

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Establishment of intrastate implementation requirements governing federally mandated deregulation of local exchange company payphones.

DOCKET NO. 970281-TL

In re: Petition by MCI Telecommunications Corporation for an order requiring BellSouth Telecommunications, Inc. to remove its deregulated payphone investment and associated expenses from its intrastate operations and reduce the Carrier Common Line rate element of its intrastate switched access charges by approximately \$36.5 million as required by the Federal Telecommunications Act of 1996.

DOCKET NO. 970172-TP

In re: Petition by MCI Telecommunications Corporation for an order requiring GTE Florida Incorporated to remove its deregulated payphone investment and associated expenses from its intrastate operations and reduce Carrier Common Line rate element of its intrastate switched access charges by approximately \$9.6 million as required by the Federal Telecommunications Act of 1996.

DOCKET NO. 970173-TP
ORDER NO. PSC-97-1312-FOF-TL
ISSUED: October 22, 1997

The following Commissioners participated in the disposition of this matter:

JULIA L. JOHNSON, Chairman
J. TERRY DEASON
SUSAN F. CLARK
DIANE K. KIESLING
JOE GARCIA

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APPEARANCES:

Robert G. Beatty, Esquire, Nancy B. White, Esquire, 150 South Monroe Street, Suite 400, Tallahassee, Florida 32301, and William J. Ellenberg, II, Esquire, and J. Phillip Carver, Esquire, 675 West Peachtree Street, Suite 4300, Atlanta, Georgia 30375
On behalf of BellSouth Telecommunications, Inc.

Anthony P. Gillman, Esquire, and Kimberly Caswell, Esquire, Post Office Box 110, FLTC0007, Tampa, Florida 33601
On behalf of GTE Florida Incorporated

Charles J. Rehwinkel, Esquire, Post Office Box 2214, MCFLTLHO0107, Tallahassee, Florida 32301
On behalf of Sprint-Florida, Incorporated

J. Jeffry Wahlen, Esquire, and Lee L. Willis, Esquire, Ausley & McMullen, Post Office Box 391, Tallahassee, Florida 32302
On behalf of ALLTEL Florida, Inc., Northeast Florida Telephone Company, Inc., and Vista-United Telecommunications

David B. Erwin, Esquire, Young van Assenderp & Varnadoe, 225 South Adams Street, Suite 200, Tallahassee, Florida 32301
On behalf of Florala Telecommunications, Frontier Communications of the South, Inc., Gulf Telecommunications, Indiantown Telephone System, Inc., Quincy Telephone Company and St. Joseph Telecommunications

Tracy Hatch, Esquire, AT&T Communications of the Southern States, Inc., 101 North Monroe Street, Suite 700, Tallahassee, Florida 32301
On behalf of AT&T Communications of the Southern States, Inc.

Richard D. Melson, Esquire, Hopping Green Sams & Smith,
P.A., Post Office Box 6526, Tallahassee, Florida 32314
and Thomas K. Bond, Esquire, and Michael J. Henry,
Esquire, MCI Telecommunications Corporation, 780
Johnson Ferry Road, Suite 700, Atlanta, GA 30342
On behalf of MCI Telecommunications Corporation

Angela B. Green, Esquire, 125 South Gadsden Street, Suite
200, Tallahassee, Florida 32301-1525
On behalf of Florida Public Telecommunications
Association

William P. Cox, Esquire, Martha Carter Brown, Esquire,
and Charles J. Pellegrini, Esquire, Florida Public
Service Commission, 2540 Shumard Oak Boulevard,
Tallahassee, Florida 32399-0850
On behalf of the Commission Staff

FINAL ORDER

BY THE COMMISSION:

I. CASE BACKGROUND

On September 20, 1996, the Federal Communications Commission (FCC) issued its First Report and Order, Order No. 96-388, in CC Docket No. 96-128, implementing the Telecommunications Act of 1996, 47 U.S.C. § 276(b)(1)(B) (the Act). On November 8, 1996, the FCC issued its Order on Reconsideration, Order No. 96-439, on the same issues presented in Order No. 96-388. As the FCC indicated in Order No. 96-388, Section 276(b)(1)(B) of the Act requires that incumbent local exchange carriers (LECs) remove from their intrastate rates charges that recover the costs of their pay telephones. Furthermore, FCC Order No. 96-388 requires that the revised intrastate rates must be effective no later than April 15, 1997. Also by this date, FCC Order No. 96-388 directs the states to determine the intrastate rate elements that must be reduced to accomplish this elimination of any intrastate subsidies. FCC Order No. 96-388, ¶ 186.

