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November 21, 1996

Mrs. Blanca S. Bayo
Director, Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399

RE: Docket No. 920260-TL

Dear Mrs. Bayo:

Enclosed are an original and fifteen copies of BellSouth Telecommunications, Inc.'s Brief of the Evidence. Please file these documents in the captioned docket.

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 on the parties shown on the attached Certificate of Service.

Sincerely,

Nancy B. White (BL)

Nancy B. White

Enclosures

cc: All Parties of Record
A. M. Lombardo
R. G. Beatty
W. J. Ellenberg

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Comprehensive review of the revenue requirements and rate stabilization plan of Southern Bell Telephone and Telegraph Company	Docket No. 920260-TL Filed: November 21, 1996

BELLSOUTH TELECOMMUNICATIONS, INC.

BRIEF OF THE EVIDENCE

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STATEMENT OF THE CASE

This docket was initiated pursuant to Order No. 25552 (issued December 31, 1991) to analyze and evaluate the rate stabilization Plan under which BellSouth Telecommunications, Inc. ("BellSouth") had operated since 1988. On January 5, 1994, BellSouth and the Office of Public Counsel ("OPC" or "Public Counsel") jointly filed a document entitled, Stipulation and Agreement Between The Office of Public Counsel and Southern Bell Telephone and Telegraph Company. On January 12, 1994, BellSouth filed a document entitled, Implementation Agreement for Portions of the Unspecified Rate Reductions in Stipulation and Agreement Between The Office of Public Counsel and Southern Bell Telephone and Telegraph Company. On February 11, 1994, the Florida Public Service Commission ("Commission") entered Order No. PSC-94-0172-FOF-TL, Order Approving Stipulation and Implementation Agreement. The Settlement provided for various specified and unspecified revenue reduction amounts in 1995 and 1996.

The Implementation Agreement stated that the Commission would "conduct hearings to determine the rate design by which the amounts not specifically allocated by the Stipulation and [the] Implementation Agreement shall be disposed of in ... 1996 ...." (Implementation Agreement, Par. 10, pp. 7-8). The Agreement further stated that "the PARTIES [to the Agreement] or any other interested persons shall submit, not less than 120 days prior to the scheduled effective date of each reduction, their proposals as to how such reductions should be implemented." (Implementation Agreement, Par. 4, pp. 11-12).

On May 31, 1996, BellSouth filed revisions to its General Subscribers Service Tariff, its Private Line Service Tariff, and its Access Service Tariff, to use the unspecified revenue reduction to fund the reduction in 1996 rates of various features and services. Proposals of alternative ways to allocate the 1996 million revenue reduction were filed by the Office of Public Counsel, the Florida Interexchange Carriers Association ("FIXCA")[1], Florida Cable Telecommunications Association ("FCTA"), and Palm Beach Newspapers, Inc. (PBN"). A total of twelve parties participated in this docket.

On July 26, 1996, the Prehearing Officer issued the <u>Order Establishing Procedure</u> (Order No. PSC-96-0965-PCO-TL), which set the hearing of this matter for October 30, 1996. At the hearing, the direct and rebuttal testimony of the witnesses was stipulated into the record.

This brief is submitted in accordance with the post hearing procedures of Rule 25-22.056, Florida Administrative Code. The statement of each issue is followed immediately by a summary of BellSouth's position on that issue and a discussion of the basis for that position. Each summary of BellSouth's position is labeled

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[1] FIXCA filed a Joint Proposal on behalf of its members and AT&T Telecommunications of the Southern States, Inc. ("AT&T"), MCI Telecommunications Corporation ("MCI"), Sprint Communications Company Limited Partnership ("Sprint"), Florida Ad Hoc Telecommunications Association, Inc. ("Ad Hoc"), McCaw Communications ("McCaw"), and the Department of Defense ("DOD").

accordingly and marked by an asterisk. In any instance in which BellSouth's position on several issues are similar or redundant, the discussion of these issues has been combined or cross-referenced rather than repeated.

