

1 **Special Access Rates**

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3 **Q. What is the Company's proposal concerning special access?**

4 A. GTE proposes to merge its special access tariffs, to mirror the Interstate  
5 GTOC tariff FCC No. 1, to utilize the GSTC tariff FCC No.1 equivalent rate  
6 levels with certain exceptions, and to eliminate the special access surcharge.  
7 The overall effect of these proposals is a \$209,315, or 19% reduction in  
8 special access revenue. The Company also proposes to convert GTE and  
9 Contel private line tariffs to the new merged special access tariff, which I  
10 discuss later in my testimony.

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12 **Q. What support has the Company given for this proposal?**

13 A. Mr. Bailey indicates that the Company's objective is to price like services at the  
14 same rate. Mr. Bailey does not specifically discuss the rationale for the  
15 proposed restructuring, or the substantial overall decrease in rates.

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17 **Q. Do you agree with the proposal?**

18 A. Not necessarily. This proposal has not been well explained or justified.  
19 However, I have not analyzed it in detail. The Company has not demonstrated  
20 that a decrease in special access revenues is appropriate at this time, especially  
21 if this would translate into an increase in local rates. However, since I have not  
22 studied it in detail, I have assumed, for purposes of preparing Schedule 5  
23 attached to my testimony, that it will be accepted by the Commission.

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25 **Toll Service Rates**

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27 **Q. What has the Company proposed regarding message toll service?**

28 A. GTE originally proposed to cut MTS revenue by a total of \$15.6 million, a  
29 reduction of around 40%; its supplemental filing cuts this reduction to \$13.4  
30 million, or about 37%. In conjunction with this overall reduction, the Company  
31 originally proposed an extensive restructuring of its rates. Nine major categories  
32 of change have been proposed:

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- 1) The establishment of a single MTS tariff for both GTE and Contel,
- 2) A general reduction in MTS prices,
- 3) An effective reduction in the number of mileage bands.
- 4) A change in TOD categories from Day/Evening/Night/Weekend to Peak/OffPeak,
- 5) The elimination of first/additional minute differentiation,
- 6) The introduction of separate, higher rates for coin telephone calls,
- 7) The introduction of new standard discount calling plans to replace existing optional calling plans,
- 8) The authority to offer discounted contract service to large business customers, and
- 9) Expansion of its extended calling areas, thereby shifting some calls from the toll to local category.

Only two modifications to the original filing have been made in the supplemental filing. First, a revised rate design is now proposed that increases the different prices by mileage band from two to four. Second, the amount of reduction in MTS rates has been cut. The modification of MTS reduction is viewed by the Company as only a first step in setting rates where it believes they should eventually go:

As I stated in my earlier testimony, the Company's original rate proposal was developed through comparisons with other local exchange carriers' and interexchange carriers' prices, augmented by the Company's own assessment of price levels sustainable in the long distance market. The Company believes the rates and structures originally proposed still best represent the results of assessment... However, the overall context of the Company's revised rate design calls for greater moderation, and temporizing steps toward rebalanced rates. [GTE, Wellemeyer Supplemental Testimony, pp. 4,5.]

1 **Q. Would you please describe the Company's revised proposal for two-**  
2 **point service?**

3 A. Yes. First, the Company has proposed to reduce its current 12-band rate  
4 structure to effectively four rate bands. The shortest band, up to 13 miles, has a  
5 proposed peak rate of \$0.15; the second band, ranging from 13 up to 28 miles,  
6 has a peak rate of \$0.20; the third band, from 28 up to 78 miles, has a peak  
7 rate of \$0.25; and the longest band (above 78 miles) has a peak rate of \$.30  
8 per mile.

9 Second, the Company has proposed replacing the current  
10 evening/night/weekend structure with an on-peak/off-peak structure. The peak  
11 period is defined by the hours of 7:00 a.m. to 7:00 p.m. Monday through  
12 Friday. All other hours, including holidays, are considered off-peak and carry a  
13 40% discount from peak rates.

14 Third, the Company has proposed to eliminate the differentiation  
15 between first and additional minutes. This simplified schedule includes a peak  
16 rate of \$0.20 per minute and an off-peak rate of \$0.12 per minute for the  
17 shorter mileage group, and a peak rate of \$0.25 and an off-peak rate of \$0.15  
18 per minute for the longer mileage group.