Paragraph 145 of FCC Order No. 96-388 requires that all LECs deregulate their pay telephone operations by separating the pay telephone operation from the local exchange carrier. The LEC can

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accomplish this separation with either of two options: structural safeguards (separate subsidiary) or non-structural safeguards (accounting separations).

On February 7, 1997, MCI Telecommunications Corporation (MCI) filed a petition requesting that we order BellSouth Telecommunications Inc. (BellSouth) to remove its deregulated payphone investment and associated expenses from its intrastate operations and reduce its intrastate Common Carrier Line (CCL) charge by 36.5 million dollars (Docket No. 970172-TP). On the same date, MCI filed a similar petition for GTE Florida Incorporated (GTEFL) to reduce its intrastate CCL charge by 9.6 million dollars (Docket No. 970173-TP). On February 26, 1997, BellSouth filed a revised tariff in an effort to comply with Section 276 of the Act (T-97-156). On February 27, 1997, BellSouth and GTEFL responded to MCI's petitions. MCI subsequently filed a response to GTEFL's answer to the MCI petition and particularly GTEFL's motion to dismiss.

On March 31, 1997, we issued Proposed Agency Action (PAA) Order No. PSC-97-0358-FOF-TP denying both of MCI's petitions. Our Order also established several generic implementation requirements that apply to all LECs (Docket No. 970281-TL). The implementation requirements dealt with the LEC pay telephone operation separation and the removal of the intrastate pay telephone subsidy. The Order required that LEC tariff changes regarding the removal of the intrastate subsidy should be filed and become effective by April 15, 1997.

On April 21, 1997, MCI filed a Petition on Proposed Agency Action, protesting our PAA Order with regard to all three dockets: Docket Nos. 970172-TP, 970173-TP, and 970281-TL. MCI's protest requested a hearing to determine the amount of rate reductions required to eliminate the intrastate pay telephone subsidies for BellSouth and GTEFL, and to determine the specific rate elements to which such reductions should be applied.

On May 15, 1997, BellSouth filed a Response to MCI's Petition and Motion for Expedited Resolution. On May 16, 1997, Sprint-Florida Incorporated (Sprint-Florida) filed its Response to MCI's Petition.

MCI's protest also requested that we suspend the tariff filed by BellSouth to implement its estimate of the required rate reduction pending resolution of the protest. MCI requested that we

also require BellSouth to hold the amount of such reductions subject to our disposition pending resolution of the protest. On June 10, 1997, we voted to deny these requests.

On June 19, 1997, the Prehearing Officer issued Order No. PSC-97-0721-PCO-TP establishing the procedural schedule and issues to be addressed at the hearing. We held the hearing on August 7, 1997. At the commencement of the hearing, we approved several stipulations of the parties as follows:

STIPULATION 1: With respect to the amount of intrastate payphone subsidy to be eliminated by each local exchange company, we approved the following stipulated amounts:

Vista-United	\$234,900
ALLTEL	\$ 66,600
St. Joseph	\$ 25,740
Quincy	\$ 10,980
Gulf	\$ 9,900
Northeast	\$ 7,020
Indiantown	\$ 5,760
Frontier	\$ 1,980
Floralala	\$ 1,080
GTE	\$ 0

With the exception of Quincy and Indiantown, these subsidy amounts will be eliminated by the small LECs via intrastate switched access rate reductions effective April 15, 1997. Indiantown and Quincy's subsidy will be eliminated in accordance with the rate elements specified for possible reduction by BellSouth in this Order.

To the extent that a small LEC is required to reduce its switched access rates by 5% on or before October 1, 1997, the rate reductions made to eliminate the subsidy in this docket will be considered to be a part of, rather than in addition to, the 5% rate reductions required by Section 364.163(6), Florida Statutes.

