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3 **BEFORE:** CHAIRMAN JULIA L. JOHNSON
4 COMMISSIONER J. TERRY DEASON
5 COMMISSIONER SUSAN F. CLARK
6 COMMISSIONER DIANE K. KIESLING
7 COMMISSIONER JOE A. GARCIA
8
9 **TIME:** Commenced at 9:30 a.m.
10 Concluded at 12:30 p.m.
11
12 **PLACE:** Florida Public Service Commission
13 Room 148
14 2540 Shumard Oak Boulevard
15 Tallahassee, Florida
16
17 **REPORTED BY:** JOY KELLY, RPR
18 Chief, Bureau of Reporting
19 Florida Public Service Commission
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1 **APPEARANCES:**

2 **NANCY B. WHITE**, Southern Bell Telephone and
3 Telegraph Company, 150 South Monroe Street, Suite 400,
4 Tallahassee, Florida 32301, appearing on behalf Bell
5 South Telecommunications, Inc.

6 **KIMBERLY CASWELL**, GTE Florida Incorporated,
7 Post Office Box 110, MC 7, Tampa, Florida 32301,
8 appearing on behalf of GTE Florida Incorporated.

9 **CHARLES J. REHWINKEL**, P. O. Box 2214,
10 MCFLTLH00107, Tallahassee, Florida 32301, on behalf of
11 Sprint-Florida, Incorporated.

12 **J. JEFFRY WAHLEN**, Ausley & McMullen, Post
13 Office Box 391, Tallahassee, Florida 32302, appearing
14 on behalf of ALLTEL Florida, Inc., Northeast Florida
15 Telephone Company, Inc., and Vista-United
16 Telecommunications

17 **DAVID B. ERWIN**, Young, van Assenderp and
18 Varnadoe, P. A., P. O. Box 1833, Tallahassee, Florida
19 32302-1833, appearing on behalf of Florida
20 Telecommunications, Frontier Communications of the
21 South, Inc., Gulf Telecommunications, Indiantown
22 Telephone System, Inc., Quincy Telephone Company and
23 St. Joseph Telecommunications.

24

25

1 **APPEARANCES CONTINUED:**

2 **TRACY HATCH**, AT&T Communications of the Southern
3 States, Inc., 101 North Monroe Street, Suite 700, Tallahassee,
4 Florida 32301, on behalf of AT&T Communications of the
5 Southern States.

6 **RICHARD D. MELSON**, Hopping Green Sams & Smith, P.A.,
7 P. O. Box 6526, Tallahassee, Florida 32314 on behalf of MCI
8 Telecommunications Corporation.

9 **ANGELA B. GREEN**, 125 South Gadsden Street, Suite
10 200, Tallahassee, Florida 32301-1525, on behalf of Florida
11 Public Telecommunications Association.

12 **MARTHA CARTER BROWN**, **CHARLES PELLEGRINI** and **WILLIAM**
13 **COX**, Florida Public Service Commission, 2540 Shumard Oak
14 Boulevard, Tallahassee, Florida 32399-0850.

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I N D E X

MISCELLANEOUS

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P R O C E E D I N G S

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2 **CHAIRMAN JOHNSON:** Call the hearing to
3 order. Counsel, could you please read the notice?

4 **MR. PELLEGRINI:** Yes, Chairman. Pursuant to
5 notice dated July 16, 1997, this time and place have
6 been set for an administrative hearing in
7 Docket 970172-TP, in re: petition by
8 MCI Telecommunications Corporation for an order
9 requiring BellSouth Telecommunications, Inc. to remove
10 its deregulated payphone investment and associated
11 expense from its intrastate operations and reduce the
12 carrier common line rate element of its intrastate
13 switched access charges by approximately \$36.5 million
14 as required by the Federal Telecommunications Act of
15 1996.

16 And in Docket 970173-TP, in re: petition by
17 MCI Telecommunications Corporation for an order
18 requiring GTE Florida, Incorporated, to remove its
19 deregulated payphone investment and associated
20 expenses from its intrastate operations and reduce
21 carrier common line rate element of its intrastate
22 switched access charges by approximately \$9.6 million
23 as required by the Federal Telecommunications Act of
24 1996.

25 And in Docket 970281-TL, in re:

1 establishment of intrastate implementation
2 requirements governing federally mandated regulation
3 of local exchange company payphones.

