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July 8, 1997

**BY HAND DELIVERY**

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

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

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are the original and fifteen (15) copies of ALLTEL Florida, Inc.'s Direct Testimony and Exhibit of Harriet E. Eudy.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning the same to this writer.

Thank you for your assistance in this matter.

Sincerely,

  
J. Jeffrey Wahlen

ACK Enclosures

AFA cc All parties of record

APP all/970281.byo

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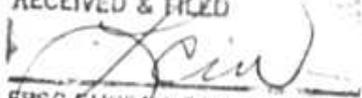
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**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U. S. Mail or hand delivery (\*) this 8th day of July, 1997, to the following:

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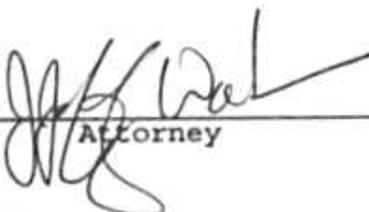
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\_\_\_\_\_  
Attorney

1                   BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2                                   DIRECT TESTIMONY

3   OF

4   HARRIET E. EUDY

5  
6       Q.    Please state your name and business address.

7  
8       A.    My name is Harriet E. Eudy. My business address is 206  
9            White Avenue, Live Oak, Florida, 32060.

10  
11      Q.    By whom, and in what capacity, are you employed?

12  
13      A.    I am employed by ALLTEL Florida, Inc. ("ALLTEL" or the  
14            "Company") as Manager, Regulatory Matters.

15  
16      Q.    Please describe your educational background.

17  
18      A.    I was graduated from North Florida Junior College in 1966  
19            with an Associate in Arts degree. I began working for  
20            North Florida Telephone Company (the predecessor of  
21            ALLTEL) in the accounting and cost separations areas. I  
22            became a supervisor in the regulatory department in  
23            1987, and I have held my current position in that  
24            department since 1991.

1 Q. Have you ever testified before the Florida Public Service  
2 Commission?  
3  
4 A. Yes. I have testified numerous times before the  
5 Commission on a wide variety of regulatory issues,  
6 including, but not limited to, extended area service and  
7 alternative toll plans, inside wire maintenance,  
8 intraLATA presubscription, expanded interconnection,  
9 universal service, 904 NPA Relief and Shared Tenant  
10 Services.  
11  
12 Q. What is the purpose of your testimony?  
13  
14 A. The purpose of my testimony is to (1) describe ALLTEL and  
15 its pay telephone operations in Florida, and (2) provide  
16 evidence on the issues in this case.  
17  
18 Q. Have you prepared an exhibit to accompany your prepared  
19 direct testimony?  
20  
21 A. Yes. Exhibit \_\_\_ (HEE-1) is an exhibit consisting of one  
22 document and was compiled under my direction and  
23 supervision to accompany this testimony.  
24

About ALLTEL

1

2

3 Q. Where does ALLTEL provide local exchange services in  
4 Florida?

5

6 A. ALLTEL provides local exchange telecommunications  
7 services to all or parts of thirteen (13) counties in  
8 North Central Florida. This service is provided under  
9 authority from the Commission as evidenced by  
10 Certificates of Public Convenience and Necessity. We  
11 serve all of the counties of Suwannee, Hamilton and  
12 Lafayette and parts of the counties of Alachua,  
13 Gilchrist, Bradford, Nassau, Marion, Putnam, Clay,  
14 Columbia, St. Johns and Union.

15

16 Q. How many exchanges has ALLTEL established to serve this  
17 area?

18

19 A. The Company presently has twenty-seven (27) exchanges  
20 which are located at Alachua, Branford, Brooker,  
21 Callahan, Citra, Crescent City, Dowling Park, Florahome,  
22 Florida Sheriffs Boys Ranch, Fort White, Hastings, High  
23 Springs, Hilliard, Interlachen, Jasper, Jennings, Lake  
24 Butler, Live Oak, Luraville, Mayo, McIntosh, Melrose,  
25 Orange Springs, Raiford, Waldo, Wellborn, and White

1           Springs.

2

3       **Q.**    What is the geographical size and density of the area the  
4           Company serves?

