

# ORIGINAL

**BellSouth Long Distance, Inc.**  
400 Perimeter Center  
Suite 400, North Terraces  
Atlanta, GA 30346

harris.anthony@bellsouth.com

**Harris R. Anthony**  
Vice President  
and General Counsel

770 352 3116  
Fax 770 352 3332

November 19, 2003

Via Federal Express  
Mrs. Blanca S. Bayó  
Director, Division of the Commission Clerk  
and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

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**Re: Docket No. 030869-TP: Petition by BellSouth Telecommunications, Inc. to Reduce its Network Access Charges Applicable to Intrastate Long Distance in a Revenue-Neutral manner**

**Docket No. 030867-TP: 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. 030868-TP: 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. 030961-TI: Flow-through of LEC Switched Access Reductions by IXC's, Pursuant to Section 364.163(2), Florida Statutes**

Dear Ms. Bayó:

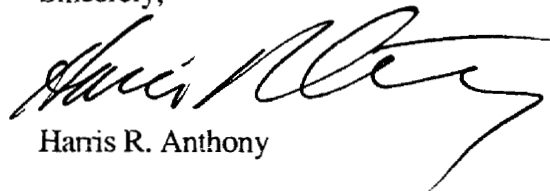
Enclosed is an original and fifteen copies of BellSouth Long Distance, Inc.'s Direct Testimony of Dirk S. Henson, which we ask that you file in the captioned dockets.

A copy of this letter is enclosed. Please mark it to indicate that the original was filed and return the copy to me. Copies have been served to the parties shown on the attached Certificate of Service.

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Sincerely,



Harris R. Anthony

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cc: All Parties of Record

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF  
THE PETITIONS OF VERIZON FLORIDA, INC.,  
BELLSOUTH TELECOMMUNICATIONS, INC. AND SPRINT FLORIDA, INC.  
TO REFORM THEIR INTRASTATE NETWORK ACCESS  
AND BASIC LOCAL TELECOMMUNICATIONS RATES  
IN ACCORDANCE WITH FLORIDA STATUTES, SECTION 364.164, AND  
FLOW-THROUGH OF LEC SWITCHED ACCESS REDUCTIONS BY IXC's,  
PURSUANT TO SECTION 364.163(2), FLORIDA STATUTES**

**DOCKET NOS. 030867-TL, 030868-TL, 030869-TL, 030961-TI**

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**DIRECT TESTIMONY OF**

**DIRK S. HENSON**

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**ON BEHALF OF**

**BELLSOUTH LONG DISTANCE, INC.**

**NOVEMBER 19, 2003**

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BELLSOUTH LONG DISTANCE, INC.

DIRECT TESTIMONY OF DIRK S. HENSON

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NOS. 030867-TL, 030868-TL, 030869-TL, AND 030961-TI

NOVEMBER 19, 2003

**Q. PLEASE STATE YOUR NAME, YOUR EMPLOYER AND YOUR BUSINESS ADDRESS.**

A. Dirk S. Henson – Senior Director of Marketing and Product Development for BellSouth Long Distance, Inc., 400 Perimeter Center Terrace, Suite 350, Atlanta, GA 30346.

**Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE IN TELECOMMUNICATIONS.**

A. I graduated with a Bachelor of Science Management degree from Louisiana State University in 1980. Thereafter, I attended Boston University in London, England.

After graduating from college, I was employed by AT&T Corporation in the United States, Europe, and Middle East. My assignments included responsibilities related to business markets, consumer markets, CPE, Value-Added Network services, as well as strategy/business development. I was employed by BellSouth Long Distance in 1996. My current responsibilities include the development of long distance marketing strategies, channel management and products, and offers for the Consumer and Small

1 Business markets of BellSouth Long Distance. In this role, I analyze customer and  
2 market trends to develop marketing strategies. These strategies are used to develop  
3 offers and new services.  
4

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. My testimony provides responses to the additional issues raised as a result of the  
7 consolidation of Docket Nos. 030867-TL, 030868-TL, 030869-TL, and 030961-TI.  
8 BellSouth Long Distance, as an intrastate interexchange telecommunications carrier  
9 operating in the state of Florida and as a potential recipient of access charge reductions,  
10 believes it appropriate to provide its positions on the issues in this docket that relate to  
11 such carriers.  
12

13 **Q. PLEASE STATE THE REQUIREMENTS OF THE TELE-COMPETITION ACT**  
14 **AS IT RELATES TO INTRASTATE INTEREXCHANGE CARRIERS SUCH AS**  
15 **BELLSOUTH LONG DISTANCE AND THE FLOW-THROUGH OF ACCESS**  
16 **CHARGE REDUCTIONS.**