STATEMENT OF BASIC POSITION

The Settlement reached in the above captioned matter and approved by the Commission in Order No. PSC-94-0172-FOF-TL, dated February 11, 1994, provided for an $84 million revenue reduction, to be implemented in 1996. Of that amount, $40 million is required to bring switched access charges to parity with December 1993 interstate levels. The remaining $44 million is not specifically allocated. BellSouth proposed to provide for the $44 million revenue reduction by reducing the rates of the following services:

	Annual Effect
- Switched Access	($16,400,067)
- Selected Secondary Service Charges	
- Residence	($ 3,609,180)
- Business	($ 2,203,791)
- First Line Connection Charge for Business Customers	($ 3,222,592)
- PBX monthly and term contracts	($13,451,394)
- DID Recurring	($ 987,012)
- DID Nonrecurring	($ 893,625)
- WATS and 800 Service Access Line	($ 355,721)
- Secondary Service Charge for WatsSaver (Registered Service Mark of BellSouth)	($ 301,093)
- Business Line Monthly Rates	($ 622,518)

- AREA PLUS for Business customers	($ 2,254,140)
- Usage Charge on RCF	($ 2,010,198)
- Special Number Assignment Charges for Business	($ 70,500)
- MegaLink interoffice	($ 579,192)
- DS1 interoffice	($ 39,216)
- Extended Calling Service	($ 1,096,628)

BellSouth's proposal more than satisfies the requirement for the 1996 unspecified rate reductions; in fact, BellSouth's proposal totals more than $48 million in rate reductions. It is a proposal that is in the best interest of and benefits the greatest number of ratepayers in Florida. For these reasons, BellSouth's proposal should be adopted by this Commission.

ISSUE NO. 1: Below are listed the proposals of various interested parties to this proceeding with respect to the disposition of the scheduled 1996 unspecified rate reductions. Which, if any, should be approved?

A)	**BellSouth Telecommunications, Inc.:**	**Millions**
1)	Reduce switched access (introduce zone density)	$16.40
2)	Reduce PBX rates and introduce term contracts	$13.45
3)	Waive certain business and residential Secondary Service Order charges	$ 5.81
4)	Reduce First Line Connection charge (Business)	$ 3.22
5)	Introduce Area Plus for Business	$ 2.25
6)	Eliminate usage charge on Remote Call Forwarding	$ 2.01
7)	Reduce DID recurring and non-recurring charges	$ 1.88

8)	Credit for ECS routes implemented	$ 1.10
9)	Reduce Business Line monthly rates in Rate Group 12	$ .62
10)	Reduce Megalink interoffice rates	$ .58
11)	Reduce WATS and 800 Service access line charges	$ .36
12)	Eliminate the Secondary Service Order charge for WatsSaver	$ .30
13)	Reduce SNAC charges for Business	$ .07
14)	Reduce DS-1 interoffice mileage rates	$ .04
		$48.09

B)	**Joint Proposal of AT&T, MCI, Sprint Communications, FIXCA, Ad Hoc and McCaw Communications**	**Millions**
1)	Reduce PBX and DID trunk charges	$11.00
2)	Eliminate the Residual Interconnection Charge	$35.00
3)	Reduce mobile interconnection rates	$ 2.00
		$48.00

C) **Public Counsel:**
Establish a reserve fund to assist BellSouth Telecommunications, Inc. customers who have experienced problems with conversion to the 954 NPA.

D) **FCTA:**
Eliminate or reduce nonrecurring charges for interconnection trunks and special access circuits ordered by ALECS.

E) **Palm Beach Newspapers, Inc./Florida Today:**
Reduce BellSouth's N11 service tariff so that the N11 customers pay a flat charge of one cent per minute, or the current monthly minimum, whichever is greater.

**Position No. 1(A): BellSouth's proposal to implement rate reductions for various features and services should be approved because it benefits a large number of BellSouth's Florida customers.

**<u>Position No. 1(B)</u>: The Joint Proposal should not be approved because it is speculative and benefits only a small number of consumers.

**<u>Position No. 1(C)</u>: Public Counsel's proposal should not be approved because it is unnecessary.

**<u>Position No. 1(D)</u>: FCTA's proposal should not be approved because it conveys a small benefit to a special interest group.

**<u>Position No. 1(E)</u>: PBN's proposal should not be approved because it conveys a small benefit to a special interest group.

