRICE ADJUSTMENT PROCESS
16 AND THE AUTOMATIC FUNCTIONING OF THE PRICING
17 FORMULA DRAMATICALLY REDUCES THE NEED FOR DETAILED
18 REGULATORY INTERVENTION IN SOUTHERN BELL'S ATTEMPTS
19 TO PROPERLY PRICE ITS SERVICES. THIS, IN TURN,
20 ALLOWS SOUTHERN BELL TO RESPOND RAPIDLY TO
21 DEVELOPMENTS IN TECHNOLOGY, SHIFTS IN COMPETITIVE
22 MARKET CONDITIONS, AND CUSTOMERS' REQUESTS FOR
23 SERVICE PACKAGES TAILORED TO THEIR NEEDS. THUS,
24 SOUTHERN BELL'S PROPOSED PRICE REGULATION PLAN
25 REFLECTS AN ESSENTIAL COMPONENT OF THE COMPETITIVE

1 PROCESS -- INCREASED FLEXIBILITY TO SELECT THE
2 PRICES, TERMS AND CONDITIONS OF ITS SERVICE
3 OFFERINGS.

4
5 SOUTHERN BELL'S ENHANCED ABILITY TO COMPETE MORE
6 EFFECTIVELY WILL PROVIDE SIGNIFICANT BENEFITS TO
7 RATEPAYERS AND THE STATE OF FLORIDA. SOUTHERN
8 BELL'S PROPOSED PRICE REGULATION PLAN, ALONE AND IN
9 CONJUNCTION WITH INCREASED COMPETITION, WILL CREATE
10 INCENTIVES FOR SOUTHERN BELL TO MINIMIZE ITS
11 PRODUCTION COSTS, THUS ENSURING THAT THE RESULTING
12 OUTPUT IS PRODUCED AS EFFICIENTLY AS POSSIBLE.
13 THIS IS LIKELY TO REDUCE RATES FOR MANY SERVICES
14 AND TO ENCOURAGE MODERNIZATION OF THE LOCAL
15 INFRASTRUCTURE. FURTHER, INCREASED FREEDOM TO
16 COMPETE WILL ALLOW SOUTHERN BELL TO BETTER RESPOND
17 TO CONSUMER NEEDS, THUS IMPROVING THE VARIETY AND
18 QUALITY OF ITS SERVICE OFFERINGS. IN ADDITION,
19 SOUTHERN BELL'S ABILITY TO CONTINUE TO SERVE HIGH
20 VOLUME, HIGH PROFIT, BUSINESS CUSTOMERS BY
21 PROVIDING TECHNOLOGICALLY SOPHISTICATED SERVICE
22 WILL PROVIDE MORE FUNCTIONALITY IN THE NETWORK AND
23 WILL MAINTAIN ITS ABILITY TO SUPPORT UNIVERSAL
24 SERVICE.

25

1 2. PROMOTES APPROPRIATE PRICING

2

3 Q. HOW DOES ADOPTION OF THE PROPOSED PRICE REGULATION
4 PLAN REDUCE RATES?

5

6 A. THE PROPOSED PLAN SHOULD MOVE SOUTHERN BELL'S
7 PRICES DOWNWARD EACH YEAR IN REAL TERMS TO ACCOUNT
8 FOR EXPECTED PRODUCTIVITY IMPROVEMENTS. AT THE
9 SAME TIME, THE PRESENCE OF A CEILING ON AGGREGATE
10 PRICES PROTECTS RATEPAYERS BY STABILIZING RATES.
11 THE EXISTENCE OF SEPARATE PRICE LIMITS FURTHER
12 CONSTRAINS SOUTHERN BELL'S PRICING FLEXIBILITY.
13 AND FINALLY, REGULATORY COSTS WILL BE REDUCED
14 BECAUSE SOUTHERN BELL'S PROPOSED SYSTEM WILL
15 STREAMLINE AND SIMPLIFY ITS CURRENT TARIFF
16 PROCEDURES AND PERMIT PRESUMPTIVE APPROVAL OF MOST
17 PROPOSED PRICE CHANGES.

18

19 IN ADDITION, THE PROPOSED PLAN WILL ENABLE SOUTHERN
20 BELL TO CHANGE PRICES TO REFLECT THE ANNUAL COST OF
21 PROVIDING SERVICE. WHILE NOT AS EFFECTIVE AS
22 DEAVERAGING OR CUSTOMER SPECIFIC PRICING, THIS FORM
23 OF PRICING WILL ULTIMATELY BENEFIT CONSUMERS AND
24 ENSURE THAT COMPETITIVE ENTRY INTO ANY
25 TELECOMMUNICATIONS SERVICE MARKET IS, IN FACT,

1 ECONOMICALLY EFFICIENT, AND NOT MERELY AN
2 OPPORTUNITY TO EXPLOIT INEFFICIENT
3 GOVERNMENT-MANDATED RATES.

4
5 FOR EXAMPLE, WHERE REGULATIONS FORCE SOUTHERN BELL
6 TO PRICE ITS REGULATED SERVICES SIGNIFICANTLY ABOVE
7 COST, COMPETITORS ARE ENCOURAGED TO ENTER THE
8 MARKET, EVEN IF THEIR COSTS ARE HIGHER THAN
9 SOUTHERN BELL'S, SO LONG AS THEIR COSTS ARE LOWER
10 THAN THE REGULATED RATE. THUS, REGULATIONS SERVE
11 TO ARTIFICIALLY MAINTAIN INFLATED RATES TO THE
12 DETRIMENT OF CONSUMERS.

13
14 MOREOVER, WHERE THE REGULATED RATE FOR A SERVICE IS
15 OVERPRICED, ALTERNATIVE PROVIDERS CAN EASILY
16 REPLACE SOUTHERN BELL'S FACILITIES THAT SUPPORT THE
17 SERVICE WITH THEIR OWN FACILITIES, WHETHER OR NOT
18 THE ALTERNATIVE PROVIDERS PRICE ON AN ECONOMIC
19 BASIS. SUCH CREAMSKIMMING CREATES A REAL RISK OF
20 STRANDED INVESTMENT AND AN INCREASE IN IDLE
21 CAPACITY.