If the small LEC is required to reduce intrastate switched access rates by 5% on or before October 1, 1997, the tariff changes necessary to make the required rate reductions to eliminate the subsidy in this docket shall be made in accordance with the time schedule in Order No. PSC-97-0604-FOF-TP. Otherwise, the tariff filings shall be made no later than 30 days after the issuance of the final order in this case.

STIPULATION 2: The amount of the intrastate payphone subsidy for GTEFL in this proceeding is zero. Since there is no subsidy, we will not require GTEFL to make any rate reductions through this proceeding.

STIPULATION 3: The amount of the intrastate payphone subsidy for Sprint-Florida is zero. Sprint-Florida will not revise its previous tariff filing reducing MABC intraLATA access charges, based on a preliminary calculation showing a subsidy of approximately \$1.5 million. Since there is no subsidy, we will not require Sprint-Florida to make any rate reductions through this proceeding.

STIPULATION 4: If we make the same decision that we did in Proposed Agency Action Order No. PSC-97-0358-FOF-TP in Docket Nos. 970172-TP, 970173-TP, and 970281-TL, the revised tariff filings made by BellSouth shall remain effective as filed. If we make a different decision in this docket and we require a different rate reduction, the revised tariff filings for the removal of the subsidy should be made within 30 days of the issuance of the final order in this docket. This stipulation does not apply to the nine small LECs who reached their own separate stipulation. (See Stipulation 1)

STIPULATION 5: If we make the same decision that we did in Proposed Agency Action Order No. PSC-97-0358-FOF-TP in Docket Nos. 970172-TP, 970173-TP, and 970281-TL, the effective date of BellSouth's tariff filed in compliance with this Order shall remain as filed. If we make a different decision and a rate reduction is required, the effective date of the revised tariff with the appropriate rate reduction would be April 15, 1997, per FCC Order No. 96-388. This stipulation does not apply to the nine small LECs who reached their own separate stipulation. (See Stipulation 1)

Since we have already approved the above stipulations, the following issues have been resolved:

Issue 4: If necessary, by what date should revised tariffs that eliminate any identified intrastate payphone subsidy be filed?

Issue 5: Is April 15, 1997, the appropriate effective date for revised intrastate tariffs that eliminate any identified intrastate payphone subsidy?

The remaining issues for hearing involved the amount of the subsidy for BellSouth and the rate element(s) that BellSouth must reduce to remove the subsidy. Our decision on those issues is set forth in detail below.

II. THE AMOUNT OF BELLSOUTH'S INTRASTATE PAYPHONE SUBSIDY

The FCC required "incumbent LECs to remove from their intrastate rates any charges that recover the costs of payphones." See FCC Order No. 96-388, ¶ 186. The Order also required that price cap LECs develop their interstate subsidy calculations based upon their embedded 1995 Automated Report Management Information System (ARMIS) data. See FCC Order 96-388, ¶ 185. In Order No. PSC-97-0358-FOF-TP, we also required LECs to use 1995 data when calculating their subsidies to be consistent with the data used by the FCC, and because it was the most current data available when this docket was established. On February 26, 1997, BellSouth submitted a copy of its \$6.501 million subsidy calculation, attached to its tariff filing number T-97-156.

BellSouth's subsidy calculation includes retail payphone revenues and subtracts the expenses associated with the payphone sets, or the payphone set component, and the expenses associated with the payphone access lines, or the payphone line component. According to BellSouth witness Lohman, BellSouth estimated the payphone set component from BellSouth's 1995 ARMIS Report that it filed with the FCC. Witness Lohman stated that BellSouth estimated the payphone line component from a special SmartLine service cost study. SmartLine service provides the features and functions of the payphone. BellSouth compared the rate of return that it actually earned on its payphone operations of -9.72% to the 11.25% rate of return, which is the rate used to calculate the return component included in the ARMIS data. BellSouth stated that the difference between the two rates of return, \$6.501 million, was the amount of its subsidy.