<u>Issue No. 1(A)</u>:

BellSouth presented testimony by Mr. Alphonso Varner and Mr. Jerry Hendrix to support its proposal.[2] Mr. Varner testified that the revenue reduction associated with the implementation of BellSouth's proposal more than satisfies the revenue reduction for 1996. Mr. Varner also explained the proposal as well as the ways in which it would satisfy the expressed needs of customers. Mr. Hendrix discussed the switched access reductions included in BellSouth's proposal.

Mr. Varner testified that the Settlement in this docket calls for an $84 million reduction in 1996. (Tr. p. 47). Of that amount, $40 million is required to complete the reduction of intrastate switched access rates to the December 29, 1993 interstate levels. (Tr. p. 26). Moreover, Mr. Hendrix testified that Section 364.163(6), Florida

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[2] Mr. Varner is a Senior Director of BellSouth for Regulatory Policy and Planning. (Tr. p. 46). Mr. Hendrix is a Director for BellSouth Pricing and Regulatory Interconnection Services Marketing. (Tr. p. 34).

Statutes requires switched access rates to be reduced by 5% until parity is reached with the December 31, 1994 interstate rates. (Tr. p. 27). This reduction began on October 1, 1996. BellSouth's initial 5% reduction is satisfied with the $40 million reduction made in compliance with the Settlement. (Id.). When the reductions in switched access rates are totaled, it equals more than $147 million in benefits to interexchange carriers. (Id.).

BellSouth, however, as explained by Mr. Hendrix, went a step further for the interexchange carriers. In its proposal for the $44 million, BellSouth included $16.4 million in decreases and zone pricing of certain switched access rates. When added to the reductions already made, BellSouth has benefited interexchange carriers to the tune of $161 million over the last three years. (Tr. p. 27). In BellSouth's proposal for the $16.4 million, Mr. Hendrix testified that the Federal Communications Commission's ("FCC") Expanded Interconnection Order in Docket No. 91-141 granted greater flexibility to local exchange companies to price access to reflect traffic density. The FCC believed that this would establish an equitable framework for promoting competition. (Tr. p. 28). Consequently, BellSouth filed a zone pricing structure for switched transport that became effective in Florida on February 6, 1996. (Id.).

Mr. Hendrix described BellSouth's proposal to zone price Terminating Carrier Common Line, Local Switching and certain transport services. The zone pricing plan divides Florida into three density zones, based on the number of DS1 equivalent circuits in an exchange area. (Tr. pp. 28-29). Zone 1 is the most dense area with more than 4,000 DS1 equivalent circuits; Zone 2 has 1,000 to 4,000 DS1 equivalent circuits, and Zone 3 is the least dense area with fewer than 1,000 DS1 equivalent circuits. (Tr. p. 29).

Mr. Hendrix explained that zone pricing of these elements will allow BellSouth to strategically establish prices that meet competitive pressures in the more dense areas of Florida. A growing number of Alternative Access Vendors (AAVs) have entered the access transport market deploying fiber optic rings, microwave systems and other transport service options to service large business customers. AAVs generally target the more dense markets where their cost of providing service would justify a rate that is below the averaged rates of a local exchange company. (Tr. p. 29).

Mr. Gillan, testifying on behalf of FIXCA, claimed that switched access is invulnerable to competitive pressures. (Tr. 115). Such a statement is just plain wrong. Actions by the FCC (local transport restructure expanded interconnection and collocation), as well as by this Commission (local transport restructure and collocation) have encouraged AAVs to enter the market. (Tr. p. 42). As of 1996, there were at least 32 AAVs in Florida who are displacing switched access (both terminating and originating) and special access services. (Tr. p. 43).

BellSouth's zone-pricing proposal is attacked by FIXCA and AT&T as lacking cost justification. (Tr. pp. 122 and 156). It is true that BellSouth has not performed cost studies relating to zone pricing of switched access rate elements. Mr. Hendrix acknowledged that, while there may be cost differences in providing switched access between the urban and rural areas, BellSouth zone priced switched access based on market pressures, just as its competitors price. (Tr. p. 43). BellSouth priced switched access to reflect market conditions in the various zones, lowering switched access rates in the most competitive areas. (Tr. pp. 4-44). This is simply good business.