22
23 UNLESS SOUTHERN BELL HAS THE REGULATORY FLEXIBILITY
24 TO RESPOND IN MEANINGFUL FASHION TO COMPETITION,
25 ITS CONTRIBUTION WILL BE LOST AND ITS ABILITY TO

1 MAINTAIN RATES FOR LOCAL RESIDENTIAL SERVICES AT
2 AFFORDABLE LEVELS WILL BE JEOPARDIZED. CURRENTLY,
3 LIKE MOST LECS, SOUTHERN BELL'S LOCAL RESIDENTIAL
4 SERVICE IS BEING SUBSIDIZED BY SUCH SERVICES AS
5 INTRASTATE ACCESS, INTRALATA TOLL, AND INTERSTATE
6 ACCESS SERVICE. AS I DISCUSSED ABOVE, AND AS
7 ARTICULATED IN GREATER DETAIL IN ANTHONY LOMBARDO'S
8 TESTIMONY, THESE LATTER THREE SERVICES ARE
9 INCREASINGLY FACING COMPETITION. ABSENT THE
10 REGULATORY FLEXIBILITY CONTAINED IN ITS PROPOSED
11 PRICING PLAN, SOUTHERN BELL'S ABILITY TO GENERATE
12 REVENUES IN EXCESS OF COSTS WILL SHRINK, THEREBY
13 REDUCING, IF NOT EVENTUALLY ELIMINATING, ITS
14 ABILITY TO SUPPORT LOCAL RESIDENTIAL SERVICES.

15

16 AS A MEMBER OF THE REGULATORY STAFF AT THE FCC, I
17 WAS ABLE TO WITNESS FIRST HAND SOME OF THE PROBLEMS
18 THAT AROSE ON THE FEDERAL LEVEL WHEN REGULATIONS
19 ENCOURAGE NEW COMPETITORS TO ENTER A MARKET WITHOUT
20 SIMULTANEOUSLY "REBALANCING THE RATES" OF CARRIERS
21 THAT HAVE MANDATORY SERVICE OBLIGATIONS. IN THE
22 EXCHANGE NETWORK FACILITIES FOR INTERSTATE ACCESS
23 (ENFIA) PROCEEDING, THE FCC CRAFTED A POLITICALLY
24 GENERATED DISCOUNT ACCESS RATE WHICH PERMITTED
25 COMPETITIVE CARRIERS TO OFFER LONG DISTANCE SERVICE

1 THROUGH INTERCONNECTION OF THEIR CIRCUITS WITH THE
2 LOCAL EXCHANGE SWITCHING PLANT OWNED BY
3 PRE-DIVESTITURE AT&T. A GREAT NUMBER OF
4 COMPETITIVE CARRIERS ENTERED THE MARKET, BUT NOT
5 BECAUSE THEY HAD LOWER COSTS OR SUPERIOR SERVICE TO
6 OFFER. RATHER, THEY ENTERED TO SERVE ROUTES WHERE
7 THEY COULD READILY PROFIT BY PRICING UNDER
8 NON-COST-BASED, HIGH, TARIFFED RATES. MANY MORE
9 CARRIERS ENTERED WHO COULD COMPETE AGAINST THE
10 INCUMBENTS BECAUSE THEY WERE PAYING LESS FOR ACCESS
11 THROUGH THE ENFIA ACCESS DISCOUNT. IN EFFECT, THE
12 FCC WAS ARTIFICIALLY ALLOCATING THE MARKET.
13 EXPERIENCE HAS SHOWN THAT SUCH ALLOCATIONS, WHETHER
14 DONE DIRECTLY OR INDIRECTLY, ARE DOOMED TO FAILURE.
15 THE COMPETITIVE MARKETPLACE CONTINUES TO BE THE
16 BEST REGULATOR OF PRICES, TERMS AND CONDITIONS.
17
18 THE ENFIA TARIFF WAS REPLACED BY INTERSTATE ACCESS
19 CHARGES IN 1984. AS REBALANCING OF TARIFFS TOWARD
20 COSTS HAS TAKEN PLACE, A MAJOR "SHAKE-OUT" OF THE
21 COMPETITIVE CARRIERS HAS OCCURRED. ONLY THOSE WHO
22 ARE TRULY DELIVERING VALUABLE SERVICE TO THE
23 PUBLIC, EITHER BECAUSE OF COMPETITIVE FEATURES OR
24 PRICING, HAVE SURVIVED.
25

1 AS THE FEDERAL EXPERIENCE OF OPEN ENTRY WITHOUT
2 TARIFF REBALANCING MADE EVIDENT, WHEN REGULATORS
3 REQUIRE ONE CARRIER TO COMPETE USING AN ENTIRELY
4 DIFFERENT COST STRUCTURE THAN OTHERS, FAULTY
5 SIGNALS ARE SENT TO THE MARKETPLACE. THIS APPROACH
6 CAN ENCOURAGE COMPETITORS TO ENTER A MARKET WITHOUT
7 REGARD TO THEIR TRUE EFFICIENCY OR OTHER SERVICE
8 BENEFITS. IT CAN GIVE RISE TO THE ENTRY OF
9 ARBITRAGEURS WHO PROVIDE LITTLE VALUE TO SOCIETY,
10 AND WHO MAY ACTUALLY DETRACT FROM AN OPTIMALLY
11 EFFICIENT MARKETPLACE.