We believe that, for the most part, BellSouth's subsidy calculation is appropriate. For two reasons, however, we disagree with BellSouth's estimation of its line expense component. First, BellSouth witness Lohman testified that the special cost study was a SmartLine service incremental cost study, based on 1993 data, which was brought forward to a 1995 basis by applying various factors. BellSouth had to perform two steps to transfer the 1993 study amount to the amount it used in its subsidy calculation: (1) change the study from an incremental cost study to an embedded cost

study; and (2) change the 1993 actual amounts to 1995 estimated amounts. BellSouth witness Lohman stated that he believes the special cost study is more accurate because it is a Florida-specific study of the cost of a SmartLine. We believe that this estimated line cost is not as accurate as the actual line cost obtained from BellSouth's 1995 ARMIS report.

Second, we believe that the use of different methodologies for estimating the payphone set expense and the line expense could result in an incorrect payphone set expense amount. To determine the set expense, BellSouth split the total payphone operations expense and investment shown in the ARMIS report between payphone sets and lines. BellSouth used the direct investment for sets and lines from the ARMIS report to develop "direct percentage" allocators. BellSouth then divided indirect expenses, such as corporate, marketing, and general support, between set and line based on those direct percentage allocators. In this calculation, the amount of the line investment from the ARMIS report that was used to develop the indirect expense allocations directly affects the amount of set expense that results. Therefore, substituting a different line investment amount, such as that from BellSouth's SmartLine cost study, would result in a different amount of indirect expense allocated to the set component compared to what is included in BellSouth's subsidy calculation.

We believe that BellSouth's subsidy calculation should include the line component calculated from its ARMIS report, because the line and set expense amounts are more consistent when they are based upon the same source, the ARMIS report. As stated above, using one source for the actual 1995 data is more reliable and accurate than combining a portion of the ARMIS report total with an estimated 1995 cost study total. Also, the FCC used BellSouth's 1995 embedded cost ARMIS data to calculate the company's interstate payphone set expense. We believe that it is appropriate to use the same kind of ARMIS data for the line expense component of the subsidy calculation. We agree with BellSouth that the subsidy should be calculated on an embedded cost basis.

BellSouth's use of a special cost study to estimate its line expense, instead of the ARMIS report, created a difference in the resulting line expense amounts and, subsequently, the subsidy calculation. BellSouth witness Lohman agreed that the subsidy would be approximately \$1 million higher had BellSouth used the line amounts from its ARMIS report. The following is a calculation

of the additional subsidy amount using the line expense and plant developed in BellSouth's allocation of its ARMIS report.

Additional BellSouth Payphone Subsidy Calculation			
		Amount (Thousands)	Source (Exhibit #2)
A	Access Line Plant in Service - Intrastate	\$39,843	Page 22 of 27
B	Access Line Inventories - Intrastate	362	Page 22 of 27
C	Access Line Accumulated Depreciation - Intrastate	(17,930)	Page 22 of 27
D	Access Line Deferred Taxes - Intrastate	(3,359)	Page 22 of 27
E	Access Line Average Net Investment - Intrastate (Lines A, B, C & D)	\$18,916	
F	Rate of Return	11.25%	
G	Return on Access Line Investment (Line E x Line F)	\$2,128	
H	Access Line Interest Expense - Intrastate	588	Page 17 of 27
I	(Line G - Line H)	\$1,540	
J	Gross Up Factor	+ 61.43%	Page 12 of 27
K	Access Line Revenue Requirement - Intrastate (Line I + Line J)	\$2,507	
L	Composite Tax Rate	x 38.575%	Page 12 of 27
M	Income Tax (Line K x Line L)	\$942	
N	Access Line Return Component - Intrastate (Line G + Line M)	\$3,070	
O	Access Line Expense - Intrastate	12,775	Page 17 of 27
P	Total Access Line Expense - Intrastate (Line N + Line O)	\$15,845	
Q	Company Reported Access Line Expense	14,803	Page 16 of 27
R	Additional Access Line Expense and Subsidy (Line P - Line Q)	\$1,042	

Upon consideration, we find that BellSouth's subsidy is \$7.543 million. This calculation includes the \$6.501 million from BellSouth's original filing plus the \$1.042 million associated with

the additional access line expense and subsidy calculated from BellSouth's 1995 ARMIS report.