With the introduction of zone pricing, no switched access customer will pay rates that are higher than current effective rates. Furthermore, zone pricing will benefit not only the access customers but also the general body of ratepayers. Assuming total flow through by the Interexchange Carriers, with zone pricing, BellSouth will be better situated to compete with AAVs for high volume access customers. Prohibiting BellSouth from competing effectively could result in the loss of high volume access customers and revenue for access services which provide substantial contribution to basic service. (Tr. p. 30).

Although Mr. Gillan claims that BellSouth intends to increase switched access rates after this proceeding, Mr. Hendrix testified that he was unaware of any such plans. (Tr. p. 44). Moreover, Section 364.163, Florida Statutes mandates certain decreases in BellSouth's switched access rates. In addition, switched access rates are capped until January 1, 1999. Thus, BellSouth's proposal with regard to zone pricing should be approved by the Commission as filed.

In addition to the $16.4 million in switched access reductions, BellSouth proposed approximately $32 million in rate reductions for various features and services. The filing totaled $48 million in rate reductions, $4 million more than required by the Settlement. (Tr. p. 48). The services for the filing (including the $16.4 million in access charge reductions) were chosen to provide benefits to a broad base of Florida customers, including interexchange carriers (discussed above), large and small business customers, and residential customers. (Tr. p. 47).

Mr. Varner testified on the various remaining pieces of BellSouth's proposal. First, BellSouth proposed to waive the Secondary Service Charge when existing residence and business customers order selected services. These customers currently pay $10 and $19, respectively, for adding selected features. The waiver would apply when existing residence business customers order one or more of the following: Customer Calling services, RingMaster* (Service Mark of BellSouth Corporation) service, TouchStar* service, Prestige* Communications service, Message Waiting Indication service, Customized Code Restriction, Remote Call Forwarding, and Designer Listing. (Tr. p. 52). Mr. Varner testified that recurring rates for these services in the aggregate would cover the waiver cost. (Id). The revenue impact of the waiver totals $5.8 million. (Tr. p. 53).

Second, BellSouth proposed to reduce the first line connection charge for business customers from $56.00 to $40.00. This charge is in A4.3 of the GSST. The first line connection charge is applied per access line (including ESSX, Digital ESSX, MultiServ* and MultiServ Plus* lines), trunk, or ESSX-1 NAR basis when appropriate. This nonrecurring charge is currently $56.00 for business customers. This rate reduction will be attractive to both existing and new business customers. These customers will benefit when they order new or additional access lines, trunks, or ESSX-1 NARs. Although the proposed $40.00 charge is below the cost for business line connection, recurring business rates in aggregate would cover the lost revenues. The annual revenue impact of this proposed rate reduction is ($3.2 Million). (Tr. p. 53).

Third, BellSouth proposed to reduce PBX trunk rates in all Rate Groups and introduce Term Contracts for PBX trunks. The proposal also reduces the nonrecurring service establishment charge for Direct-In-Dialing (DID) Service and the nonrecurring and recurring charge for DID Service Trunk Terminations. Reductions in the PBX rates and the PBX Term Contracts were proposed in order to respond to customer requests for lower rates and for rate stabilization. In conjunction with the changes in PBX offerings, this filing reduces the nonrecurring service establishment charge (USOC NDZ) for Direct-In-Dialing (DID) Service from $915.00 to $55.00. The nonrecurring and recurring charges for DID Service Trunk Terminations (USOC NDT) will also be reduced, from $90.00 and $21.80 to $65.00 and $20.00, respectively. The DID rate reduction will benefit both existing and new business customers. Existing PBX trunk customers will receive the benefits of reduced trunk rates, a reduced DID trunk establishment charge and reduced DID Trunk Termination charges. In addition, PBX trunk customers will also be provided with a mechanism to further reduce and stabilize rates for up to 60 months. The revenue impact of this reduction is $15.4 million. (Tr. pp. 54-55).

Fourth, Mr. Varner testified that BellSouth proposed to eliminate the application of a Secondary Service Charge when only WatsSaver® service is added and to reduce the monthly rates associated with WATS and Toll Free Dialing Service (TFD) dedicated access lines. These changes will make these toll services more attractive to business customers. Currently, customers must pay a Secondary Service Charge of $19.00 when only WatsSaver® service is added to existing service. Subscribers will be able to add WatsSaver® service to their accounts without incurring a Secondary Service Charge. Dedicated WATS and TFD Service access line subscribers will receive a reduction in monthly access line rates. (Tr. p. 55). WATS and TFD Service dedicated access lines in Florida have the highest rates in the region. BellSouth has proposed to reduce the monthly rates for WATS and TFD Service dedicated access lines to $25.00 as a strategic pricing move. The elimination of Secondary Service Charges from WatsSaver service orders was proposed in order to bring the service more in line with competitive toll services that do not charge customers to purchase a usage commitment plan. (Tr. p. 56). the revenue impact associated with this part of the proposal totals $.7 million.