12

13 3. PROMOTES INFRASTRUCTURE INVESTMENT

14

15 Q. HOW DOES ADOPTION OF THE PROPOSED PRICE REGULATION
16 PLAN ENCOURAGE EFFICIENT INFRASTRUCTURE INVESTMENT?

17

18

19 A. THE OPPORTUNITY AFFORDED BY THE PROPOSED PRICE
20 REGULATION PLAN FOR SOUTHERN BELL TO EARN A
21 REASONABLE PROFIT ON ITS INVESTMENTS WILL ENCOURAGE
22 SOUTHERN BELL TO MAKE INVESTMENTS TO CREATE A
23 FEATURE-RICH AND TECHNOLOGICALLY-ADVANCED
24 TELECOMMUNICATIONS NETWORK. IN ADDITION, THE
25 PRESUMPTIVE APPROVAL OF NEW SERVICES AND THE ONE

1 YEAR EXCLUSION FROM PRICE REGULATION OF SUCH
2 SERVICES WILL ENCOURAGE SOUTHERN BELL TO ACCELERATE
3 THE PACE AND DEGREE OF ITS TELECOMMUNICATIONS
4 INNOVATIONS AND TO INVEST IN NEW TECHNOLOGIES.
5
6 CONVERSELY, FAILURE TO ADOPT THE PROPOSED PLAN MAY
7 ULTIMATELY CREATE PROLONGED DISINCENTIVES TO
8 SOUTHERN BELL'S MODERNIZATION OF THE
9 INFRASTRUCTURE, WHICH WILL WIDEN THE GAP BETWEEN
10 PUBLIC AND PRIVATE NETWORKS. THIS, IN TURN, WILL
11 CAUSE SOPHISTICATED USERS INCREASINGLY TO MIGRATE
12 TO PRIVATE NETWORKS. IT WILL BECOME DIFFICULT, IF
13 NOT IMPOSSIBLE, FOR THE REMAINING USERS, MOST
14 LIKELY RESIDENTIAL AND SMALL BUSINESS CUSTOMERS, TO
15 SECURE BASIC AND ENHANCED SERVICES AT REASONABLE
16 RATES; A MODERN PUBLIC SWITCHED NETWORK MAY BE THE
17 ONLY MEANS FOR THESE RATEPAYERS TO ACCESS LOW-COST,
18 ADVANCED SERVICES. THE FAILURE OF THE PUBLIC
19 NETWORK TO ADEQUATELY MODERNIZE MAY PRECLUDE THE
20 MAJORITY OF FLORIDA RATEPAYERS FROM PARTICIPATING
21 IN TELECOMMUNICATIONS ADVANCES THAT THE
22 "INFORMATION AGE" IS EXPECTED TO MAKE POSSIBLE.
23
24 WHILE PRECISE NUMBERS ARE DIFFICULT TO QUANTIFY,
25 THE NTIA INFRASTRUCTURE REPORT FOUND THAT ROUGHLY

1 ONE THIRD OF ALL NETWORK INVESTMENT IN THE UNITED
2 STATES IS BEING MADE IN PRIVATE NETWORKS. MOST OF
3 THIS INVESTMENT IS MADE ON BEHALF OF HIGH VOLUME,
4 SOPHISTICATED USERS, WHILE LOWER VOLUME BUSINESS
5 AND RESIDENTIAL USERS TYPICALLY MUST DEPEND ON THE
6 PUBLIC SWITCHED NETWORK FOR SERVICE. IF SMALLER
7 USERS ARE TO BENEFIT FROM A MORE INTELLIGENT,
8 STATE-OF-THE-ART NETWORK, IT IS MY CONVICTION THAT
9 THE PUBLIC OPERATING COMPANIES, AND IN PARTICULAR,
10 SOUTHERN BELL, MUST HAVE GREATER INCENTIVES TO
11 INVEST IN IT.

12
13 MOREOVER, THE REALITY IS THAT IF SOUTHERN BELL IS
14 PRECLUDED IN FLORIDA FROM EARNING A REASONABLE
15 PROFIT ON ITS INVESTMENTS IN NEW SERVICES OR THE
16 INFRASTRUCTURE, ITS OBLIGATIONS TO ITS SHAREHOLDERS
17 MAY COMPEL IT TO INVEST ITS DISCRETIONARY FUNDS IN
18 OTHER JURISDICTIONS WHERE SUCH EARNINGS ARE MADE
19 POSSIBLE.

20
21 THE FACT OF THE MATTER IS THAT TODAY EVERY MAJOR
22 AMERICAN CORPORATION'S DECISION ON HOW TO INVEST
23 ITS PROFITS IS BEING MADE IN A GLOBAL CONTEXT. FOR
24 EXAMPLE, FIDUCIARY DUTY TO SHAREHOLDERS DEMANDS
25 THAT A COMPANY ANALYZE WHETHER TO INVEST PROFITS IN

1 NEXT GENERATION FIBER OPTICS TO THE CURB IN FLORIDA
2 VERSUS THE PRIVATIZATION OF A TELEPHONE COMPANY IN
3 CENTRAL AND SOUTH AMERICA OR A CELLULAR OPPORTUNITY
4 IN THE UNITED STATES OR ABROAD. THE OPPORTUNITY TO
5 COMPETE FOR A FAIR RETURN ON THE INVESTMENT IS THE
6 DECISIVE FACTOR, DEPENDENT UPON THE ABILITY TO
7 RECOVER COSTS AND ON THE ABILITY TO INTRODUCE
8 COMPETITIVE SERVICES ON A COMPETITIVE PRICING
9 BASIS.

10

11 FOREIGN COUNTRIES WARMLY WELCOME SUCH INVESTMENTS.
12 IN A RECENT WALL STREET JOURNAL ARTICLE, IT WAS
13 ESTIMATED THAT APPROXIMATELY \$110 BILLION OF
14 INVESTMENT IS NEEDED MERELY TO MEET THE WAITING
15 LIST DEMAND FOR GLOBAL TELEPHONE LINES.