III. REDUCTION OF INTRASTATE RATE ELEMENTS TO ELIMINATE THE INTRASTATE PAYPHONE SUBSIDY UNDER THE FCC'S PAYPHONE RECLASSIFICATION ORDERS

A. COMMISSION'S OBLIGATION TO SPECIFY RATE ELEMENTS

All of the parties, with the exception of BellSouth and those parties who reached separate stipulations, agree that the FCC's Payphone Reclassification Orders require us to specify which rate element(s) must be reduced to eliminate any intrastate subsidy that may exist. Those parties believe that we failed to comply with the FCC's Orders in our earlier Proposed Agency Action (PAA) decision, Order No. PSC-97-0358-FOF-TP.

BellSouth contends that the real dispute is not whether this Commission had an obligation under the FCC's Orders, but whether this Commission fulfilled that obligation. BellSouth believes that we did comply with the FCC's Orders by allowing BellSouth's tariff reducing hunting charges to go into effect, while at the same time rejecting specific tariff elements recommended by our Staff. Furthermore, BellSouth argues that Paragraph 183 of FCC Order No. 96-388 deals only with the interstate jurisdiction. Finally, BellSouth contends that we have previously concluded that we were complying with the FCC's Orders by allowing BellSouth (and all ILECs) to choose the element that should be reduced to eliminate the subsidy.

AT&T disagrees with BellSouth's argument. AT&T contends that the intent of Paragraph 186 of FCC Order 96-388 is "abundantly clear". AT&T argues that our FCC-mandated review must include more than simply determining that the subsidy has been eliminated. AT&T believes that this section of the FCC Order requires that we affirmatively determine which rate elements should be reduced.

MCI also believes that we still need to make a determination of the specific rate element(s) for reduction. MCI adds that specifying a limited menu of rate elements to be reduced would also be non-compliant with the FCC's Orders. MCI argues that the only way a menu approach could be compliant is if we removed all discretion from BellSouth by specifying the portion of the payphone subsidy to be removed from each rate element identified for reduction.

The FPTA agrees with AT&T and MCI. Further, the FPTA asserts that no party really disagrees with the position that the Commission must specify the rate elements for reduction, including BellSouth.

Sections 271(b)(1)(A) and (B) of the Telecommunications Act of 1996 state:

(1) CONTENTS OF REGULATIONS.- In order to promote competition among payphone service providers and promote the widespread deployment of payphone services to the benefit of the general public, within 9 months after the date of enactment of the Telecommunications Act of 1996, the Commission (FCC) shall take all actions necessary (including any reconsideration) to prescribe regulations that

(A) establish a per call compensation plan to ensure that all payphone service providers are fairly compensated for each and every completed intrastate and interstate call using their payphone, except that emergency calls and telecommunications service relay calls for hearing disabled individuals shall not be subject to such compensation;

(B) *discontinue* the intrastate and interstate carrier access charge payphone service elements and payments in effect on such date of enactment, and all intrastate and interstate payphone subsidies from basic exchange and exchange access revenues in favor of a compensation plan as specified in subparagraph (A);

The FCC established the requirements for removal of the intrastate payphone subsidy in FCC Order 96-388 in CC Docket Nos. 96-128 and 91-35, issued September 20, 1996. Specifically, Paragraph 186 states as follows:

We require, pursuant to the mandate of Section 276(b)(1)(b), incumbent LECs to remove from their intrastate rates any charges that recover the costs of payphones. Revised tariffs must be effective no later than April 15, 1997. Parties did not submit state-specific information regarding the intrastate

rate elements that recover payphone costs. States must determine the intrastate rate elements that must be removed to eliminate any intrastate subsidies within this time frame.

The FCC's Order requires the states to "determine" which intrastate elements must be removed to eliminate any intrastate subsidies. Taken literally, "determine" means to set boundaries or to limit. "Determine" also means to fix authoritatively or conclusively. We believe that by any definition of "determine", it is reasonable to conclude that this Commission must take some affirmative action to decide which intrastate rate elements should be reduced to remove the subsidy.

The question then becomes whether our earlier decision in Order No. PSC-97-0358-FOF-TP, was a sufficient "determination" as required by Paragraph 186 of FCC Order 96-388. Does the FCC's requirement to "determine" the rate elements to be reduced mean that we must "specify" particular rate elements? In Order No. PSC-97-0358-FOF-TP, we stated:

Upon consideration, we find that a LEC must make rate reductions to the extent necessary to eliminate any intrastate payphone subsidy. We will not specify particular services or elements where LECs may make reductions. The LEC should have discretion regarding which rate elements are reduced and need only demonstrate via a price-out that the rate reduction eliminates the subsidy.