4 **CHAIRMAN JOHNSON:** Take appearances.

5 **MS. CASWELL:** Kim Caswell, GTE Florida, One
6 Tampa City Center, Tampa, Florida 33601.

7 **MS. WHITE:** Nancy White, BellSouth
8 Telecommunications, 150 West Flagler Street,
9 Suite 1900, Miami, Florida.

10 **MR. WAHLEN:** Jeff Wahlen of the Ausley and
11 McMullen law firm, P.O. Box 391, Tallahassee, Florida,
12 on behalf of ALLTEL, Northeast, and Vista-United
13 Telecommunications.

14 **MR. ERWIN:** I'm David Erwin, 225 South Adams
15 Street, Tallahassee, appearing on behalf of those
16 companies listed on the Prehearing Order.

17 **MS. GREEN:** Angela Green, 125 South Gadsden
18 Street, Suite 200, Tallahassee, Florida 32301,
19 appearing on behalf of the Florida Public
20 Telecommunications Association.

21 **MR. HATCH:** Tracy Hatch, 101 North Monroe
22 Street, Tallahassee, Florida, appearing on behalf of
23 AT&T.

24 **MR. MELSON:** Richard Melson of the law firm
25 of Hopping Green Sams & Smith P.A., P.O. Box 6526,

1 Tallahassee, appearing on behalf of MCI
2 Telecommunications Corporation.

3 MR. REHWINKEL: Charles Rehwinkel, appearing
4 on behalf of Sprint-Florida, Incorporated, 1313
5 Blairstone Road, Tallahassee, Florida 32301.

6 MR. PELLEGRINI: Charles Pellegrini, Martha
7 Carter and Will Cox, appearing on behalf of the
8 Florida Public Service Commission Staff, 2540 Shumard
9 Oak Boulevard, Tallahassee, Florida 32399.

10 CHAIRMAN JOHNSON: Okay. Any preliminary
11 matters?

12 MR. PELLEGRINI: Yes, Chairman, there are a
13 number of preliminary matters.

14 CHAIRMAN JOHNSON: One other preliminary
15 announcement. Commissioner Garcia probably will not
16 be with us today. He was in an automobile accident,
17 this morning, though minor, and he has not been
18 injured, but he will not participate in today's
19 proceeding. Continue.

20 MR. PELLEGRINI: The first matter is this:
21 That Staff recommends that the Commission approve the
22 five stipulations set forth in the Prehearing Order at
23 Pages 15 through 17.

24 CHAIRMAN JOHNSON: I'm sorry. We're going
25 to need to take a five-minute break. Go off the

1 record.

2 (Brief recess taken.)

3 CHAIRMAN JOHNSON: We're going to go back on
4 the record. Mr. Pellegrini, the preliminary matters,
5 if you could repeat --

6 MR. PELLEGRINI: Yes. Staff recommends that
7 the Commission approve the five stipulations set forth
8 in the Prehearing Order at Pages 15 through 17, and
9 I'd like to take a brief time to describe what those
10 stipulations are.

11 The first stipulation involves the subsidies
12 of the small LECs, and sets forth those amounts. It
13 also states that with the exception of Quincy and
14 Indiantown, these subsidy amounts will be eliminated
15 by the small LECs via switched intrastate switched
16 access rate reductions.

17 Quincy and Indiantown agree that the subsidy
18 will be eliminated in accordance with the Commission's
19 decision in Issue 3 in this proceeding.

20 Stipulation 2 concerns GTE's subsidy. That
21 is at zero. Stipulation 3 concerns Sprint-Florida's
22 subsidy. That is zero.

23 Stipulation 4 concerns the effectivity of
24 BellSouth's filed tariff. It states that if the
25 Commission makes the same decision, the revised tariff

1 shall remain effective as filed. If the Commission
2 makes a different decision, the revised tariff should
3 be filed within 30 days of the issuance of the final
4 order.

5 And, finally, a fifth stipulation concerns
6 the effective date of the tariff, making it April 15,
7 1997, in any case.

8 **CHAIRMAN JOHNSON:** Okay. Commissioners,
9 have you had an opportunity to review the proposed
10 stipulations?

11 **COMMISSIONER DEASON:** Yes, I have a question
12 concerning the first stipulation. I guess I can
13 direct it to Mr. Erwin.