16

17 A POLICY TO SUPPORT INVESTMENT WITHIN THE STATE
18 WOULD APPEAR TO BE IN KEEPING WITH THE FLORIDA
19 STATUTE ON ALTERNATIVE REGULATION. AS THE PUBLIC
20 SERVICE COMMISSION IS WELL AWARE, THIS STATUTE
21 EXPRESSES THE WILL OF THE FLORIDA LEGISLATURE TO
22 "ENCOURAGE LOCAL EXCHANGE TELECOMMUNICATIONS
23 COMPANIES TO INTRODUCE NEW TELECOMMUNICATIONS
24 SERVICES IN A TIMELY AND COST-EFFECTIVE MANNER."

25

1 4. PROMOTES ECONOMIC DEVELOPMENT

2

3 Q. ARE THERE INTERNATIONAL EXAMPLES OF THE IMPORTANCE
4 OF TELECOMMUNICATIONS INFRASTRUCTURE INVESTMENT?

5

6 A. YES. NATIONS THROUGHOUT BOTH THE INDUSTRIALIZED
7 WORLD AND THE DEVELOPING WORLD INCREASINGLY ARE
8 COMING TO APPRECIATE THE IMPORTANCE OF
9 TELECOMMUNICATIONS INFRASTRUCTURE DEVELOPMENT FOR
10 THEIR OVERALL ECONOMIC DEVELOPMENT. THESE
11 COUNTRIES HAVE MADE IT A PRIORITY TO CREATE
12 INVESTMENT CLIMATES THAT FACILITATE AND ENCOURAGE
13 THE MODERNIZATION OF THEIR PUBLIC
14 TELECOMMUNICATIONS INFRASTRUCTURES. IN MANY CASES,
15 THESE INVESTMENT STRATEGIES HAVE INVOLVED
16 REGULATORY LIBERALIZATION. SUCH INITIATIVE IS IN
17 PART RESPONSIBLE FOR THE INCREASE IN TOTAL U.S.
18 CORPORATE DIRECT INVESTMENT IN LATIN AMERICA, WHICH
19 AMOUNTED TO \$50 BILLION IN 1991.

20

21 FOR EXAMPLE, DEVELOPING COUNTRIES SUCH AS
22 ARGENTINA, CHILE, MEXICO, AND VENEZUELA HAVE
23 RECOGNIZED THAT A MODERN TELECOMMUNICATIONS
24 INFRASTRUCTURE IS CRUCIAL FOR THE DEVELOPMENT OF
25 THEIR NATIONAL ECONOMIES. AS THEIR ECONOMIES HAVE

1 GROWN, SO HAS THE LEVEL OF DEMAND ON THE TELEPHONE
2 NETWORK. GIVEN THESE COUNTRIES' RELATIVELY SCARCE
3 RESOURCES, THEIR GOVERNMENTS PRIVATIZED
4 TELECOMMUNICATIONS OPERATIONS TO ATTRACT PRIVATE
5 SECTOR, AND OFTEN FOREIGN BUSINESS, CAPITAL
6 INVESTMENT IN THEIR TELECOMMUNICATIONS
7 INFRASTRUCTURES. MEXICO'S PRIVATIZATION OF ITS
8 TELECOMMUNICATIONS SECTOR INVOLVES THE ANNUAL
9 CONTRIBUTION OF OVER \$2.5 BILLION BY A PRIVATE
10 INVESTMENT CONSORTIUM TO EXPAND THE NETWORK OF
11 TELEFONOS DE MEXICO, S.A. AND TO IMPROVE SERVICE.

12
13 IN ADDITION, DEREGULATION OF MANY ASPECTS OF
14 TELECOMMUNICATIONS SERVICE WAS MANDATED IN THESE
15 COUNTRIES, AGAIN TO ENCOURAGE DEVELOPMENT OF
16 ADVANCED TELECOMMUNICATIONS SERVICES SUCH AS DATA
17 AND CELLULAR OFFERINGS. WHILE ESTABLISHED
18 TELEPHONE COMPANIES IN THESE NATIONS CONTINUE TO
19 FOCUS ON THE PROVISION OF BASIC SERVICE, THEY ARE
20 ALSO STRIVING TO COMPETE FOR BUSINESS
21 COMMUNICATIONS SERVICES. CHILE, FOR EXAMPLE, WHICH
22 INTRODUCED COMPETITION AND PRIVATIZED ITS CARRIERS
23 IN THE MID-1980S, HAS DEVELOPED AN IMPROVED
24 NETWORK, AND TODAY THE ESTABLISHED LOCAL AND LONG
25 DISTANCE COMPANIES IN CHILE ARE MOVING INTO THE

1 DATA MARKET. VENEZUELA IS EXPERIENCING A SURGE IN
2 THE USE OF CELLULAR SERVICES SINCE THE CREATION OF
3 TWO CELLULAR COMPANIES, ONE WIRELINE AND THE OTHER
4 NON-WIRELINE, WITH TOTAL SUBSCRIBERSHIP OF OVER
5 36,000. THE TELECOMMUNICATIONS AUTHORITIES IN
6 BRAZIL HAVE PLANNED TO INSTALL 28.5 MILLION NEW
7 PHONE LINES BY YEAR 2000 AT AN ANNUAL COST OF \$6
8 BILLION. TO ACCOMPLISH THIS AND OTHER GOALS, THE
9 GOVERNMENT PHONE COMPANY, TELEBRAS, HAS ALLOWED
10 PRIVATE NETWORKS TO CONNECT WITH THE PUBLIC
11 SWITCHED NETWORK, AND IN LATE 1992 IT WILL OPEN THE
12 TELECOMMUNICATIONS EQUIPMENT AND SERVICES MARKET TO
13 COMPETITION.