Fifth, BellSouth proposed to reduce the rate group 12 monthly rate for flat rate business lines from $29.10 to $29.00. This change affects toll terminals, independent payphone provider access lines, flat rate resale lines and 976 service access lines. The $29.00 rate brings this service in line with the proposed 60 month term contract rate for a PBX trunk. This rate will facilitate negotiations with customers and promotional activities for the service. (Tr. p. 56). This filing also reduces the rate group 12 rate for Back-Up* Line service from $14.55 to $14.50. The revenue impact of this proposed reduction is $.6 million. (Tr. pp. 56-57).

Sixth, BellSouth proposed to eliminate basic local usage rates for Remote Call Forwarding (RCF). These charges are in A13.11 of the GSST and apply for calls within the basic local calling area, which are between the call forwarding location and the terminating station, when RCF is provided. This proposed rate change is consistent with our current pricing strategy for the product. New and existing RCF customers will benefit from this rate reduction. The annual revenue impact of this proposed rate reduction is ($2.0 million). (Tr. p. 58).

Seventh, Mr. Varner described BellSouth's proposal for AreaPlus® for business customers. AreaPlus® is an expanded local calling plan that also includes a discounted toll feature. This optional plan is available to new customers, as well as existing flat rate or message rate individual line, PBX trunk or Network Access Register (NAR) customers. The plan consists of three geographic parts that encompass all calls within the LATA.

Each of the three components of AreaPlus® is distinctly rated. The Basic Local Calling Area is flat rated as defined by rate group. The Expanded Local Calling Area calls are rated on a per minute of use basis. The intraLATA toll calls are rated by the existing MTS schedule, then discounted by 30 percent (Direct Distance Dialing calls, 0+ calling card and collect calls). This is an optional service, available to existing and new customers. The annual revenue impact of this proposed rate reduction is $2.3 million. (Tr. p. 58).

Eighth, BellSouth proposes to reduce the Special Number Assignment Charge for business customers for "search only" requests from $10.00 to $5.00 and for "search and assign" requests from $75.00 to $25.00, which will bring the business rates in line with the residence rates for the same service. Both new and existing business customers will benefit from this rate reduction when special number assignment charges are applied. The annual revenue impact of this proposed rate reduction is $.1 million. (Tr. p. 59).

Ninth, Mr. Varner testified that BellSouth's proposal includes reduction of rates for Dedicated Access DS1 High Capacity and Megalink® Service. The Private Line MegaLink® and Dedicated Access

DS1 High Capacity services interoffice channel (IOC) mileage is that portion of a customer's end-to-end service furnished between Company central offices. Included in this filing is a reduction in the per mile portion of the IOC. (Tr. p. 59). The IOC mileage rates for Private Line MegaLink® service and Dedicated Access DS1 High Capacity service has been reduced. New and existing customers will see a rate decrease. The revenue impact totals $.64 million. (Tr. p. 60).

Finally, BellSouth proposed including the prior conversion of Extended Calling Service on some routes. During the first half of 1996, ECS has been implemented on seven routes between BellSouth exchanges and Independent Company exchanges. This implementation was based on orders issued by the Florida Commission in 1995 and in 1996. The revenue impact of $1.09 million has not been accounted for in prior filings or proceedings. (Tr. p. 60). ECS provides benefits to a great number of Florida subscribers and enhances economic development.

There were three main criticisms of BellSouth's proposal from the other parties to this proceeding. First, it was claimed by Ad Hoc that BellSouth's proposal did not target the "refund to the parties who have paid the most in excessive contribution and rates over the years." (Tr. p. 80). This claim is without foundation. This docket remains open to implement the Settlement Agreement approved by this Commission on February 11, 1994. The Settlement Agreement provided for various rate reductions for 1994 through 1996. (Tr. p. 63).

