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July 8, 1997

Mrs. Blanca S. Bayó
Director, Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket Nos. 970172-TP, 970173-TP and 970281-TL

Dear Ms. Bayó:

Enclosed is an original and fifteen copies of BellSouth Telecommunications, Inc.'s Direct Testimony of T. F. Lohman, which we ask that you file in the captioned matter.

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 to the parties shown on the attached Certificate of Service.

ACK
 AFA 3
 APP
 CAF
 CCM Shelton
 CTR Enclosures
 EAG Mf
 LER 2
 LIT 5 cc: All parties of record
 A. M. Lombardo
 R. G. Beatty
 William J. Ellenberg II
 S 1
 WAS
 OTH

Sincerely,

Nancy B. White
Nancy B. White (2L)

RECEIVED & FILED

[Signature]
DIVISION OF RECORDS

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REGISTRATION DIVISION

**CERTIFICATE OF SERVICE
DOCKET NO. 970281-TL and 970172-TP**

I HEREBY CERTIFY that a true and correct copy of the foregoing was served by Federal Express this 8th day of July, 1997 to the following:

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BELLSOUTH TELECOMMUNICATIONS, INC.

DIRECT TESTIMONY OF T. F. LOHMAN

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 970172-TP

DOCKET NO. 970281-TL

JULY 8, 1997

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Thomas F. Lohman. My business address is
675 West Peachtree Street N. E., Atlanta, Georgia.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am employed by BellSouth Telecommunications, Inc.
(BellSouth) as a Senior Director-Finance.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL
BACKGROUND.

A. I received a Bachelor of Science Degree (Accounting
and Finance Majors) from Florida State University in
1972. I am a Certified Public Accountant and a
current member of both the American and Florida
Institutes of Certified Public Accountants. I was

1 employed by BellSouth Finance in Jacksonville,
2 Florida in 1972, and have held various Finance
3 positions of increasing responsibility since that
4 time. I have been involved with Regulatory
5 Accounting Operations since 1980.

6

7 Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

8

9 A. I am responsible for Regulatory accounting issues
10 affecting the BellSouth region. These duties involve
11 oversight responsibilities for providing financial
12 data as required by various State regulatory entities
13 and the Federal Communications Commission.

14

15 Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY
16 PROCEEDINGS SUCH AS THIS?

17

18 A. Yes. I previously testified before the Florida
19 Public Service Commission, the South Carolina Public
20 Service Commission, and other commissions in the
21 BellSouth region on various accounting issues. Most
22 recently, I appeared before the South Carolina
23 Commission in Docket 97-0147-C, which addressed
24 BellSouth's elimination of the embedded intrastate
25 subsidy associated with payphone operations.

1

2 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

3

4 A. My testimony addresses issues related to elimination
5 of the Florida intrastate subsidy amount associated
6 with removing BellSouth's payphone operations from
7 regulated telephone operations.

8

9

10 Q. WHAT IS THE AMOUNT OF INTRASTATE PAYPHONE SUBSIDY, IF
11 ANY, THAT NEEDS TO BE ELIMINATED BY BELL SOUTH
12 PURSUANT TO SECTION 276(B)(1)(b) OF THE
13 TELECOMMUNICATIONS ACT OF 1996? (ISSUE 1)

14

15 A. BellSouth has determined that the amount of
16 intrastate payphone subsidy that needed to be
17 eliminated is \$6,501,000. A computation of this
18 subsidy amount was filed with the FPSC on February
19 26, 1997.

20

21 A brief description of the study is as follows. The
22 Company identified revenues, expenses and investment
23 associated with its Florida intrastate payphone
24 operations. BellSouth then calculated the achieved
25 rate of return for these operations and determined

1 that it was below an appropriate level. The revenues
2 required to raise this rate of return to an
3 appropriate level is the \$6,501,000 subsidy provided
4 by other intrastate services. A summary of the
5 subsidy study is attached as Exhibit No. TFL-1.

6
7 Concurrent with the Company's subsidy study,
8 BellSouth submitted a tariff filing reducing rates by
9 the subsidy amount of \$6,501,000, effective April 1,
10 1997. The Company's filings on February 26, 1997,
11 also met this Commission's requirements (in Order No.
12 PSC 97-0358-FOF-TP) for all companies to file data
13 supporting their payphone subsidy calculations by
14 March 31, 1997.