19 Fourth, the Company has proposed to create four separate price  
20 schedules: Direct Dial Station-to-Station, Customer Dialed Station-to-Station  
21 Calling Card, Operator Handled Station-to-Station and Person-to-Person  
22 Calling, and Coin Station Calling. In the current tariff, a single price schedule  
23 applies to all of these calls, plus per-call surcharges applying to the middle two  
24 categories. Interestingly, while the Company is creating a proliferation of tariff  
25 pages, the actual pricing effect is minimal at this point, since the proposed rates  
26 are identical for most of the schedules. The exception is Coin Station Calling  
27 with rates 20% higher than the other three.

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29 **Q. Would you please describe the Company's proposal for discount calling**  
30 **plans ?**

31 A. GTE wants to eliminate all existing discount calling plans except Between  
32 Friends, which is being retained for customers who prefer a block-of-time  
33 calling plan. For this remaining plan, the Company has proposed to eliminate  
34 the nonrecurring charge and include direct dial calls in the peak and off-peak

1 periods. The price for the first hour will be raised from \$7.00 to \$7.50 per  
2 month and the additional calling rate will be raised from \$0.11 to \$0.125 per  
3 minute.

4 The new plan for residences, the Easy Savings Plan, discounts all MTS  
5 charges 25% whenever the month's charges exceed \$10.00. There is no  
6 monthly fee, but the customer must sign up for the discount. That is, customers  
7 who fail to seek the discount will be charged higher rates than those who make  
8 the effort, even if their calling characteristics are identical.

9 Business customers will be able to select the Business Term and  
10 Volume Savings Plan. Once businesses select a contract length (month to  
11 month, one-year or three-year,) a matrix pairing contract term and monthly  
12 volume (with thresholds at \$5, \$50, and \$100) will determine the amount of the  
13 discount. An early termination penalty applies to the one- and three-year  
14 contracts. Subscribers to this plan will benefit from fractional minute pricing that  
15 records calls in 6-second increments after an initial 18-second duration.  
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17 **Q. What rationale has the Company presented for its MTS proposals?**

18 A GTE discusses national market trends in the intraLATA long distance services  
19 market. The Company states that competition from IXCs and resellers is  
20 intensifying in most parts of the nation, but provides no supporting data. The  
21 Company mentions that IXCs are advocating the implementation of intraLATA  
22 equal access in various states, and that 10XXX competition has been  
23 authorized in all states where GTE operates.

24 GTE argues that current toll rates make substantial contributions to the  
25 common costs of the Company and claims that it needs rate rebalancing to  
26 reduce high toll and access rates in advance of competitive entry.  
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28 **Q. Do you agree with the proposal to substantially reduce MTS revenue?**

29 A. Nationwide, toll volumes are increasing toll costs are declining and  
30 competition is intensifying. In Virginia, the Commission has just recently  
31 authorized 10XXX intraLATA competition. Given this context, some reduction  
32 in toll rates would seem reasonable. However, it should be noted that the  
33 Company has failed to provide any substantial evidence concerning the extent  
34 to which these trends apply to its Virginia service territory. Furthermore, the

1 Company has not demonstrated that the appropriate response to this trend is to  
2 pre-empt toll competition by expanding its extended calling area.

3 Nor has the Company shown that it is necessary or appropriate to  
4 allow it to fund a 37% reduction in its toll revenues by increasing its local  
5 exchange rates. In a competitive market, when price reductions are forced on a  
6 firm by competitive conditions, the firm cannot respond by increasing other  
7 rates. Rather, the firm is forced to cut its costs, expand its volume, increase its  
8 efficiency, or accept a lower level of profit, whenever competitive conditions  
9 force a reduction in prices.

10 The Company enjoyed a monopoly in the intraLATA toll market within  
11 its service territory until October 1, 1995, and is likely to retain a near  
12 monopoly for some time to come, as a result of the 1+ dialing advantage it  
13 continues to enjoy, among other factors.

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15 The underlying rationale for the Company's proposal is supposedly  
16 competition. However, the mere presence of competitors in the intraLATA toll  
17 market is an inadequate basis for massive shifts in revenue responsibility  
18 between the toll category and the local exchange category. The Company has  
19 not even quantified the change in market share which it anticipates during the  
20 next several years. Under these circumstances, it is premature to drastically  
21 shift revenue responsibility out of the toll category and into the local exchange  
22 category.

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24 **Q. Would you please briefly explain the Company's revised proposal to**  
25 **expand local calling areas?**

26 **A.** Yes. The Company has proposed to convert several toll routes to Extended  
27 Local Service (ELS) and to convert some measured local Extended Area  
28 Calling routes to flat rate service. GTE expects to invest around \$3,813,704 in  
29 additional central office equipment and interexchange facilities to handle the  
30 anticipated increase in calling volumes. According to Mr. Dominguez, the  
31 annual revenue requirement associated with this investment is \$1,200,203. The  
32 effect is to create upward pressure on local exchange rates, and to reduce the  
33 potential scope of intraLATA toll competition.

