

ORIGINAL  
FILE COPY

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

**DIRECT TESTIMONY OF**

**JOSEPH P. CRESSE**

**ON BEHALF OF AT&T COMMUNICATIONS**

**OF THE SOUTHERN STATES, INC.**

**Docket No. 960847 - TP**

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

A. My name is Joseph P. Cresse. My business address is Post Office Box 1876,  
Tallahassee, Florida 32302. I am presently employed as a non-lawyer special  
consultant at Messer, Caparello, Madsen, Goldman & Metz, P.A. law firm.

**Q. PLEASE STATE YOUR BACKGROUND AND QUALIFICATIONS.**

A. Please see Exhibit JPC-1 attached to my testimony.

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

A. To suggest a basic policy approach this Commission should adopt in reviewing and  
determining the issues in this arbitration.

**Q. WHY IS THAT SIGNIFICANT?**

A. It is extremely significant because state commissions throughout this country must

DOCUMENT NUMBER-DATE  
08674 AUG 16 88  
FPSC-RECORDS/REPORTING

1 take the initiative to achieve the objectives of the Telecommunications Act of 1996  
2 (the "Act"); to promote competition so that consumers will have choices for all of  
3 their telecommunications needs. The Act envisions a competitive local services  
4 market. As we know from past experience, however, introducing competition in a  
5 monopoly market will not be easy. Without aggressive action by state commissions  
6 to encourage and stimulate competition, this endeavor will not work.

7

8 **Q. WHAT LEADS YOU TO THAT CONCLUSION?**

9

10 A. A review of the history of introducing competition in telecommunications suggests  
11 that existing monopolists, left to their own devices, will make the introduction of  
12 competition as beneficial to themselves as they possibly can. This means that the  
13 incumbent local exchange carriers ("LECs") will interpret the competition  
14 requirements of the Act as narrowly as they can in their efforts to minimize losses of  
15 local service customers. Given the inherent difficulties of breaking up a 100 year  
16 old monopoly, state commissions must be diligent in their efforts to promote local  
17 competition.

18

19 **Q. WHAT IS THE BASIS FOR YOUR OPINION?**

20

21 A. I joined the Florida Public Service Commission in 1979. Just prior to that date,  
22 consumers were permitted for the first time to provide their own phone instrument.  
23 Before this occurred, a customer was required to rent a phone from the local phone  
24 company in order to obtain phone service. After many years of litigation, and over  
25 the protestations of the local phone companies, who claimed the attachment of

1 "foreign" phones to their network would harm their networks, competition was  
2 introduced for customer premises equipment. For a while a useless "protector" was  
3 required if a "foreign" phone was used by a LEC customer. (Many of the same  
4 arguments were made when inside wire was deregulated.) Of course, as we know  
5 now, such "protectors" proved unnecessary and simply served as another costly  
6 impediment to competition.

7  
8 Prior to the introduction of competition in the long distance industry, service was  
9 provided jointly by the LECs and AT&T Long Lines. The LECs provided the  
10 connections to and from individual customers for originating and terminating long  
11 distance calls ("the last mile") and AT&T Long Lines provided the intercity  
12 transmission facilities for such calls. Because new long distance competitors also  
13 needed access to customer lines for originating and terminating long distance calls,  
14 the major issue in establishing competition was the level of access charges other  
15 long distance carriers would be required to pay LECs for such access.

16  
17 At the time, this access or interconnection between AT&T Long Lines and the LECs  
18 was of a higher quality and more convenient (requiring the dialing of fewer digits)  
19 for customers than the interconnection provided to other long distance competitors.  
20 The regulatory response to this disparity was to give a substantial discount for less  
21 than "equal access." The discount was 55% for interstate calls and 35% for intrastate  
22 calls in Florida. To accomplish equal access, it was necessary for regulators to order  
23 it. This regulatory policy provided incentives to the LECs to provide equal access to  
24 all long distance carriers as quickly as economically feasible because the discount  
25 was eliminated when equal access was provided. I believe the Commission should

1 order similar incentives to encourage compliance with the requirements set forth in  
2 the Act to bring about local exchange competition.

3

4 Also, until competition was established, regulators continued to require the  
5 dominant carrier to satisfy more stringent regulatory requirements than those  
6 imposed on new entrants for the filing of tariffs, the approval of rate changes, and  
7 the "pass through" of reductions in access charges. Regulators also required that the  
8 dominant carrier could not prohibit resale of its services. As a result, today we have  
9 both resale competition and facilities based competition in the toll business.  
10 Commission policy should embrace these same kinds of requirements to promote  
11 local exchange competition.