15
16 Q. DID THE FCC'S PAYPHONE RECLASSIFICATION ORDERS
17 DISCUSS THE SPECIFIC RATE ELEMENT(S) WHICH SHOULD BE
18 REDUCED TO ELIMINATE THE SUBSIDY? (ISSUE 2)

19
20 A. No. FCC Order 96-388, paragraph 186, states:
21 "We require, pursuant to the mandate of Section
22 276(b)(1)(B), incumbent LECs to remove from their
23 intrastate rates any charges that recover the costs
24 of payphones. Revised intrastate rates must be
25 effective no later than April 15, 1997. ... States

1 must determine the intrastate rates elements that
2 must be removed to eliminate any intrastate subsidies
3 within this time frame."
4

5 Q. HAS THE FLORIDA PUBLIC SERVICE COMMISSION SATISFIED
6 ITS REQUIREMENT CONCERNING ELIMINATION OF BELL SOUTH'S
7 SUBSIDY? (ISSUES 2, 3, 5, 6)

8
9 A. Yes. The Florida Public Service Commission met its
10 requirement in Order No. PSC-97-0358-FOF-TP,
11 documenting its decisions in the Agenda Session on
12 March 18, 1997. BellSouth had filed its tariff on
13 February 26, 1997, requesting that rates for Business
14 Hunting Charges be reduced by the amount of the
15 payphone subsidy. In the Agenda Session on March 18,
16 1997, the Commission fulfilled its responsibility by
17 allowing BellSouth's tariff change to be effective
18 April 1, 1997, thus eliminating the payphone subsidy.
19

20 Q. WHAT DID THIS COMMISSION CONSIDER BEFORE ALLOWING
21 BELL SOUTH'S TARIFF TO BECOME EFFECTIVE?
22 (ISSUES 2, 3, 5, 6)

23
24 A. BellSouth had filed to reduce Hunting Charges, a
25 choice which directly benefits the end user

1 customers, and which is in response to repeated
2 customer requests. In response to that filing, and
3 MCI's request for access reductions, Staff
4 recommended that the rate reductions be applied to
5 either intrastate toll, operator services, or
6 switched access. The Commission, after considering
7 the Staff's recommendation and MCI's request, elected
8 to allow BellSouth's reduced Hunting tariff to become
9 effective April 1, 1997.

10

11 This decision is reflected in the language in FPSC
12 Order No. PSC-97-0358-FOF-TP, on page 5:

13 "Unlike the interstate case where a portion of
14 payphone investment and expense is specifically
15 recovered through the CCL, any intrastate
16 payphone subsidy could be recovered anywhere.
17 Since intrastate rates are not set based on
18 allocated costs, there is no way of determining
19 which intrastate rate elements are contributing
20 to any payphone subsidy."

21

22 The following quotes from the transcript of the March
23 18, 1997 Agenda Session further illustrate the
24 Commissioners' reasoning in allowing BellSouth's
25 tariff to become effective April 1:

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Page 30, line 20:

COMMISSIONER DEASON: Well, as long as we specify that the subsidy has to be eliminated and give the flexibility to the company to design a tariff to accomplish that, how is that not in compliance with the FCC?

COMMISSION STAFF: My reading of the FCC's order is that we must determine which rate elements should be removed specifically.

COMMISSIONER CLARK: Well, one way to accomplish that is to simply accept the tariff they have filed and then request them to file the cost information. They have already chosen a service to reduce."

Thus, after considering BellSouth's filed tariff reduction and the Staff's recommendation to deny the tariff change and make the reduction in other rate elements, the Commission specifically decided to allow the reductions in Hunting Charges to go into effect on April 1, 1997, thus eliminating the intrastate embedded subsidy.

Q. SHOULD THESE DOCKETS BE CLOSED? (ISSUE 7)

1 A. Yes. BellSouth has met all requirements for the
2 transfer of its payphone operations and elimination
3 of its payphone subsidy. Therefore, Docket 970172-TP
4 should be closed, and BellSouth should be removed as
5 a party to Docket 970281-TL.

6

7 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

8

9 A. Yes.

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FLORIDA

Payphone Subsidy Calculation
Summary of Results

(\$000)

COL 1	COL 2	COL 3
<u>1998 Intrastate Financial Data</u>		
Payphone Revenue		
Public Revenue	56,262	
Semi Public Revenue	7,060	
Set Use Fee Revenue	5,176	
Exclude Operator Services Revenue	<u>(18,004)</u>	
Total Revenue		\$52,494
Access Line Expense		14,803
All Other Payphone Expense		
Commission Expense	10,086	
Collection Expense	6,430	
Maintenance Expense	12,285	
Depreciation	3,113	
Other Expense	<u>9,275</u>	
Total Payphone Expense		41,189
Total Expense		55,993
Taxes		(1,648)
Net Operating Income		(1,851)
Payphone Investment Base		19,048
Return on Investment Base		-9.72%
Return on Investment at 11.25%		2,143
Additional NOI required to achieve 11.25%		3,993
Revenue Subsidy at 11.25%		\$8,501
(Gross up to Revenue Requirement (3,993/61.42%))		