14 For Quincy and Indiantown it's based upon
15 the resolution of Issue 3 and, really, it seems to me
16 at this point if the other stipulations are accepted,
17 the only question is as it relates to BellSouth, and
18 it's a question of hunting charges versus access
19 charges. And I'm trying to understand if the decision
20 is to sustain the previous decision and have BellSouth
21 reduce hunting charges. Is that what Indiantown and
22 Quincy is going to do to reduce hunting charges?

23 **MR. ERWIN:** No. The idea of this is that
24 the Company has chosen to do whatever it wished, or to
25 apply this reduction to whatever element it wished to

1 apply it to; and that if Bell is permitted to apply it
2 to whatever they wanted to -- in this case hunting
3 charges -- that then Indiantown and Quincy would like
4 that same latitude to apply it to whatever appropriate
5 element they feel they should use, rather than access
6 charges.

7 **COMMISSIONER DEASON:** And when will we learn
8 what those appropriate elements are if that is the
9 course of action which is followed?

10 **MR. ERWIN:** I guess when we file the tariff
11 to reduce it. And we don't want to argue what your
12 decision should be with respect to Bell. We just
13 simply wanted to be allowed to --

14 **COMMISSIONER DEASON:** You want the
15 flexibility to propose what you think is appropriate.

16 **MR. ERWIN:** Right.

17 **COMMISSIONER DEASON:** And will the
18 Commission have the opportunity to determine if what
19 you specifically propose is appropriate?

20 **MR. ERWIN:** Only with regard to the filing
21 of the tariff, at that stage of the proceedings.

22 **COMMISSIONER DEASON:** Unless there are other
23 questions, I can move all of the stipulations.

24 **COMMISSIONER JOHNSON:** There is a motion.
25 Is there a second?

1 **COMMISSIONER KIESLING:** Second.

2 **COMMISSIONER CLARK:** Second.

3 **CHAIRMAN JOHNSON:** Seeing no further
4 discussion, show them approved unanimously.

5 **MR. PELLEGRINI:** Next, Staff asks that the
6 Commission grant official recognition of the four FCC
7 orders and the one Commission Order listed on the
8 Orders for Official Recognition Sheet.

9 Staff would also ask that this be marked as
10 Exhibit 1, although it's not absolutely necessary, but
11 that is Staff's preference.

12 **CHAIRMAN JOHNSON:** Okay. We will take
13 official recognition of the documents provided by
14 Staff. "Orders of Official Recognition" will be the
15 short title, and it will be marked as Exhibit 1.

16 (Exhibit 1 marked for identification.)

17 **MR. PELLEGRINI:** Next, Staff would call the
18 attention of the Commissioners to the asterisk note to
19 the witness list on Page 8 of the Prehearing Order.
20 This provides that GTE, Sprint-Florida and ALLTEL
21 witnesses are excused from this hearing upon approval
22 of the stipulations.

23 I understand that this was discussed
24 following the prehearing conference with each of the
25 Commissioner's offices and that none expressed

1 objection. If that is the case, I don't think the
2 Commission needs to act further at this time.

3 CHAIRMAN JOHNSON: Okay.

4 MR. PELLEGRINI: There is a sixth
5 stipulation relating to evidence. BellSouth, AT&T and
6 MCI have agreed to the entry into the evidentiary
7 record of the following documents: BellSouth's tariff
8 filing dated February 26th, 1997, Section 8.3, Basic
9 Local Exchange Service and Associated Florida Payphone
10 Study, and supporting work papers, which has been
11 identified as STP-6-1.

12 Second, BellSouth's response to AT&T's first
13 set of interrogatories dated July 15, 1997, identified
14 as STP 6-2. Sorry. STP-6-3.

15 And, third, BellSouth's response to Staff's
16 First Set of Interrogatories dated July 23rd, 1997,
17 identified STP-6-2. Staff requested that agreement.

18 CHAIRMAN JOHNSON: You're requesting that we
19 do what?

20 MR. PELLEGRINI: I'm simply noting that
21 Staff had requested the agreement of the parties, that
22 these documents be introduced into evidence through
23 the agreement of the parties.