There was no finding by this Commission of excessive rates being charged by BellSouth nor was it determined that a "refund" was required. Mr. Metcalf, testifying on behalf of Ad Hoc, has made a claim that is inaccurate at best and misleading at worst.

Second, other parties to this docket claim that BellSouth's proposal is anticompetitive and is an attempt to "lock up" the market. (Tr. pp. 81, 86). This claim is made primarily with regard to BellSouth's proposal for PBX trunk term contracts and DID reductions. (Tr. p. 63). This claim is patently absurd. Offering service contracts in BellSouth's General Subscriber Service Tariff is not a new or innovative concept. (Tr. p. 64). In fact, contracts have a long history as a common instrument used to document business transactions in this marketplace. (Tr. pp. 64-65). A BellSouth contract for PBX trunks will insure that customers have rate stability during the life of the contract. However, a BellSouth contract on PBX trunks, like contracts on other BellSouth services does not and has not "locked up" or eliminated any current BellSouth customer's right to seek or obtain, a more favored economic or value added competitive service offering, should one exist. (Tr. p. 65). No BellSouth customer is precluded from requesting, receiving or purchasing service from a competitor. (Tr. p. 67).

With regard to the proposed DID reductions, Mr. Varner testified that the existing DID rates reflect both value of service pricing and cost recovery concepts. The original DID non-recurring rates were based on the high cost associated with pre-electronic central office technology. The current non-recurring rates resulted from a restructure of DID service in 1988 from groups of 100 to groups of 20 numbers, using electronic central office technology. Nonrecurring charges remained significantly above cost, based on the established value of service. The proposed rates reflect both reduced cost and value of service pricing. (Tr. p. 66).

The third main criticism leveled against BellSouth's proposal is the rather amazing claim that BellSouth's proposal benefits only new customers and provides no relief for the average rate payer. (Tr. p. 81). Again, this is an unjustified claim. The reductions proposed by BellSouth provide varying degrees of relief to almost every type of customer in BellSouth's customer body. Certain reductions may primarily benefit residential customers, IXCs, AAVs, or business customers. All reductions, however, are consistent with BellSouth's commitment to the general rate payers in Florida to share in the benefits of price regulation. In addition, the proposed reductions in PBX recurring and nonrecurring trunk rates move BellSouth closer to an even playing field by helping to remove some of the cross-subsidy in trunk rates. (Tr. p. 66).

Moreover, if approved, the BellSouth proposal would immediately reduce recurring rates on all existing PBX trunks (over 78,000 in Florida) as well as any newly added PBX trunks. Moreover, all of BellSouth's current DID subscribers will see lower monthly Trunk

Termination charges. (Tr. p. 68). The nonrecurring charge decreases proposed for adding lines, trunks, or ESSX® NARs; and the proposed nonrecurring rate reductions for DID service will benefit both existing and new customers. (Id.). Thus, the three main criticisms made of BellSouth's proposal are without foundation and should not be given credence.

Issue No. 1(B):

In contrast to BellSouth's proposal, the Joint Proposal of AT&T, MCI, Sprint, FIXCA, Ad Hoc, McCaw and DID directs the rate reduction to special interest groups rather than making the reductions available to the majority of BellSouth customers in Florida. The Joint Proposal consists of reducing PBX and DID trunk charges by $11 million, reducing mobile interconnection rates by $2 million, and eliminating the Residual Interconnection Charge ("RIC") at a cost of $35 million. This is an inappropriate use of the rate reduction amount.

First, BellSouth's proposal already contains reductions for PBX and DID totaling in excess of $15 million. (Tr. p. 50). Second, the proposal's reduction of mobile interconnection rates targets an even smaller special interest group, that of mobile service providers. (Tr. p. 50). Even if these providers passed the benefits of this part of the Joint Proposal on to individual customers (which has not been suggested), BellSouth's proposal would make benefits available to many more end users. Moreover, mobile interconnection issues are expected to be addressed shortly by the FCC and any action on reduction in these rates should wait until that time. (Id.).

Third, the proposal to eliminate the RIC is totally inappropriate. Over the past three years, BellSouth has reduced switched access rates by more than $161 million. In addition, with the October 1, 1996 tariff filing, BellSouth has met the requirement to reach December 31, 1994 interstate rate levels in compliance with the Florida Statutes Chapter 364. Of the $16.4 million switched access reduction, $12 million, or 75%, is being proposed to reduce the Interconnection Charge. (Tr. p. 31).

