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July 16, 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 Rebuttal 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.

Sincerely,

*Nancy B. White*  
Nancy B. White (Handwritten initials)

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Enclosures

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cc: All parties of record  
A. M. Lombardo  
R. G. Beatty  
William J. Ellenberg II

DOCUMENTED BY - DATE

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**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 16th day of July, 1997 to the following:

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\_\_\_\_\_  
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BELLSOUTH TELECOMMUNICATIONS, INC.  
REBUTTAL TESTIMONY OF T. F. LOHMAN  
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET NO. 970172-TP  
DOCKET NO. 970281-TL  
JULY 16, 1997

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS, AND POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC..

A. My name is Thomas F. Lohman. My business address is 675 West Peachtree Street N. E., Atlanta, Georgia. My position is Senior Director for the Finance Department of BellSouth Telecommunications, Inc. (hereinafter referred to as "BellSouth" or "the Company").

Q. ARE YOU THE SAME THOMAS F. LOHMAN WHO FILED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes. I filed direct testimony on behalf of BellSouth on July 8, 1997.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

DOCUMENT NUMBER-DATE  
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1

2 A. My testimony addresses the proposals by MCI Witness  
3 Reid and AT&T Witness Guedel concerning which  
4 intrastate rate elements should be reduced to  
5 eliminate any intrastate subsidy related to payphone  
6 operations.

7

8 Q. WHAT DID THE TWO INTEREXCHANGE CARRIER'S WITNESSES  
9 RECOMMEND AS THE APPROPRIATE RATE ELEMENT TO REDUCE  
10 IN ORDER TO ELIMINATE ANY SUBSIDY?

11

12 A. Not surprising anyone, the carriers recommend that  
13 all reductions be made to switched access rates.  
14 This is a continuation of their constant demand that  
15 most, if not all, rate reductions in Florida should  
16 be used to reduce access rates.

17

18 Q. HAVE ACCESS RATES BEEN REDUCED IN THE LAST THREE  
19 YEARS?

20

21 A. Yes. The stipulation approved by this Commission in  
22 Order No. PSC-94-0172-FOF-TL required BellSouth to  
23 reduce rates by \$60, \$80 and \$84 million dollars on  
24 July 1, 1994, October 1, 1995 and October 1, 1996,  
25 respectively, for a total reduction of \$224 million

1 in annual revenues. Of this amount, \$183 million  
2 were made as access reductions. Thus, the carriers  
3 have received over 81% of the required rate  
4 reductions made in the last three years. The most  
5 recent access reductions were \$78 million, or 93% of  
6 the \$84 million total reduction required in 1996.

7  
8 Q. WHY DO THE CARRIERS CONTINUE TO ASK FOR ACCESS  
9 REDUCTIONS FROM BELLSOUTH WHEN THEY HAVE ALREADY  
10 RECEIVED SWITCHED ACCESS RATE REDUCTIONS OF 57% OVER  
11 THE PAST THREE YEARS?

12  
13 A. I can't speak to the carriers' specific reasons.  
14 However, as an accountant (and as a matter of common  
15 sense), I believe all businesses strive to lower  
16 their costs of doing business thus improving their  
17 earnings and their owners' wealth. Obviously, access  
18 rate reductions, unless 100% "flowed through" to end  
19 users, would accomplish this for the carriers.

20  
21 Q. MS. REID STATES THAT THE STAFF RECOMMENDATION  
22 IDENTIFIED SWITCHED ACCESS REVENUES AND TOLL/OPERATOR  
23 SERVICES REVENUES AS BEING THE REVENUE STREAMS  
24 SUPPORTING THE INTRASTATE PAYPHONE SUBSIDY. (REID