17 A. Section 364.163 of the Tele-Competition Act requires that "Any intrastate interexchange  
18 telecommunications company whose intrastate switched network access rate is reduced  
19 as a result of the rate adjustments made by a local exchange telecommunications  
20 company in accordance with § 364.164 shall decrease its intrastate long distance  
21 revenues by the amount necessary to return the benefits of such reduction to both its  
22 residential and business customers." In other words, each such carrier must reduce its

1 revenues in an amount equal to the access charge reduction benefit it has received and  
2 must spread these benefits between its residential and business customers.  
3

4 **Q. HOW SHOULD THE "RETURN OF BENEFITS" TO CUSTOMERS BE**  
5 **ACCOMPLISHED?**

6 A. The Tele-Competition Act states "The intrastate interexchange telecommunications  
7 company may determine the specific intrastate rates to be decreased, provided that  
8 residential and business customers benefit from the rate decreases." Florida Statute §  
9 364.163(2). Accordingly, BellSouth Long Distance will flow through the access  
10 reductions it receives to both groups of customers through the rates it chooses.  
11

12 **Q. WHICH INTEREXCHANGE CARRIERS SHOULD BE REQUIRED TO FILE**  
13 **TARIFFS TO FLOW THROUGH BELL SOUTH'S, VERIZON'S AND SPRINT-**  
14 **FLORIDA'S SWITCHED ACCESS REDUCTIONS, IF APPROVED? WHAT**  
15 **SHOULD BE INCLUDED IN SUCH FILINGS?**

16 A. BellSouth Long Distance does not take any position on the appropriate criteria for  
17 determining which interexchange carriers should be required to file tariffs to flow-  
18 through any approved BellSouth, Verizon and Sprint-Florida switched access reductions,  
19 other than to note that Section 364.163 requires that all intrastate, interexchange  
20 telecommunications carriers must flow through such reductions.  
21

1 Responsive filings should include tariffs that reduce rates and thus reflect the anticipated  
2 access charge reductions that each intrastate interexchange telecommunications company  
3 will receive. Each such carrier may also file a statement of the total revenue reduction  
4 anticipated by such company. In order for an intrastate interexchange  
5 telecommunications company's tariffs to be available for filing on a timely basis,  
6 intrastate interexchange telecommunications companies should be permitted to base their  
7 total estimated access charge reductions based on a time period in line with the same  
8 twelve-month study period used by the LECs in their petitions.  
9

10 **Q. IF THE ILEC ACCESS RATE REDUCTIONS ARE APPROVED, SHOULD THE**  
11 **INTEREXCHANGE CARRIERS BE REQUIRED TO FLOW THROUGH THE**  
12 **BENEFITS OF SUCH REDUCTIONS, VIA THEIR TARIFFS,**  
13 **SIMULTANEOUSLY WITH THE APPROVED ILEC ACCESS RATE**  
14 **REDUCTIONS?**

15 A. Intrastate interexchange telecommunications companies should file tariffs to be effective  
16 within a reasonable time after the effective date of LEC filings, not to exceed fifteen (15)  
17 days. If BellSouth, Verizon, and Sprint-Florida file for access rate reductions within a  
18 few days of each other, as was the case when they filed their amended petitions, it would  
19 be unduly burdensome to intrastate interexchange telecommunications companies and  
20 confusing to customers if the intrastate interexchange telecommunications companies  
21 were required to flow-through each of these separate reductions through separate  
22 multiple tariff filings. A more reasonable approach would be to interpret a

1 "simultaneous" effective date to mean within fifteen (15) days of the effective date of the  
2 last of the three main LECs' 2004 access charge reductions.

3  
4 **Q. IF THE INTEREXCHANGE CARRIERS RECEIVE ANY ACCESS RATE**  
5 **REDUCTIONS, HOW LONG SHOULD THE INTRASTATE INTEREXCHANGE**  
6 **TELECOMMUNICATIONS COMPANIES' REVENUE REDUCTIONS REMAIN**  
7 **IN PLACE SO THAT THE BENEFITS FLOW THROUGH TO RESIDENTIAL**  
8 **AND BUSINESS CUSTOMERS: A) FOR EACH IMPLEMENTED REDUCTION**  
9 **AND B) ONCE THE ILECS REACH PARITY?**

10 A. Given the highly competitive nature of the long distance market in Florida, there is no  
11 need for the Commission to impose a minimum period of time during which the  
12 intrastate interexchange telecommunications companies would be required to keep in  
13 place revenue reductions related to access charge reductions.

