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GTE Telephone Operations

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July 8, 1997

Ms. Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 970173-TP
Docket No. 970281-TL

Dear Ms. Bayo:

Please find enclosed an original and fifteen copies of the Direct Testimonies of Steven A. Olson and Charles M. Scobie on behalf of GTE Florida Incorporated for filing in the above matters. Service has been made as indicated on the Certificate of Service. If there are any questions regarding this matter, please contact me at (813)

ACK _____
AFA 3 483-2615.

APP _____
CAF _____
Very truly yours,

CMU *Shelley*
CTR _____
EAG _____
Anthony P. Gillman

LEG 2 APG:tas
LIN 5 Enclosures

OPC _____
RCH _____
SEC 1 RECEIVED & FILED
FPC-BUREAU OF RECORDS

WAS _____
OTH _____
A part of GTE Corporation

Olson - 06844-577
Scobie - 06850-97

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that copies of the Direct Testimonies of Steven A. Olson and Charles M. Scobie on behalf of GTE Florida Incorporated in Docket Nos. 970173-TP and 970281-TL were sent via overnight delivery on July 7, 1997, to the parties on the attached list.


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GTE FLORIDA INCORPORATED
DIRECT TESTIMONY OF STEVEN A. OLSON
DOCKET NOS. 970173-TP AND 970281-TL

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Steven Olson. My business address is 600 Hidden Ridge Drive, Irving, Texas 75038.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed by GTE Telephone Operations as a Manager of Regulatory Accounting. In this position I have regulatory accounting responsibility for GTE's regulated telephone operations which include GTE Florida, Incorporated.

Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I graduated from Central Michigan University, Mt. Pleasant, Michigan with a Bachelor of Science degree in Accounting. I have a Master of Business Administration with a concentration in Federal Tax from Western Michigan University, Kalamazoo, Michigan. I am a Certified Internal Auditor. I have held a number of positions of increasing responsibility within GTE, including positions in General Accounting, Budget, Internal Auditing, Regulatory Earnings and Analysis, and Regulatory Accounting. I have held my current position of Manager - Regulatory Accounting since June, 1996.

DOCUMENT NUMBER DATE

06849 JUL -85

FPSC-RECORDS/REPORTING

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

2 A. The purpose of my testimony is to explain the process used by the
3 Company to determine whether the Company's Pay Telephone
4 Operations are subsidized by other services. My analysis is
5 contained in the "Public Telephone Subsidy Analysis - 1995 Actuals",
6 identified as Exhibit SO-1. This exhibit contains the financial data
7 prepared under my supervision to which I am testifying.

8

9 Q. WHAT DO THE FCC ORDERS IN DOCKET NO. 96-128 REQUIRE
10 IN THE WAY OF PAYPHONE SUBSIDIES?

11 A. FCC Report and Order 96-388 at ¶ 186 states: "We require, pursuant
12 to the mandate of Section 276(b)(1)(B), incumbent LECs to remove
13 from their intrastate rates any charges that recover the costs of
14 payphones."

15

16 Q. HOW DOES ONE DETERMINE WHETHER A PARTICULAR
17 SERVICE IS BEING SUBSIDIZED?

18 A. To determine whether a subsidy exists, compare the annual revenue
19 associated with the service with the annual cost incurred to provide
20 the service. If the revenue generated from the service equals or
21 exceeds the service's cost, there is no subsidy present.

22

23 Q. IS GTE FLORIDA PAY TELEPHONE OPERATIONS SUBSIDIZED
24 BY OTHER OPERATIONS?

25

1 A. No. The revenues generated by GTE's Pay Telephone Operation
2 cover the costs GTE incurs in providing this service. The annual
3 revenue associated with GTE's Pay Telephone Operation for 1995 is
4 \$20,873,637. Total annual intrastate costs incurred to provide this
5 service in 1995 is \$16,776,835. Therefore, it is clear that the
6 revenue generated from Pay Telephone Operations is sufficient to
7 cover the costs of providing the service. As such, no subsidy exists.
8

9 Q. HOW DID GTE DETERMINE THE ANNUAL REVENUES
10 ASSOCIATED WITH PAY TELEPHONE OPERATIONS?

11 A. A 1995 test year was chosen for the Company's compilation of its
12 annual revenue associated with Pay Telephone Operations. The
13 financial and accounting information utilized in the development of the
14 subsidy evaluation is taken directly from the books and records of the
15 Company. The books and records of the Company are maintained in
16 accordance with the Uniform System of Accounts for Class A
17 telephone companies as prescribed by Part 32 of the Federal
18 Communications Commission's ("FCC") rules and utilized by the
19 Florida Public Service Commission ("Commission"). Revenues
20 associated with Pay Telephone Operations are recorded to specific
21 subaccounts within the Uniform System of Accounts. These
22 subaccounts and the revenues recorded to each subaccount are
23 shown on Exhibit SO-1.
24
25

1 **Q. HOW DID GTE DETERMINE THE ANNUAL AMOUNT OF COSTS**
2 **INCURRED TO PROVIDE THE SERVICES?**

3 **A. The costs incurred to provide Pay Telephone Operations consist of**
4 **six components.**

5 1) Access line expense

6 2) Direct expense

7 3) Indirect general and administrative expense

8 4) Depreciation expense

9 5) Income tax expense, and

10 6) Return on investment

11

12 The financial data required to determine these costs were taken
13 directly from the books and records of the Company. The total state
14 expense is separated between the state and interstate jurisdictions
15 using the costing methodology prescribed by the FCC in its Part 36
16 and Part 69 rules. These rules have been the accepted standard in
17 the telephone industry to establish the direct assignment or allocation
18 of revenues, expenses, and investment between jurisdictions. For
19 selected items that could not be specifically identified in the FCC
20 separation study, total state Pay Telephone Operations expense
21 were separated to intrastate using a GTE Telephone Operations
22 average intrastate separation factor of .75 (75%). An explanation of
23 how each cost component was determined by the company follows.