14
15 ANOTHER EXAMPLE OF REGULATORY LIBERALIZATION CAN BE
16 SEEN IN AUSTRALIA. THE AUSTRALIAN GOVERNMENT
17 RECENTLY ENACTED ITS TELECOMMUNICATIONS ACT OF 1991
18 WHEREIN DOMINANT AND NON-DOMINANT CARRIERS ALIKE
19 ARE PERMITTED WIDE PRICING FLEXIBILITY. SECTION
20 185 OF THE ACT PERMITS PRICING ON AN INDIVIDUAL
21 BASIS IF "REASONABLE ALLOWANCES FOR DIFFERENCES IN
22 THE COSTS OR LIKELY COSTS OF SUPPLYING SERVICES"
23 CAN BE SUBSTANTIATED.

24
25 WHEN CLOSE GOVERNMENT AND INDUSTRY COOPERATION

1 TAKES PLACE, COUNTRIES SUCH AS JAPAN ARE ABLE TO
2 MAINTAIN AMBITIOUS LEVELS OF NATIONAL ECONOMIC
3 DEVELOPMENT. EFFORTS TO TRANSFORM JAPAN INTO THE
4 FOREMOST "INFORMATION AGE" SOCIETY IN THE GLOBAL
5 ECONOMY ARE AN INTEGRAL PART OF ITS LONG TERM
6 ECONOMIC DEVELOPMENT PLANNING. THIS EFFORT HAS
7 FOCUSED ON ITS INFORMATION NETWORK SYSTEM PROGRAM,
8 WHICH IS AN AMBITIOUS LONG-TERM MODERNIZATION
9 STRATEGY FOR JAPAN'S TELECOMMUNICATIONS NETWORK
10 INVOLVING THE DEPLOYMENT OF DIGITAL SWITCHES, FIBER
11 OPTIC TRUNKS AND ENHANCED SERVICES NATIONWIDE. AS
12 PART OF THAT PROGRAM, THE PRINCIPAL JAPANESE
13 SERVICE PROVIDER, NTT, HAS BEGUN A 25-YEAR PROGRAM
14 NAMED "OFL-21" - OPTICAL FIBER LOOP FOR THE 21ST
15 CENTURY - TO BUILD A COMPLETE BROADBAND NETWORK BY
16 THE YEAR 2015.

17

18 Q. WHY IS INVESTMENT IN TELECOMMUNICATIONS
19 INFRASTRUCTURE IMPORTANT TO FLORIDA?

20

21 A. AS FLORIDA IS COMPELLED TO COMPETE WITH OTHER
22 STATES AS WELL AS WITH OTHER COUNTRIES FOR GENERAL
23 ECONOMIC INVESTMENT, IT WILL BE INCREASINGLY WELL
24 SERVED TO TAKE STEPS, SUCH AS ADOPTING SOUTHERN
25 BELL'S PROPOSED PRICING REGULATION, THAT WILL

1 ENCOURAGE INTENSIVE INFRASTRUCTURE INVESTMENTS.
2
3 FLORIDA WILL INCREASINGLY FIND ITSELF COMPETING
4 WITHIN A GLOBAL MARKET. SINCE 1990, THE U.S. HAS
5 INITIATED AND GUIDED DIPLOMATIC EFFORTS TO
6 GRADUALLY DRAW THE U.S. AND LATIN AMERICAN
7 ECONOMIES INTO A HEMISPHERIC FREE MARKET ZONE IN
8 THE TRADE OF GOODS AND SERVICES. THIS MARKET IS
9 EXPECTED TO CREATE THE DEMAND FOR THE SERVICES OF
10 INFORMATION-INTENSIVE BUSINESS, AND BY EXTENSION,
11 THE NEED FOR A MODERN TELECOMMUNICATIONS
12 INFRASTRUCTURE THAT CAN ACCOMMODATE THIS BUSINESS.
13
14 FOR EXAMPLE, THE U.S. HAS ALREADY RATIFIED A FREE
15 TRADE AGREEMENT WITH CANADA AND IS CURRENTLY
16 NEGOTIATING A FREE TRADE AGREEMENT WITH MEXICO.
17 THE U.S., MEXICO AND CANADA ARE EXPECTED TO ENTER
18 INTO A NORTH AMERICAN FREE TRADE AGREEMENT ON A
19 RELATIVELY FAST TRACK, THE CULMINATION OF WHICH
20 WILL BE AN INTEGRATED MARKET ENCOMPASSING OVER 360
21 MILLION CONSUMERS WITH A TOTAL OUTPUT OF \$6
22 TRILLION. THIS, COUPLED WITH THE FACT THAT MANY
23 LATIN AMERICAN NATIONS ARE LIBERALIZING THEIR
24 TRADING REGIMES AND TYING THEMSELVES CLOSER
25 TOGETHER IN FREE TRADE PACTS, SUCH AS THE

1 FOUR-NATION SOUTHERN COMMON MARKET (MERCOSUR) MADE
2 UP OF ARGENTINA, BRAZIL, PARAGUAY AND URUGUAY,
3 POINTS TO THE GROWING REGIONALIZATION OF THIS
4 HEMISPHERE'S ECONOMIES. IT IS EXPECTED THAT THIS
5 TREND WILL LEAD TO A STRONG KNITTING TOGETHER OF
6 THE REGION'S TELECOMMUNICATIONS NETWORKS. INDEED,
7 THE AGREEMENT'S TELECOMMUNICATIONS SERVICES
8 PROVISIONS ARE EXPECTED TO BE ONE OF THE
9 CORNERSTONES OF THE U.S./MEXICO/CANADA FREE TRADE
10 AGREEMENT, BECAUSE EACH OF THE THREE PARTIES VIEW
11 ADVANCED TELECOMMUNICATIONS NETWORKS AS ONE OF THE
12 MAIN WAYS TO ACCOMPLISH THE PULLING TOGETHER OF A
13 HEMISPHERIC MARKET.
14
15 WITH PRICE REGULATION AND A STATE-OF-THE-ART,
16 EFFICIENTLY PRICED NETWORK IN PLACE, FLORIDA CAN BE
17 THE FOCAL POINT OF OUR HEMISPHERIC INFORMATION AGE
18 MARKETPLACE. EVEN IN THE FACE OF THE RECENT
19 WORLDWIDE ECONOMIC RECESSION, THE ECONOMIES OF
20 CENTRAL AND SOUTH AMERICA HAVE GROWN ROUGHLY THREE
21 TO FIVE PERCENT YEARLY SINCE ECONOMIC REFORMS WERE
22 BEGUN. THIS TREND IS EXPECTED TO CONTINUE AND
23 ALLOW FLORIDA TO POSITION ITSELF TO BE AN IMPORTANT
24 BENEFICIARY. HOWEVER, SHOULD THIS TREND BE
25 IGNORED, THEN FLORIDA COULD BE BYPASSED AS A FOCAL