14  
15 There can be no disputing the fact that the intrastate interexchange market in Florida is  
16 fully and irrevocably open to competition. As of November 14, 2003, there are 1681  
17 certified interexchange carriers listed on the Florida Public Service Commission website  
18 [www.psc.state.fl.us/mcd/handler.cfm](http://www.psc.state.fl.us/mcd/handler.cfm). This, by itself, would render the Florida long  
19 distance market highly competitive.

20  
21 Even beyond these competitors, though, are other types of providers that also offer  
22 intrastate long distance services to both residential and business customers in Florida.

1 For example, voice over internet protocol providers such as Vonage offer long distance  
2 services in Florida at extremely competitive rates.<sup>1</sup> Wireless carriers also offer calling  
3 plans that provide long distance calls at no incremental cost to the end user.  
4

5 Since it is axiomatic that competition drives prices toward cost, once the access charges  
6 are flowed through to residential and business customers, the intense level of competition  
7 in the Florida long distance market will ensure that carriers do not thereafter raise their  
8 rates in an effort to absorb the access charge savings.  
9

10 In addition, any effort by this Commission to overlay a Commission enforced cap on  
11 prices would create serious market distortions. In a market as competitive as long  
12 distance, carriers must have the flexibility to lower or raise rates as the market dictates.  
13 A simple example will demonstrate why carriers must have such pricing flexibility. Each  
14 carrier that is required to flow through access charge reductions will decide  
15 independently of all other carriers the particular rates it will reduce. The carriers will  
16 then file, on or about the same day, their rate reductions. If Carrier 1 decides to reduce  
17 its rates for plans A, B, and C, but its major competitors have decided to lower rates on  
18 plans X, Y, and Z, Carrier 1 faces a conundrum. If offers similar to plans X, Y and Z are  
19 important parts of its mix of services, Carrier 1 can either keep its rates at their originally  
20 filed levels, and thus face competitors who have price advantages for Plans X, Y and Z,

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<sup>1</sup> Vonage, for example, advertises on its website ([www.vonage.com](http://www.vonage.com)) a "Premium Unlimited Plan for \$34.99 a month with unlimited local and long distance calling within the United States and Canada, as well as a \$24.98 plan that provides "Unlimited Local and Regional service", with 500 long distance minutes included. Minutes over 500 are only 3.9¢ per minute.



1 or it must reduce its own rates for its versions of Plans X, Y and Z. If it chooses the  
2 letter option, it must be permitted to raise its rates for Plans A, B and C back to their pre-  
3 filing levels. Otherwise, Carrier 1 would face a reduction in revenues that is twice as  
4 great as the access reductions it received. As this example shows, each carrier must have  
5 the flexibility to raise and lower rates to meet the demands of the market place. So long  
6 as, in the aggregate, the carrier has passed through the access reductions it has received,  
7 the statute's requirements have been met. Thereafter, competitive forces will ensure that  
8 these revenue reductions remain in place.

9  
10 **Q. HOW SHOULD THE INTRASTATE INTEREXCHANGE**  
11 **TELECOMMUNICATIONS COMPANIES FLOW-THROUGH OF THE**  
12 **BENEFITS FROM THE ILEC ACCESS RATE REDUCTION BE ALLOCATED**  
13 **BETWEEN RESIDENTIAL AND BUSINESS CUSTOMERS?**

14 A. Section 364.163, Florida Statutes only requires that an intrastate interexchange carrier  
15 decrease its revenues "by the amount necessary to return the benefits of such reduction to  
16 both its residential and business customers." Section 364.163(2). This statute does not  
17 specify any formula as to how to allocate such reductions, nor does it grant this  
18 Commission the authority to mandate an allocation.

19  
20 Nonetheless, under current market conditions, and assuming all carriers are also willing  
21 to do so, BellSouth Long Distance is willing to allocate its rate reductions to both  
22 residential and business customers in an approximate pro rata manner. For example, if X

1 percent of BellSouth Long Distance's access reductions turn out to be attributable to  
2 minutes of use by residential customers, BellSouth Long Distance will allocate  
3 approximately X percent<sup>2</sup> of its revenue reductions to residential customers in the  
4 aggregate. In this manner, both sets of customers will receive the benefits, in the  
5 aggregate, of their share of access reductions.