By placing the determination of what intrastate elements to reduce in the hands of the LECs, we have allowed the LECs complete discretion. Thus, in effect, the LECs have made the FCC-required determination, and we have not. Upon consideration, we find that we should specify which rate element(s) should be reduced to eliminate the intrastate payphone subsidy identified in this Order. We believe that at a minimum we should identify one or more intrastate rate elements that, based on the record in this proceeding, reasonably warrant reduction to remove the intrastate subsidy. While we do not believe that we must remove all discretion from the LECs as MCI suggests, we do believe that the determination should provide some reasonable constraint on the LECs' discretion to choose the rate elements to be reduced.

B. APPROPRIATE RATE ELEMENTS FOR REDUCTION

As we explained earlier, Section 276(a)(1) of the Act states that any Bell operating company (BOC) that provides payphone services shall not subsidize its payphone service directly or indirectly from its telephone exchange service operations or its exchange access operations. In addition, Section 276(b)(1)(B) states that a BOC shall discontinue all intrastate and interstate payphone subsidies from basic exchange and exchange access revenues. In its implementation of these provisions of the Act, the FCC through its Order requires LECs to remove from their intrastate rates any charges that recover the costs of payphones. The FCC Order, however, provides that the states must determine the intrastate rate elements that must be reduced to eliminate any intrastate subsidies. See FCC Order No. 96-388, ¶ 186. Set forth below is our determination of the appropriate rate elements for reduction.

The parties argued for reduction of several different rate elements. BellSouth's witness Lohman testified that with Section 276(b)(1)(B) of the Act, Congress intended to promote competition among payphone providers and encourage widespread deployment of payphone service. Witness Lohman also stated that the FCC Order gave the states the authority to determine which rate elements should be removed or reduced in order to remove the intrastate subsidy. Witness Lohman further argued that we met this requirement, as memorialized in our Order No. PSC-97-0358-FOF-TP, by giving the LECs discretion to choose which tariff elements must be reduced. Witness Lohman argued that our decision to approve BellSouth's reduction in hunting rates in order to eliminate the payphone subsidy recognized that the subsidies cannot be traced to any particular service. Accordingly, BellSouth reduced its hunting charges by \$6.5 million.

BellSouth's witness Lohman argued that the selection of hunting charges was a choice that directly benefits end user customers and responds to repeated customer requests for rate relief. Witness Lohman further argued that it is time for customers to benefit from reduction of a rate other than access charges. Witness Lohman testified that the hunting charge is the most appropriate place for this reduction. Witness Lohman contended that access rates have been reduced substantially in the last three years, and asserts that of the \$224 million reduction required by the BellSouth Settlement, \$183 million has gone to access charge reduction.

As to other potential rate elements for reduction, witness Lohman agreed that the CCL charge is priced above cost. Witness Lohman also argued that hunting, vertical services, operator services, and intrastate toll are all similarly priced above cost and therefore are providing contributions. Witness Lohman asserted that hunting has been identified as providing a significant contribution above cost, similar to access charges.

AT&T's witness Guedel and MCI witness both agreed with BellSouth that there is no direct mapping between subsidies or excess contribution produced by one service to a service that may receive a subsidy. While AT&T recognized the lack of direct mapping, witness Guedel contended that the CCL charge is the appropriate rate element. AT&T's witness Guedel testified that AT&T does not object to BellSouth reducing its hunting rates. Witness Guedel contended, however, that the reduction should not be targeted toward a service that BellSouth would reduce on its own volition for competitive reasons, such as the hunting group, but should be targeted toward a service that is not driven by competition, such as switched access charges.

Witness Guedel enumerated six points that support AT&T's position. First, access charges are priced significantly above cost. Furthermore, the mark-up on switched access charges is significantly higher than the mark-up BellSouth enjoys on any other major revenue producing service that BellSouth offers. The incremental cost incurred in providing the CCL charge is zero. Also, switched access has traditionally been priced high in an effort to keep other rates low, which is not the case with hunting charges or other local service offerings. As a price-cap LEC, BellSouth has sufficient opportunity to reduce end user rates, such as hunting group rates, to meet potential competitive markets. Finally, because of BellSouth's price-cap status, this reduction may be one of the last opportunities that this Commission may have in moving access charges closer to cost.