25

1 PAGE 4 LINE 20) HAS SHE CORRECTLY STATED STAFF'S  
2 POSITION?  
3  
4 A. No, she has not. As Ms. Reid stated earlier in her  
5 testimony, Staff felt that "it is logical to  
6 attribute the subsidy to one or more of the various  
7 network revenue streams which can flow from a  
8 payphone" (emphasis added) (Reid page 4 Line 18). In  
9 fact, the recommendation unequivocally states "Since  
10 intrastate rates are not set based on allocated  
11 costs, there is no way of determining which  
12 intrastate rate elements are contributing to any  
13 payphone subsidy." (Staff's recommendation page 5)  
14  
15 This view was reinforced at the March 18th agenda  
16 where Staff again stated, "There was no payphone  
17 cost, per se, that is explicitly recovered....to the  
18 extent that the intrastate, that the LEC's payphone  
19 operation is being subsidized at the intrastate  
20 level, it could be subsidized from any number of  
21 sources." (Agenda transcript page 8 line 3) and  
22 later "...there is really no way absolutely of  
23 telling where the subsidy is coming from". (Agenda  
24 transcript page 18 line 5)  
25

1 In discussing the issue at agenda, Staff readily  
2 acknowledged that there was a basis for reducing rate  
3 elements other than toll, operator surcharges or  
4 switched access and that a subsidy cannot be traced  
5 from one service to another.

6  
7 Ms. Reid mischaracterizes Staffs' recommendation and  
8 testifies that Staff "identified switched access and  
9 toll/operator services revenues as being the revenue  
10 stream supporting the intrastate payphone subsidy."  
11 (emphasis added) (Reid page 4 line 20) Then, in the  
12 next sentence, Ms. Reid utilizes this erroneous  
13 statement to justify her recommendation "Hence it is  
14 appropriate for payphone subsidies to be removed by  
15 reducing the rates for one of these BST services."  
16 (Reid page 4 line 22)

17  
18 Ms. Reid's testimony that Staff "identified" the  
19 subsidy revenue stream proves that she doesn't  
20 understand (1) Staffs' discussion of tracing  
21 subsidies in their recommendation, (2) the very  
22 detailed discussion concerning tracing subsidies at  
23 the agenda and (3) the Commission's Order No. PSC-97-  
24 0358-FOF-TP which again stated that "...there is no  
25 way of determining which intrastate rate elements are

1 contributing to any payphone subsidy". Obviously,  
2 given this total misunderstanding of the facts, no  
3 credence should be given to this portion of her  
4 testimony.

5

6 Q. PLEASE COMMENT ON BOTH MS. REID AND MR. GUEDEL  
7 RELYING ON ACCESS PRICES BEING ABOVE COST AS A REASON  
8 TO DIRECT THE SUBSIDY REDUCTION TO SWITCHED ACCESS.

9

10 A. I agree that the subsidy reduction should be made to  
11 a service element that is priced above cost.  
12 However, there are many rate elements other than  
13 switched access that are priced above their costs.  
14 These include hunting, custom calling features, toll  
15 services, operator services, and others. Given the  
16 fact that over 81% of the rate reductions that  
17 BellSouth was required to make in the past three  
18 years has gone to the carriers, I believe this  
19 reduction should be made to directly benefit a  
20 different group of customers. The Hunting reduction  
21 approved in March by this Commission accomplishes  
22 this goal.

23

24 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

25

1 A. Neither Ms. Reid or Mr. Guedel have brought to light  
2 any issues that weren't discussed at the March 18,  
3 1997 agenda conference and in the Commissions' order.  
4 The Commission approved BellSouth's reduction in  
5 Hunting rates in order to eliminate the intrastate  
6 subsidy related to payphone operations. This  
7 decision recognized that subsidies cannot be traced  
8 to any particular service and that the Commission has  
9 the right to reduce any intrastate rate element it  
10 deems appropriate.

11

12 BellSouth's rate reduction directly benefits end user  
13 customers and reflects the belief that because the  
14 carriers received over 81% of the required rate  
15 reductions in the past three years, it is appropriate  
16 for end user customers to directly benefit from this  
17 reduction. There has been no evidence presented in  
18 the carriers' testimony that would give the  
19 Commission any reason to change their original  
20 decision regarding BellSouth's reduction in Hunting  
21 rates.

22

23 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

24

25 A. Yes.