BellSouth believes the IXCs requested switched access reductions are excessive. BellSouth's pending $48 million reduction provides a benefit to a variety of our customers not just the IXCs. It is BellSouth's position that the reductions targeted in this docket should benefit as many of the ratepayers in Florida as possible. It is not appropriate to target $35 million or 73% of the rate reduction to one class of customer who has seen tremendous benefits to the tune of $145 million since 1994. BellSouth has attempted to consider many types of customers in its rate reduction proposal, including an additional $16.4 million in switched access charge reductions for the IXCs. (Tr. p. 36).

Moreover, it is not appropriate to reduce the Interconnection Charge by $35 million because this reduction does not afford BellSouth the flexibility it needs to compete in the marketplace. A single across the board reduction, which eliminates the Interconnection Charge, leaves BellSouth vulnerable in those areas where competition is the greatest. Competitors are targeting BellSouth's more dense areas and BellSouth should be allowed to strategically zone price a variety of switched access rate elements to meet the competition in these areas. To deny BellSouth the flexibility to zone price the proposed switched access elements is simply playing into the hands of BellSouth's competitors, while at the same time hamstringing BellSouth. (Tr. p. 31).

The Joint Proposers appear to claim a three-fold basis for their argument that the RIC should be eliminated. First, they claim that the RIC has no cost basis. (Tr. pp. 122, 127, 152, and 163). In the <u>Federal Communications Commission's (FCCs) Transport Rate Structure and Pricing</u>, Report and Order, CC Docket No. 91-213, released October 16, 1992, the FCC apparently recognized that the RIC recovers common transport costs and tandem switching costs that are not recovered by the transport and tandem switching rates. (Tr. pp. 36-37). The RIC was established because the rate paid by users of tandem switching and transport was intentionally set so low as to not recover the full cost of these elements. (Tr. p. 37).

Second, the Joint Proposers argue that switched access should be reduced closer to cost anyway. (Tr. pp. 113, 128, 153, and 164). As noted above, BellSouth has already reduced switched access rates by nearly 76% since 1984. In today's value, this amounts to over $590 million annually. In addition, since 1994 alone, BellSouth has reduced switched access rates by more than $145 million. The Florida Statute requires BellSouth to reduce switched access rates by 5% each year until 1994 interstate parity is reached. With the Stipulated $40 million reduction, plus the $16.4 million additional switched access reduction, BellSouth will meet this requirement in 1996. (Tr. p. 37). Interestingly enough, the majority of consumers in Florida have not directly benefited from these intrastate switched access reductions because the interexchange carriers have not been reducing long distance rates correspondingly. (Tr. p. 38). Mr. Hendrix performed an analysis that showed that, on average, there have been increases in the IXC's basic toll rates (MTS) from 1991 to the present. During this same period, switched access rates declined by approximately 57%. (Tr. p. 39 and Exhibit 12).

Third, Mr. Guedel, testifying on behalf of AT&T, claims that access charges in excess of cost will impede competition. (Tr. p. 153). This claim is simply wrong. There is already significant competition in the intraLATA toll market, and the lack of "cost-based" access rates has not prevented competitors from entering the market. This Commission has approved numerous IXC tariffs for services with intraLATA capability, such as AT&T's Software Defined Network, MegaCom, MegaCom 800, 800 Readyline, and similar services for MCI and Sprint. These services have made significant inroads into the intraLATA business toll market. IXCs are also competing for intraLATA calls through the use of 10XXX, 500, 700, 800, and 900 access services. IXCs are using these services effectively to take any lucrative high volume customers from BellSouth. These same IXC competitors are now targeting the small to medium business markets and high volume residential users. Furthermore, on February 13, 1995, the Florida Public Service Commission in Docket No. 930330-TP ordered the implementation of intraLATA presubscription by the end of 1997. BellSouth's tariff was approved on May 1, 1996 and BellSouth is moving forward to implement 1+ intraLATA presubscription. In fact, the IXCs such as AT&T are actively seeking customers in BellSouth to subscribe to AT&T as their only toll provider. (Tr. p. 41).