12

13 **Q. WHAT RESPONSE TO THE INTRODUCTION OF COMPETITION**  
14 **WOULD REQUIRE CLOSE REGULATORY SCRUTINY?**

15

16 A. Based on past actions and some current proposals, I would expect the incumbent  
17 LECs to propose opening their local networks to competition in a manner that  
18 retains for themselves all the advantages that regulators permit.

19

20 **Q. CAN YOU GIVE SOME EXAMPLES OF EXPECTED INCUMBENT LEC**  
21 **RESPONSES TO ISSUES IN THIS DOCKET?**

22

23 A. Yes.

24

25 1. I would expect incumbent LECs to attempt to minimize the discounts on

1 resale to the maximum extent possible.

2

3 2. I would expect incumbent LECs to minimize the network functions or  
4 elements they believe should be unbundled.

5

6 3. I would expect incumbent LECs to attempt to enter into long term contracts  
7 with existing customers under their Contract Service Arrangements ("CSAs")  
8 authority prior to any actual competition.

9

10 4. I would expect incumbent LECs to offer differential pricing in those areas  
11 where they have or soon expect competition, such as zone density-based access  
12 charges.

13

14 5. I would expect incumbent LECs to attempt to maximize their revenues from  
15 interconnection and other services provided to new entrants.

16

17 6. I would expect incumbent LECs to use universal service as a means to  
18 extract the highest contributions possible from their competitors.

19

20 The Commission needs to recognize each of these tactics for what they are -  
21 attempts to limit competition -- and take steps to ensure that consumers' interests  
22 and not incumbent LECs' interests are protected.

23

24 **Q. ARE THERE OTHER FACTORS THE COMMISSION SHOULD**  
25 **RECOGNIZE?**

1

2 A. Yes, at one time, under rate base regulation, protecting the LECs could be justified  
3 as protecting consumers, because any revenues lost would need to be "made up"  
4 from remaining customers. This is no longer true under the form of regulation  
5 applied to incumbent LECs like GTE. The Commission has no authority to prevent  
6 or approve rate changes. The maximum rates are established by Florida law and  
7 regulated LECs have the authority to set rates up to the maximum permitted.

8

9 Q. **PLEASE SUMMARIZE YOUR TESTIMONY.**

10

11 A. The absolute best way for this Commission to protect consumers is to promote  
12 competition in Florida to the maximum extent permitted by law through the  
13 adoption of orders and policies that increase choices for consumers.

**JOSEPH P. CRESSE**

Presently employed as a non-lawyer Special Consultant with the law firm of Messer, Caparello, Madsen, Goldman & Metz P.A. in Tallahassee, Florida; former Chairman of the Public Service Commission having served seven years on the Commission; former State Budget Director for State of Florida under Governor Reubin Askew, and former Assistant Secretary for the Department of Administration, State of Florida.

Resides in Tallahassee, Florida, with wife, Beverly; has two children; born in Indiana, and attended public schools in Frostproof, Florida; attended University of Florida - graduated in 1950 B. S. B. A. Major in Accounting; served in the U. S. Army as Staff Sergeant; member of Beta Alpha PSI Fraternity.

Career accomplishments include recipient of Florida Senate and House Resolution of Commendation; Administrator of the year in 1975; recipient of University of Florida Distinguished Alumnus Award; served on the Executive Committee of National Assn. of State Budget Officers, National Assn. of Regulatory Utility Commissioners, and President of the Southeastern Assn. of Regulatory Utility Commissioners; assisted in passage and implementation of the Career Service System, State of Florida; assisted in the implementation the Governmental Reorganization Act; implementation of program budgeting and computerizing substantial budgeting information; assisted in development of Education funding program for the State of Florida; assisted in development of financial plan to reduce appropriations to operate within available funds when revenue of the State was approximately 10% less than anticipated; assisted the Governor and Legislature during Special 1978 Legislative Session in drafting and passing legislation protecting title to state sovereign lands; served as member of the Florida Advisory Council on Intergovernmental Relations; appointed by Governor as member of the Deferred Compensation Advisory Committee and elected chairman; chaired a Task Force which developed financial and organizational plans to dismantle the Inter-American Center Authority with real estate assets of the Authority preserved for public use; appointed by Governor to state team which successfully negotiated a major settlement involving oil, gas and mineral rights on state-owned submerged lands; appointed to task force overseeing litigation, State v. Mobil Oil, Sovereign Lands; member Growth Management Committee; appointed by Governor and co-chaired Telecommunications Task Force. In 1985 received the National Governor's Association award for Distinguished Service to State Government. Retired from State Government December 1985 to assume present position with Messer, law firm. Since 1985 he has been engaged in regulatory consulting work with both utilities and non-utilities. He lectures at Indiana University once a year, and has testified before the Georgia, Florida, South Carolina and Virginia Regulatory Commissions.