24

25

1 **Access Line Expense** of \$4,722,871 contains the cost of the central
2 office switching facility and the local loop facility. This calculation
3 was developed by taking the monthly lcop cost times the average
4 payphone access line times 12 months. When the intrastate
5 separation factor is applied, the result for total intrastate expense is
6 \$3,542,153.

7
8 **Direct Expenses** of \$8,484,871, are those expenses recorded to
9 specific subaccounts within the Uniform System of Accounts
10 associated with Pay Telephone Operations. When the intrastate
11 separation factor is applied, the result for total intrastate expense is
12 \$6,874,871. The subaccounts from which these expense are
13 identified are shown on Exhibit SO-1.

14
15 **Indirect Expenses** associated with Pay Telephone Operations of
16 \$3,387,484, includes Indirect Expense Based on Corporate
17 Operations and Indirect Expense-Other. Indirect Expense Based on
18 Corporate Operations was determined as a percentage of Total
19 Company Corporate Operations Expense based on the percent of
20 Pay Telephone Operations revenues to Total Company Revenues.
21 Indirect Expense-Other includes amounts recorded to the books of
22 the Company based on specific functional or budget center codes
23 and the secondary impacts of the FCC Part 69 separation study
24 associated with Pay Telephone Operations other than those
25 expenses recorded to the direct expense accounts in Exhibit SO-1 or

1 those expenses recorded to the corporate operations expense
2 accounts. When the intrastate separation factor is applied, the result
3 for intrastate indirect expense is \$2,705,007.

4
5 **Depreciation Expense** of \$1,209,715 is equal to the increase in the
6 **Accumulated Depreciation, Account X351-Depreciation-Public**
7 **Telephone Equipment** identified by specific cost element codes, for
8 the year 1995. Intrastate depreciation expense is \$923,603.

9
10 **Intrastate Income Tax Expense** of \$2,731,201 was determined
11 using a GTE average Federal and State Income Tax rate of 40%
12 times the Intrastate Net Income Before Taxes of \$6,828,003. The
13 result would be a Net Income for Pay Telephone Operations of
14 \$4,096,802.

15
16 **Return on Investment** of \$293,672 was calculated by multiplying the
17 **Net Public Telephone Investment** of \$3,329,610 for GTE Florida,
18 Incorporated times their expected Authorized Rates of Return if the
19 Company was not under price regulation. When the intrastate
20 separation factor is applied the total intrastate return on investment
21 is \$233,258.

22
23 **Q. IS THIS PROPER METHOD OF DETERMINING COST FOR**
24 **SUBSIDY?**

25

1 A. Yes. As stated previously in my testimony, in order to determine
2 whether a subsidy exists, you must compare total annual costs
3 incurred to provide the service with total annual revenues associated
4 with the service. The compilation of revenues and expenses
5 described above reflect the December 31, 1995, actual twelve month
6 results of operations for Pay Telephone Operations in Florida. The
7 methods used by the Company for the subsidy evaluation ensure that
8 total revenues and total costs, both direct and indirect, which are
9 associated with Pay Telephone Operations have been identified.

10

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 A. Yes, it does.

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PUBLIC TELEPHONE SUBSIDY ANALYSIS - 1995 ACTUAL
State: GTE Florida, Incorporated
 Amounts in Whole Dollars

| Income Statement | Intrastate |
|--|---------------------|
| Revenues | |
| 5001.40 Semi-public recurring flat rate | \$1,248,087 |
| 5010.10 Local public message | 13,147,237 |
| 5010.20 Local semi-public message | 1,103,742 |
| 5010.30 Other public telephone | 217,152 |
| 5050.40 CPE - paystation equipment | 45,294 |
| 5060.54 NRC - paystation | (1,177) |
| 51xx.xx Intralata Toll Commissions | 5,113,302 |
| Total Revenues | \$20,873,637 |
| Expenses | |
| Access Line Expense | \$3,542,153 |
| Expense - Direct | |
| 6351.10 Public term coin equip. - maintenance and repair | 1,800,010 |
| 6351.11 Public term coin - install | 88,088 |
| 6351.30 Public other equipment expense - M&R | 674,781 |
| 6351.31 Public other - install | 8,354 |
| 6623.23 Coin telephone collection | 1,207,307 |
| 6623.24 Public telephone commission - interstate | 2,832 |
| 6623.25 Public telephone commission - intrastate | 1,359,843 |
| 6623.26 Public telephone commission - local | 1,733,656 |
| Total Direct Expense | 6,874,871 |
| Expense - Indirect | |
| Corporate Operations | 2,080,941 |
| Other indirect expense | 624,066 |
| Total Indirect Expense | 2,705,007 |
| Expense - Depreciation | 923,603 |
| Net Income Before Taxes | 6,828,003 |
| Federal and State Income Taxes @40% | 2,731,201 |
| Net Operating Income | 4,096,802 |
| Net Operating Income Requirement @8.82% | 233,258 |