In summary, the Joint Proposal benefits interexchange carriers for the most part, the very group that has already received the lion's share of rate reductions in this Settlement. BellSouth strongly opposes the Joint Proposal.

Issue No. 1(C):

Public Counsel proposes to establish a reserve fund of approximately $2 million to assist BellSouth customers who have experienced problems with conversion to the 954 NPA. (Tr. pp. 88-89). BellSouth does not believe that the proposal by Public Counsel is necessary.

The Special RCF Offering Associated With Numbering Plan Area (NPA) Conversions, offered in A13.11.8 of the General Subscriber Service Tariff, is a special tariff that provides interim relief for customers affected by an area code change by waiving the Company-provided local and toll usage charges normally associated with RCF for up to five months following the date specified for mandatory dialing of the new area code. The proposed BellSouth tariff filed in conjunction with Docket 920260-TL, permanently eliminates local usage billing for all RCF customers. This elimination of local usage charges should benefit subscribers affected by an area code change should they decide to retain RCF service beyond the interim period associated with the Special RCF Offering. (Tr. p. 75).

Issue No. 1(D):

The FCTA proposes to eliminate or reduce nonrecurring charges for interconnection trunks and special access circuits ordered by ALECs. (Tr. p. 93). BellSouth does not support utilizing any of the $48 million to eliminate non-recurring charges for interconnection trunks ordered by ALECs. BellSouth believes the cost of installing interconnection trunks is appropriately recovered through its non-recurring charges and reflects costs incurred to perform these functions. Further, end user customers should realize direct benefit from the $48 million in rate reductions. BellSouth cannot identify any immediate direct benefit to the end user from eliminating non-recurring charges to ALECs. (Tr. p. 32). The nonrecurring charges that BellSouth proposes to reduce in this docket are those paid by end user customers, not competing carriers. (Tr. p. 45). BellSouth does not support FCTA's proposal.

<u>Issue No. 1(E)</u>:

Palm Beach Newspapers ("PBN") proposes to reduce BellSouth's N11 service tariff so that N11 customers pay a flat charge of one cent per minute, or the current monthly minimum, whichever is greater. (Tr. pp. 193-194). BellSouth does not support PBN's proposal. There have been approximately 51 applications for N11 codes in Florida since the service was introduced. (Tr. pp. 71-72). N11 codes are a limited resource. (Tr. p. 51). The current demand exceeds the quantity of numbers that are available in the major markets where there is currently a waiting list for N11 codes. (Tr. p. 72). The current price levels of N11 service have created a viable market; further reduction would be inappropriate. (Tr. p. 51).

PBN's proposal is also inappropriate from a cost perspective. (Tr. p. 78). Each N11 call must be switched by BellSouth switches, and most N11 calls must be transported over BellSouth interoffice trunk facilities. There is variable cost associated with switching and transporting N11 calls. Such costs are incurred both per minute and per message. (Tr. p. 72).

<u>Issue No. 2</u>: To the extent the Commission does not approve the plans proposed by BellSouth, Public Counsel, FCTA, Palm Beach Newspapers, Inc./Florida Today and AT&T, MCI, Sprint, FIXCA, Ad Hoc and McCaw, how should the Commission implement the scheduled rate reduction?

**Position: As noted in its response to Issue No. 1, BellSouth encourages the Commission to adopt BellSouth's proposal.

Issue No. 3: When should be the effective dates of the approved tariffs?

**Position: Tariffs were filed by BellSouth on May 31, 1996. these tariffs should be approved, and the effective date should be October 1, 1996.

CONCLUSION

BellSouth's proposed rate reductions are unquestionably the best alternative for allocating the unspecified $44 million reduction. Of the plans proposed, the BellSouth's plan will provide the greatest benefit to the greatest number of customers. The Commission should reject the self-serving proposals of various parties to impede BellSouth's plan.

For all the reasons set forth herein, the Commission should order the implementation of BellSouth's proposed reductions without delay.

Respectfully submitted this 21st day of November, 1996.

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CERTIFICATE OF SERVICE
Docket No. 920260-TL
Docket No. 900960-TL
Docket No. 910163-TL
Docket No. 910727-TL

I HEREBY CERTIFY that a copy of the foregoing has been furnished by United States Mail this 21st day of November, 1996 to:

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