1 POINT IN THE GLOBAL MARKETPLACE.

2

3 THIS TREND OF OVERALL REGIONAL INTEGRATION COUPLED
4 WITH TELEPHONE NETWORK INTEGRATION IS ALREADY WELL
5 UNDERWAY IN EUROPE. HERE THE MOVEMENT TOWARDS A
6 SINGLE MARKET HAS INTENSIFIED THE DEMAND FOR
7 CROSS-BORDER TELECOMMUNICATIONS SERVICES, AND,
8 CONSEQUENTLY, HAS EMPHASIZED THE IMPORTANCE OF A
9 ROBUST TELECOMMUNICATIONS INFRASTRUCTURE. THE
10 COMMISSION OF THE EUROPEAN COMMUNITY (CEC), WHICH
11 DEVELOPS AND IMPLEMENTS POLICY TO INTEGRATE THE EC
12 MARKET FOR TELECOMMUNICATIONS SERVICES AND
13 EQUIPMENT, IS MOVING AHEAD WITH MAJOR IMPLEMENTING
14 MEASURES. THESE MEASURES, SUCH AS THE CONDITIONS
15 OF ACCESS TO ISDN AND TO THE PUBLIC SWITCHED
16 TELEPHONE NETWORK, ARE INTENDED TO PROVIDE THE
17 BASIS FOR A STRONG EC-WIDE TELECOMMUNICATIONS
18 SERVICES SECTOR BASED ON THE INTEGRATION AND USE OF
19 THE VARIOUS EUROPEAN ADMINISTRATIONS'
20 INFRASTRUCTURES.

21

22 THIS ENVIRONMENT OF REGIONALIZATION AND TRADE
23 LIBERALIZATION CREATES AN ATTRACTIVE ATMOSPHERE FOR
24 THE DEVELOPMENT OF HUBS -- ADVANCED
25 TELECOMMUNICATIONS INFRASTRUCTURES DESIGNED TO

1 CONCENTRATE THE FLOW OF INFORMATION. LOCALES THAT
2 SERVE AS TELECOMMUNICATIONS HUBS ARE BETTER
3 POSITIONED TO ATTRACT INVESTMENT AND BUSINESSES TO
4 OTHER SECTORS OF THE ECONOMY AND TO BENEFIT FROM
5 THE INCREASED EMPLOYMENT THAT IS RELATED TO
6 TELECOMMUNICATIONS AND INFORMATION-BASED
7 INDUSTRIES. ONE NEED ONLY LOOK AT CITIES SUCH AS
8 NEW YORK, TOKYO AND LONDON, WHERE REGULATORS HAVE
9 MADE IT A PRIORITY TO SUPPORT A VIBRANT,
10 FEATURE-RICH TELECOMMUNICATIONS INFRASTRUCTURE,
11 AMONG OTHER THINGS, TO ENSURE THE CONTINUED
12 STRENGTH OF THESE CITIES AS FINANCIAL HUBS.
13
14 SIMILARLY, IN TORONTO, CANADA, BELL CANADA PROVIDED
15 THE PUBLIC SWITCHED NETWORK TECHNOLOGY TO ENABLE
16 THE ROYAL BANK IN TORONTO TO OBTAIN THE CONTRACT TO
17 PROCESS ALL VISA AND MASTERCARD TRANSACTIONS BY
18 AMERICANS IN EUROPE. THE ROYAL BANK EMPLOYS SOME
19 3,000 PEOPLE IN THIS OPERATION ALONE.
20
21 SINGAPORE IS AN OFTEN CITED EXAMPLE OF A CITY-STATE
22 THAT, BY PROVIDING A MODERN TELECOMMUNICATIONS
23 INFRASTRUCTURE AND RELATED SERVICES AND A
24 COMPETITIVE INTERNATIONAL RATE STRUCTURE, HAS
25 ATTRACTED INCREASED INTERNATIONAL

1 TELECOMMUNICATIONS TRAFFIC AND HAS CAPTURED THE
2 REVENUES, PROFITS, AND OTHER BENEFITS ASSOCIATED
3 WITH THE EXPORT OF SWITCHING AND TRANSMISSION.
4 THESE BENEFITS ARE DISTRIBUTED BACK INTO THE PUBLIC
5 NETWORK TO THE ADVANTAGE OF SINGAPOREANS.