5

6       **A.**    ALLTEL's service territory is approximately 3,700 square  
7           miles.    As of December 31, 1996, ALLTEL served  
8           approximately 76,612 access lines.

9

10      **Q.**    What do these density figures reflect?

11

12      **A.**    These figures reflect the type of area we serve, i.e., a  
13           predominately rural agricultural area. We do not serve  
14           a major urban area or city. Rural areas tend to be more  
15           costly to serve, both in terms of the cost of initial  
16           construction and in terms of operating and maintenance  
17           costs.

18

19      **Q.**    What is the significance of these size and density  
20           statistics?

21

22      **A.**    These size and density statistics are very significant.  
23           Because ALLTEL is smaller and has fewer customers than  
24           the large, price regulated LECs operating in Florida, it  
25           is relatively more difficult for ALLTEL to deal with

1 revenue losses without seeking general rate relief.

2

3 Q. Has ALLTEL elected to be regulated under the "price  
4 regulation" provisions in Chapter 364, Florida Statutes  
5 (1995)?

6

7 A. No. ALLTEL is a "small local exchange telecommunications  
8 company" within the meaning of Section 364.052, Florida  
9 Statutes (1995), and has not elected price regulation at  
10 this time. Accordingly, ALLTEL remains on rate of return  
11 regulation.

12

13 Q. How many pay stations does ALLTEL have?

14

15 A. As of June 30, 1997, ALLTEL had 272 semi-public pay  
16 phones and 103 public pay phones. These statistics are  
17 significant because they show that developing and growing  
18 the pay telephone business is not a high priority for  
19 ALLTEL. Rather, ALLTEL has looked at pay telephones as  
20 an integrated part of the public service functions that  
21 LECs like ALLTEL have always provided.

22

Issues

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Q. What is the amount of intrastate payphone subsidy, if any, that needs to be eliminated by ALLTEL pursuant to Section 276(B)(1)(b) of the Telecommunications Act of 1996?

A. None.

Q. Please explain.

A. First, it should be noted that ALLTEL is not one of the local exchange companies ("LECs") to which a protest of the PAA order was directed. All of the parties to this docket had an opportunity to protest the PAA order as it related to ALLTEL, but no one did. Moreover, no one has complained about ALLTEL's pay telephone tariffs in this proceeding. The protests filed in this case only relate to GTE and Bellsouth. That being the case, it would appear that market participants saw no burning need to identify and eliminate a "subsidy" for ALLTEL. Indeed, it would appear that market participants evaluated the potential "subsidy" amount for ALLTEL and decided not to protest the PAA order as it relates to ALLTEL or complain about ALLTEL's tariffs. The Commission should take a

1           hint from the market participants and decline to  
2           investigate the possibility of a subsidy any further.

3  
4           Second, even if there is a burning need to compute a  
5           "subsidy" amount, ALLTEL is not sure how an intrastate  
6           subsidy would be properly calculated and applied to  
7           ALLTEL. ALLTEL's pay telephone and access rates were  
8           established in a rate of return/residual ratemaking  
9           environment. ALLTEL's intrastate pay telephone and  
10          access rates were not "cost-based" when they were  
11          adopted, and ALLTEL knows of no cost methodology  
12          previously adopted by the FPSC that can be rationally  
13          applied to ALLTEL for a group of services like LEC  
14          provided pay phone services. Determining the levels of  
15          revenues and expenses associated with ALLTEL's pay  
16          telephone operations is inherently difficult and  
17          judgmental, because ALLTEL's accounting systems were not  
18          designed for the purpose of generating information on pay  
19          stations as a line of business. Consequently, ALLTEL is  
20          not aware of any "correct" method to identify an  
21          intrastate "subsidy" in this situation with the precision  
22          necessary to drive a rate change.

23  
24          Third, even if some calculation by some party or the  
25          Staff indicates that there is a "subsidy," ALLTEL

1 believes that there is no subsidy to be eliminated for  
2 ALLTEL because it remains on rate of return regulation  
3 and is earning within its authorized range of rates of  
4 return. Any rate reduction forced by the Commission in  
5 this case could result in a need for a local rate  
6 increase or some other form of rate relief. For the  
7 Commission to use some cost methodology to calculate a  
8 "subsidy" and then remove the "subsidy" when ALLTEL is  
9 not earning above its authorized earnings level would  
10 amount to improper single issue ratemaking.