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1 **Q. Do you agree with the Company's ELS and EAC proposals?**

2 A. No. The Company has failed to provide substantial evidence demonstrating that  
3 these changes are in the public interest. Admittedly, some customers would  
4 directly benefit from the proposed changes. However, this advantage must be  
5 weighed against the disadvantages, including the fact that the Company is  
6 proposing to increase rates for other customers in order to compensate for the  
7 lost toll revenues, and the fact that these proposals tend to reduce the potential  
8 scope of toll competition. In the absence of persuasive evidence to justify these  
9 proposals, I believe they should be rejected.

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11 **Q. What are your recommendations concerning the Company's proposal  
12 for MTS?**

13 A. I have no objection to allowing the Company to reduce its toll rates, if this is  
14 accomplished by reducing its currently excessive level of profits, as shown on  
15 Schedule 5 attached to my testimony. However, I do disagree with the  
16 proposal to force local exchange customers to pay higher rates, so that the  
17 Company can improve its competitive position in the toll market. In other  
18 words, I do not believe the Commission should accept the toll rate proposal, if  
19 the reduction were to be funded by a significant increase in local exchange  
20 rates. If the Company wishes to cut its toll rates as proposed, it should not be  
21 allowed to fund the reduction at the expense of local ratepayers. The  
22 Company's "revenue neutral" approach is not adequately justified, and is  
23 incompatible with an evenhanded treatment of all categories of ratepayers.  
24 Fortunately, as shown on Schedule 5, a substantial reduction in the MTS  
25 category can be accommodated along with decreases in basic local service  
26 rates. More specifically, I recommend that MTS revenues be decreased by the  
27 overall percentage decrease that the Attorney General has proposed--i.e.,  
28 19.44%. For MTS, the dollar amount of this reduction would be \$7,078,716.

29 I have no disagreement with the proposal to simplify the toll rates by  
30 reducing the number of mileage bands, eliminating the first and additional minute  
31 distinction, and reducing the number of time periods.

32 Although the new Discount Calling Plan will favor heavy toll users and  
33 those who contact the Company, this type of price discrimination is  
34 widespread in the interstate toll market, and I believe the Company should be

1 given some discretion to follow competitive trends. Accordingly, I am not  
2 opposed to the introduction of such a plan. It should be noted, however, that I  
3 haven't studied the details of this plan, and I am not endorsing it.

4 I recommend that the Commission reject the Company's proposal to  
5 create separate price schedules for Direct Dial Station-to-Station, Customer  
6 Dialed Station-to-Station Calling Card, Operator Handled Station-to-Station  
7 and Person-to-Person Calling, and Coin Station calling. The current tariff  
8 approach is simpler, and less prone to undue discrimination, since a single price  
9 schedule applies to all of these calls, with the only distinction being the per-call  
10 surcharges which apply to certain categories. The Company is creating a  
11 confusing proliferation of tariff pages, which is not desirable. The actual pricing  
12 effect is minimal at this point, since the proposed rates are identical for most of  
13 the schedules, with the notable exception of Coin Station Calling, which  
14 includes rates that are 20% higher than the others.

15 Currently, coin phone users pay the same rates as other users. Although  
16 the coin telephone market is subject to a limited degree of competition, there  
17 are substantial market imperfections, and users tend to have very limited  
18 choices at any given location or moment. Hence, this proposal must be viewed  
19 with an understanding that it will impact customers who are largely captive, and  
20 do not necessarily enjoy viable alternatives. However, the proposed rate  
21 differential is not extreme, and the revenue impact is minimal (less than \$7,000  
22 per year). In any event, if the Commission approves this higher rate, it should  
23 be implemented in the form of a simple 20% surcharge, thereby eliminating the  
24 need to proliferate tariff pages. Also, the Company should be required to post a  
25 notice on its public telephones indicating that a 20% surcharge is applied to  
26 coin paid toll calls. In other words, customers should not be misled into  
27 thinking that GTE's standard direct dialed rates apply. Customers should be  
28 warned in advance, so that they realize they are being forced to pay higher than  
29 normal rates.

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31 **Q. Have you analyzed the Companies' proposal concerning WATS?**

32 **A.** Yes, I have. The Company has proposed to merge tariffs, implement a  
33 peak/off-peak structure, and reprice the access line at the proposed Special  
34 Access Line rate. These proposals result in an approximate \$29,000, or 8%,

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reduction in WATS revenue. I have no objection to this proposal, as shown on  
Schedule 5 attached to my testimony.