6

7 Q. HOW DO THESE TRENDS IMPACT THE STATE OF FLORIDA?

8

9 A. THROUGH A VARIETY OF DEMOGRAPHIC AND ECONOMIC
10 FACTORS, MANY FLORIDA CITIES ARE WELL-SITUATED TO
11 BECOME OVERALL ECONOMIC AND, MORE SPECIFICALLY,
12 TELECOMMUNICATIONS HUBS. PERHAPS THE MOST
13 OUTSTANDING EXAMPLE IS MIAMI. THE TREND DESCRIBED
14 ABOVE TOWARD POLITICAL AND ECONOMIC INTEGRATION OF
15 THIS HEMISPHERE MAKES MIAMI AN EXCELLENT CANDIDATE
16 TO SERVE AS THE PRIME NORTH-SOUTH BUSINESS HUB.
17 MIAMI CURRENTLY SERVES AS A MAJOR CENTER FOR
18 BUSINESS, FINANCE AND TOURISM IN THE SOUTHEASTERN
19 UNITED STATES AND WITH LATIN AMERICA AND THE
20 CARIBBEAN BASIN. IN 1990, A TOTAL OF MORE THAN
21 \$17.5 BILLION IN GOODS PASSED THROUGH THE MIAMI
22 CUSTOMS DISTRICT. THIS TOTAL INCLUDED \$10.5
23 BILLION WORTH OF FLORIDA PRODUCED GOODS THAT WERE
24 EXPORTED FROM THE DISTRICT, REPRESENTING MORE THAN
25 70 PERCENT OF THE STATE'S TOTAL EXPORTS. AND, IN

1 1991, PASSENGER TRAFFIC AT MIAMI INTERNATIONAL
2 AIRPORT ROSE 2.9% TO 26.6 MILLION PASSENGERS -- A
3 POSITIVE TREND IN CONTRAST WITH THE REST OF THE
4 NATION. FURTHERMORE, THIS AIRPORT RANKS SECOND IN
5 THE U.S. AND FIFTH IN THE WORLD FOR INTERNATIONAL
6 CARGO. THE PORT OF MIAMI, CONSIDERED THE WORLD'S
7 CRUISE SHIP CAPITAL, SAW ITS NUMBER OF PASSENGERS
8 INCREASE 11%. THESE FACTS INDICATE THAT A MAJOR
9 TREND TOWARD HUBBING IS ALREADY UNDERWAY IN THE
10 GREATER MIAMI AREA.

11
12 ADVANCED TELECOMMUNICATIONS INFRASTRUCTURE CAN
13 SUBSTANTIALLY CONTRIBUTE TO AND MAINTAIN THIS
14 HUBBING TREND, AS THE CASES OF TOKYO, LONDON, NEW
15 YORK, TORONTO AND SINGAPORE SUGGEST.

16
17 MIAMI IS IDEALLY SITUATED TO ACT AS THE TRANSIT
18 POINT FOR TELECOMMUNICATIONS TRAFFIC FROM THE U.S.
19 TO LATIN AMERICA AND THE CARIBBEAN BASIN, AS WELL
20 AS BETWEEN EUROPE AND LATIN AMERICA/CARIBBEAN
21 BASIN. IN PARTICULAR, MIAMI IS POSITIONED TO
22 BENEFIT SHOULD POSITIVE POLITICAL AND ECONOMIC
23 CHANGE TAKE PLACE IN CUBA. AT A MINIMUM, SUCH
24 CHANGE IN CUBA IS LIKELY TO SIGNIFICANTLY INCREASE
25 TELEPHONE TRAFFIC BETWEEN CUBA AND SOUTHERN

1 FLORIDA. FURTHERMORE, SUCH CHANGE COULD ENHANCE
2 MIAMI'S STRENGTH AS A CARIBBEAN ECONOMIC HUB.
3
4 MIAMI'S BUSINESS COMMUNITY INCLUDES 40 FOREIGN
5 BANKS AND 17 EDGE ACT BANKS, DEALING SPECIFICALLY
6 WITH INTERNATIONAL-TRADE-RELATED ACTIVITIES.
7 MOREOVER, AS A MAJOR FINANCIAL CENTER LINKED TO
8 LATIN AMERICA, THE COMPETITIVENESS OF MIAMI'S
9 BANKING AND OTHER BUSINESSES WOULD BE ENHANCED BY
10 HAVING ACCESS TO A ROBUST, STATE-OF-THE-ART
11 TELECOMMUNICATIONS INFRASTRUCTURE.
12 DEMOGRAPHIC DATA ALSO POINT TO A TREND TOWARD
13 INTERNATIONALIZATION OF THE MIAMI AREA. ALMOST 50
14 PERCENT OF MIAMI/DADE COUNTY'S POPULATION IS OF
15 HISPANIC ORIGIN. MUCH OF THIS POPULATION IS
16 BILINGUAL, ANOTHER IMPORTANT CHARACTERISTIC OF ANY
17 CITY/STATE THAT ASPIRES TO BECOME THE CONNECTING
18 POINT FOR THE MULTIPLE SOCIETIES OF THIS
19 HEMISPHERE.
20
21 LIKewise, THE TOURISM-RELATED BUSINESS OF THIS
22 PRIME VACATION DESTINATION MUST BE ABLE TO ACCESS
23 INCREASINGLY SOPHISTICATED TELECOMMUNICATIONS AND
24 DATA SERVICES ASSOCIATED WITH AIR TRAVEL, CAR
25 RENTAL AND HOTEL RESERVATION REQUIREMENTS.

1 BUT MIAMI AND, INDEED, ALL OF FLORIDA, ARE NOT
2 IMMUNE TO COMPETITION FOR INFORMATION-INTENSIVE
3 SERVICES PROVISION. THERE ARE NUMEROUS OTHER
4 UNITED STATES CITIES THAT ARE POSITIONING
5 THEMSELVES AS REGIONAL HUBS, SUCH AS DALLAS AND
6 HOUSTON, TEXAS, AND LOS ANGELES, CALIFORNIA. AS
7 DISCUSSED ABOVE, OTHER COUNTRIES IN OUR HEMISPHERE,
8 SUCH AS MEXICO, ARE INVESTING MASSIVE AMOUNTS OF
9 CAPITAL IN THEIR INFRASTRUCTURES IN THE HOPES OF
10 ATTRACTING INFORMATION-INTENSIVE BUSINESS AND
11 INDUSTRY.