6  
7 **Q. WILL ALL RESIDENTIAL AND BUSINESS CUSTOMERS EXPERIENCE A**  
8 **REDUCTION IN THEIR LONG DISTANCE BILLS? IF NOT, WHICH**  
9 **RESIDENTIAL AND BUSINESS CUSTOMERS WILL AND WILL NOT**  
10 **EXPERIENCE A REDUCTION IN THEIR LONG DISTANCE BILLS?**

11 A: Not every customer will necessarily experience a reduction in its long distance bill.  
12 Section 364.163(2) provides to each carrier the statutory discretion to determine how it  
13 will pass through the access reductions it receives. Some companies may reduce rates on  
14 one set of plans, while others may reduce other rates. Customers will be free to select the  
15 plan that provides them with the most value. If a particular customer is on a plan that  
16 does not experience a reduction as a result of the flow through, that customer can change  
17 its plan. Indeed, if that customer prefers another carrier's plan, which may or may not  
18 have had a price reduction, it can change carriers and subscribe to that plan. Thus, every  
19 customer will have the opportunity to benefit from the rate reductions. Whether or not  
20 each customer chooses to do so, of course, is up to that customer.

21  

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<sup>2</sup> In this context "approximately" means plus or minus 10%. BellSouth Long Distance needs this flexibility since anticipating actual usage for each plan that may experience a rate reduction requires some estimation.

1 | **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 | **A. Yes.**

**CERTIFICATE OF SERVICE**  
**Docket Nos. 030867-TP, 030868, 030869-TL and 030961-TP**

I HEREBY CERTIFY that a true and correct copy of the foregoing was served via

Electronic Mail and Federal Express this 19<sup>th</sup> day of November 2003 to the following:

Beth Keating, Staff Counsel  
Felicia Banks, Staff Counsel  
Patricia Christensen, Staff Counsel  
Lee Fordham, Staff Counsel  
Florida Public Service Commission  
Division of Legal Services  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Charlie Beck  
Deputy Public Counsel  
Office of Public Counsel  
111 West Madison Street, Room 812  
Tallahassee, FL 32399-1400

Michael A. Gross  
VP Reg. Affairs & Reg. Counsel  
Florida Cable Telecomm. Assoc.  
246 East 6th Avenue  
Tallahassee, FL 32303

Richard A. Chapkis  
Verizon Florida, Inc.  
One Tampa City Center  
201 North Franklin Street (33602)  
Post Office Box 110, FLTC0007  
Tampa, Florida 33601-0110

Verizon Florida, Inc.  
Ms. Michelle A. Robinson  
106 East College Avenue, Suite 810  
Tallahassee, FL 32301-7704

Susan S. Masterton  
Charles J. Rehwinkel  
Sprint Comm. Co. LLP  
1313 Blair Stone Road (32301)  
P.O. Box 2214  
MC: FLTLHO0107  
Tallahassee, FL 32316-2214

John P. Fons  
Ausley & McMullen  
227 South Calhoun Street  
Tallahassee, FL 32301

Michael B. Twomey  
Attorney for AARP  
8903 Crawfordville Road  
Tallahassee, FL 32305

Mark Cooper  
AARP Witness  
504 Highgate Terrace  
Silver Spring, MD 20904

Floyd Self, Esq.  
Messer, Caparello & Self, P.A.  
215 South Monroe Street, Suite 701  
Tallahassee, FL 32301

Tracy W. Hatch  
AT&T Communications  
101 North Monroe Street  
Suite 700  
Tallahassee, FL 32301

De O'Roark, Esq.  
MCI WorldCom Comm., Inc.  
6 Concourse Parkway  
Suite 3200  
Atlanta, GA 30328

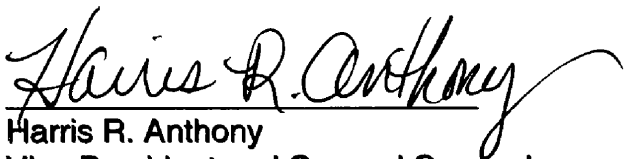
Donna McNulty, Esq.  
MCI WorldCom Comm., Inc.  
1203 Governors Square Blvd.  
Suite 201  
Tallahassee, FL 32301-2960

George Meros  
Gray, Harris & Robinson, P.A.  
301 S. Bronough St., Suite 600  
Tallahassee, FL 32301

John Feehan  
Knology, Inc.  
1241 O.G. Skinner Drive  
West Point, GA 31833

Nancy B. White  
c/o Nancy H. Sims  
BellSouth Telecommunications, Inc.  
150 South Monroe Street  
Suite 400  
Tallahassee, FL 32301

Office of the Attorney General  
Charlie Crist  
PL-01, The Capitol  
Tallahassee, FL 32399-1050

  
Harris R. Anthony  
Vice President and General Counsel  
BellSouth Long Distance, Inc.  
400 Perimeter Center Terrace  
Suite 350  
Atlanta, GA 30346  
770-352-3116