MCI's witness Reid agreed with AT&T that switched access receives little competitive pressure. Witness Reid contended that BellSouth's CCL rates provide substantial contribution to BellSouth's telephone operations in Florida. MCI's witness further asserted that payphone service is one of the services that requires this contribution. Witness Reid argued that in deciding which rate element(s) must be reduced, one must consider the relationship of the targeted rate element(s) to payphones, whether or not the targeted rate element(s) is providing a contribution, and whether

or not the targeted rate element(s) is favorably affected by competitive pressure.

Accordingly, witness Reid asserted that only rate elements that have a reasonable relationship to BellSouth's payphone operations should be used to effect the removal of the payphone subsidy. Witness Reid argued that intrastate toll, operator charges and switched access are appropriate rate elements because they all have some linkage to payphones. Witness Reid contended that hunting charges have no connection to the subsidy that BellSouth provides to its payphone operations.

FPTA asserted that the subsidy reduction should go to benefit the payphone providers; no witness, however, was proffered to support this position.

The parties in this proceeding agree on three points. First, there is no direct mapping between subsidies or excess contributions generated by one service to a service that may receive a subsidy. Second, access charges, intrastate toll, operator charges, hunting, and vertical services are priced above cost, and therefore are providing contributions. Finally, the carrier common line is priced above cost.

We agree with the parties that the intrastate payphone subsidies cannot be traced to any particular service. We also believe that the CCL, access charges, intrastate toll, operator services, hunting and vertical services are priced above cost. We also agree with MCI and AT&T that access charges, intrastate toll, and operator services provide revenue streams that can flow into a payphone operation, thus creating a relationship to payphones. We note, however, that MCI's argument that hunting has no relationship to a payphone is without merit, since we cannot determine which rate element(s) provide the payphone subsidy. FPTA provided no record evidence for its argument that the subsidy removal should benefit payphone providers.

Upon consideration, we believe that we should specify a menu of rate element(s) that are appropriate for reduction to remove the intrastate payphone subsidy. Such action will go to promote effective competition both among payphone providers and among providers of telephone service to business customers. We hereby specify that access charges, intrastate toll, operator services, and business rotary (hunting group) are approved for potential reduction to eliminate the subsidy. All of these rate elements are

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priced significantly above cost and produce substantial contribution for the companies. BellSouth shall reduce one or more of these services in order to remove the intrastate subsidy. We find no compelling reason to deny BellSouth its requested reduction of the hunting group rate element. We believe that such a reduction will directly benefit end user customers, both wholesale and retail. We further find that BellSouth shall demonstrate in its tariff filings, via a price-out, that this revenue reduction eliminates the subsidy.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Stipulations 1, 2, 3, 4, and 5 are approved as specified in the body of this Order. It is further

ORDERED that BellSouth Telecommunications Inc.'s (BellSouth's) intrastate subsidy of its payphone operation is \$7.543 million and that amount shall be removed as specified in the body of this Order. It is further

ORDERED that BellSouth may reduce access charges, intrastate toll, operator services, and business rotary (hunting group) to eliminate the intrastate payphone subsidy. BellSouth shall reduce the rates for one or more of these services in order to remove the intrastate subsidy. It is further

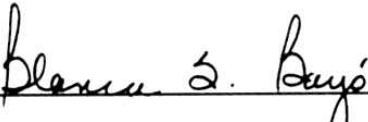
ORDERED that BellSouth shall demonstrate in its tariff filings, via a price-out, that its rate reductions eliminate the subsidy. It is further

ORDERED that Docket Nos. 970172-TP and 970173-TP are hereby closed. It is further

ORDERED that Docket No. 970281-TL shall remain open pending resolution of the remaining issues in the implementation of Section 276 of the Telecommunications Act of 1996.

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By ORDER of the Florida Public Service Commission this 22nd
day of October, 1997.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

WPC

Dissent: Chairman Julia L. Johnson dissented on the appropriate
rate elements for reduction.

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of Records and reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.