12
13 IN PUERTO RICO, TELEPHONICA OF SPAIN AND THE PUERTO
14 RICO LONG DISTANCE CARRIER, TELEFONICA LARGA
15 DISTANCIA (TLD), ARE SEEKING THE ABILITY TO COMPETE
16 WITH MIAMI AS A TRANSIT HUB FOR TRAFFIC BETWEEN
17 EUROPE AND LATIN AMERICA AND THE CARIBBEAN BASIN.

18
19 THE INTERNATIONALIZATION OF ECONOMIC ACTIVITIES
20 REQUIRES THAT MIAMI, OR OTHER POPULATION CENTERS
21 SUCH AS ORLANDO AND TAMPA, MAKE CERTAIN THAT
22 ADVANCED, COMPETITIVE TELECOMMUNICATIONS SERVICES
23 ARE AVAILABLE TO THOSE FIRMS ALREADY LOCATED IN
24 FLORIDA, AND TO THOSE FIRMS CONSIDERING EXPANDING
25 OPERATIONS INTO FLORIDA. REGULATIONS THAT RESTRICT

1 COMMUNICATIONS INNOVATIONS AND THAT CREATE PRICING
2 DISINCENTIVES FOR USING TELECOMMUNICATIONS WILL
3 INEVITABLY ENDANGER THOSE COMMUNITIES' ECONOMIC
4 DEVELOPMENT. REGULATIONS THAT FOSTER DEVELOPMENT
5 OF THE TELECOMMUNICATIONS INFRASTRUCTURE "WILL
6 CONTRIBUTE TO THE ECONOMIC WELL-BEING OF THE
7 STATE," AS REQUIRED BY THE FLORIDA GOVERNING
8 STATUTE.

9

10 D. SUMMARY

11

12 Q. DO YOU HAVE A SUMMARY OF YOUR TESTIMONY?

13

14 A. YES. TRENDS WITHIN THE STATE OF FLORIDA AND WITHIN
15 STATES THROUGHOUT THE COUNTRY ALL POINT TO THE
16 RAPID GROWTH OF FURTHER INTRASTATE COMPETITION.
17 THOSE TRENDS LIKELY WILL INCREASE, FUELED BY
18 TECHNOLOGICAL ALTERNATIVES, ECONOMIC INCENTIVES,
19 STATES' PROMOTION OF NEW ENTRY, AND THE FCC'S
20 ONGOING COMMITMENT TO BROADENING THE SCOPE OF
21 COMPETITION, INCLUDING EXPANDED LOCAL EXCHANGE
22 INTERCONNECTION OF INTERSTATE SERVICES.

23

24 IN ORDER TO ENSURE THAT COMPETITION DEVELOPS ON A
25 FAIR BASIS, SOUTHERN BELL MUST BE GIVEN PRICING

1 FLEXIBILITY AND THE ABILITY TO RESPOND TO
2 COMPETITIVE CHALLENGE. COMPETITION BRINGS MANY
3 BENEFITS TO A MARKETPLACE. HOWEVER, SMALL
4 BUSINESSES AND RESIDENTIAL USERS WILL LIKELY
5 CONTINUE TO RELY ON THE PUBLIC SWITCHED NETWORK FOR
6 MOST OF THEIR SERVICE IN THE FORESEEABLE FUTURE.
7 SOUTHERN BELL MUST RECEIVE ADEQUATE INCENTIVES TO
8 INVEST IN AN INTELLIGENT, TECHNOLOGICALLY
9 UP-TO-DATE NETWORK IN ORDER THAT THE BENEFITS OF
10 THE "INFORMATION AGE" CAN REACH THE MAJORITY OF
11 THESE SMALLER CUSTOMERS WITHIN THE STATE OF
12 FLORIDA. IMPORTANTLY, IT WILL ALSO ENHANCE
13 SOUTHERN BELL'S ABILITY TO CONTINUE TO SERVE ITS
14 LARGER CUSTOMERS, WHICH WILL ENABLE SOUTHERN BELL
15 TO CONTINUE TO SUPPORT ITS UNIVERSAL SERVICE
16 OBLIGATIONS AND TO PROVIDE GREATER FUNCTIONALITY IN
17 THE NETWORK.

18
19 IN THE NTIA REPORT, U.S. TELECOMMUNICATIONS IN A
20 GLOBAL ECONOMY: COMPETITIVENESS AT A CROSSROADS,
21 WE CONCLUDED THAT IN TELECOMMUNICATIONS, AS IN
22 SEVERAL OTHER KEY INDUSTRIES, "[G]LOBALIZATION IS
23 THE PREVAILING MARKETPLACE REALITY." RAPID
24 PROGRESS TOWARD A HEMISPHERIC TRADING ZONE IS
25 UNDERWAY. AMONG THE KEY OBJECTIVES OF THE

1 U.S./MEXICO/CANADA FREE TRADE AGREEMENT WILL BE A
2 STRENGTHENING OF THE REGION'S TELECOMMUNICATIONS
3 SYSTEMS.

4
5 THE STATE OF FLORIDA IS VERY WELL POSITIONED TO
6 SERVE AS A HUB OF THE REGIONAL TRADING AREA. A
7 STATE-OF-THE-ART TELECOMMUNICATIONS INFRASTRUCTURE
8 WILL SUPPORT THIS IN TWO WAYS. THE STATE OF
9 FLORIDA CAN BECOME AN EVEN MORE IMPORTANT CENTER
10 FOR TELECOMMUNICATIONS TRANSIT AND
11 INFORMATION-BASED INDUSTRIES. FURTHERMORE,
12 TELECOMMUNICATIONS WILL SERVE AS ONE KEY POSITIVE
13 FACTOR, TOGETHER WITH SHIPPING AND AIR TRANSPORT,
14 BANKING, TOURISM, A BILINGUAL POPULATION, AND
15 GEOGRAPHY, IN ENSURING THAT THE STATE IS THE NERVE
16 CENTER OF THE EMERGING HEMISPHERIC ECONOMY.

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