11  
12 Q. If an intrastate payphone subsidy is identified, do the  
13 FCC's Payphone Reclassification Orders require the  
14 Florida Public Service Commission to specify which rate  
15 elements should be reduced to eliminate such subsidy?

16  
17 A. This is a legal issue that will be fully discussed in  
18 ALLTEL's brief. However, as the letter attached to my  
19 testimony shows, it would appear that the Common Carrier  
20 Bureau of the FCC has taken the position in a letter to  
21 another state commission that the FCC's orders do not  
22 specify specific rate elements to be reduced.

23  
24 Q. If an intrastate payphone subsidy is identified, what is  
25 the appropriate rate element(s) to be reduced to

1           eliminate such subsidy?

2  
3       A.   As noted above, there is no intrastate payphone subsidy  
4           that needs to be eliminated by ALLTEL.  However, if a  
5           subsidy is identified and needs to be eliminated, ALLTEL  
6           believes that the following principles should apply.

7  
8           First, it should be noted that ALLTEL is required by  
9           Florida law to make certain access charge reductions on  
10          an annual basis.  This provision is in Section  
11          364.163(6), Florida Statutes, which provides that LECs  
12          "whose current intrastate switched access rates are  
13          higher than its interstate switched access rates in  
14          effect on December 31, 1994, shall reduce its intrastate  
15          switched access rates by 5 percent annually beginning  
16          October 1, 1996."  If the reduction, if any, could be  
17          applied as part of the 5% annual access reduction (rather  
18          than in addition to), ALLTEL would suggest that the  
19          "subsidy" be applied to the intrastate carrier common  
20          line rate element ("CCL").  This would make sense,  
21          because there is no indication in the FCC orders that  
22          rate reductions, if any, should be independent of any  
23          other rate reductions that might be required.

24  
25          Second, if the reduction, if any, is not going to be

1 applied as part of the 5% annual access reduction (rather  
2 than in addition to), the reduction should be applied to  
3 intraLATA toll rates. This makes sense as a second  
4 alternative because of recent changes in the intraLATA  
5 toll market and the likelihood that ALLTEL will be facing  
6 more competition in the intraLATA toll market in the near  
7 future. It is also appropriate because it would allow  
8 end user customers to benefit from the reduction.

9 Q. If necessary, by what date should revised intrastate  
10 tariffs that eliminate any identified intrastate payphone  
11 subsidy be filed?

12  
13 A. As noted above, there is no intrastate payphone subsidy  
14 that needs to be eliminated by ALLTEL. However, if a  
15 subsidy is identified and needs to be eliminated, ALLTEL  
16 believes that the following principles should apply.

17  
18 If the reduction, is applied as part of the 5% annual  
19 access reduction (rather than in addition to) by applying  
20 it to the intrastate carrier common line rate element  
21 ("CCL"), the tariff filing should be made so that the  
22 tariff would be effective on October 1, 1997. Otherwise,  
23 the tariffs should be required to be filed within 30 days  
24 of the date of the final order.

25

1 Q. Is April 15, 1997, the appropriate effective date for  
2 revised intrastate tariffs that eliminate any identified  
3 intrastate payphone subsidy?  
4

5 A. No. None of the PAA protests in this case were directed  
6 to ALLTEL, and no one has challenged the Company's  
7 intrastate tariff. Likewise, the FPSC has not issued an  
8 order requiring that ALLTEL hold any relevant revenues  
9 subject to refund. As noted above, since ALLTEL is not  
10 in an overearnings situation, there would be no basis for  
11 holding revenues subject to refund anyway.  
12

13 Accordingly, the FPSC should not impose a retroactive  
14 effective date for any tariff change ordered in this  
15 docket. If a reduction to the CCL is ordered, the  
16 effective date of the tariff revisions should be October  
17 1, 1997. If it should be applied to some other element,  
18 the effective date should be as provided by Florida law  
19 based on the filing date for the tariff as provided in  
20 the final order.  
21

22 Q. Does that conclude your direct testimony?  
23

24 A. Yes, it does.  
25