24 CHAIRMAN JOHNSON: Do we have copies of what
25 you're asking?

1 MR. PELLEGRINI: Yes. Yes, you do.

2 CHAIRMAN JOHNSON: Do I have copies? I do?
3 It's in the clip? Oh, in the same clip.

4 MR. PELLEGRINI: I would suggest that it
5 would be appropriate now to mark them for
6 identification and receive them into evidence.

7 CHAIRMAN JOHNSON: I'm sorry?

8 MR. PELLEGRINI: I say I would suggest that
9 it would be appropriate now to mark them for
10 identification and to receive them into evidence.

11 CHAIRMAN JOHNSON: Let me look at them. I
12 was looking for them. I didn't know I had them.

13 MR. PELLEGRINI: All right. (Pause)

14 COMMISSIONER KIESLING: Could I get a
15 clarification while she's looking at them?

16 I have three things, STP-6-1, 2 and 3. You
17 mentioned some other items. Do we have those?

18 MR. PELLEGRINI: No, just those items,
19 Commissioner Kiesling, just the three.

20 COMMISSIONER KIESLING: Oh, that was a
21 description of what was in them.

22 MR. PELLEGRINI: Yes.

23 COMMISSIONER KIESLING: Thank you. I
24 thought you were saying "and".

25 MR. PELLEGRINI: No. I'm sorry if I

1 confused you.

2 COMMISSIONER KIESLING: Okay.

3 CHAIRMAN JOHNSON: Okay. Then we'll need to
4 identify these, and I know you went through them, but
5 I was having a hard time following that, too.

6 Go ahead and give me a short title for each
7 of the documents.

8 MR. PELLEGRINI: "BellSouth's tariff filing
9 dated February 26th, 1997."

10 CHAIRMAN JOHNSON: Okay. We'll identify
11 that as Exhibit 2.

12 (Exhibit 2 marked for identification.)

13 MR. PELLEGRINI: Yes. BellSouth's response
14 to Staff's First Set of Interrogatories would be next.

15 CHAIRMAN JOHNSON: We'll identify that as
16 Exhibit 3.

17 (Exhibit 3 marked for identification.)

18 MR. PELLEGRINI: And next would be
19 BellSouth's responses to AT&T's First Set of
20 Interrogatories.

21 CHAIRMAN JOHNSON: And we'll identify that
22 as Exhibit 4.

23 (Exhibit 4 marked for identification.)

24 MR. PELLEGRINI: And that, Chairman Johnson,
25 completes the preliminary matters of which Staff is

1 aware.

2 MR. REHWINKEL: Madam Chairman, I was
3 wondering at this time if it would be appropriate to
4 ask and receive excusal from the remainder of the
5 hearing for Sprint since our issues have been
6 stipulated.

7 CHAIRMAN JOHNSON: Any objections to that?
8 You may be excused. Thank you for bringing that to
9 our attention.

10 MR. ERWIN: The same would be true for those
11 clients that I represent.

12 MR. WAHLEN: And me, too.

13 CHAIRMAN JOHNSON: They are all excused.

14 MR. WAHLEN: Thank you very much.

15 COMMISSIONER KIESLING: Just so I'm clear,
16 Chairman, did you admit Exhibit 2, 3 and 4?

17 CHAIRMAN JOHNSON: I haven't admitted any of
18 them. I've only identified 1 through 4.

19 MR. PELLEGRINI: Well, I would suggest that
20 this might be an appropriate time to admit them.

21 CHAIRMAN JOHNSON: Okay. Show them, then,
22 Exhibits 1 through 4, admitted into the record without
23 objection.

24 (Exhibits 1 through 4 received in evidence.)

25 CHAIRMAN JOHNSON: Any other preliminary

1 matters?

2 MR. PELLEGRINI: No, Chairman Johnson, not
3 from Staff.

4 CHAIRMAN JOHNSON: Then are we prepared to
5 swear in the witnesses?

6 MR. PELLEGRINI: We are.

7 (Witnesses sworn collectively.)

8 CHAIRMAN JOHNSON: BellSouth.

9 MS. WHITE: Yes. BellSouth calls Tom Lohman
10 to the stand.

11 COMMISSIONER CLARK: Ms. white, we are doing
12 rebuttal testimony at the same time; is that correct?

13 MS. WHITE: Yes, ma'am.

14 - - - - -

15 THOMAS F. LOHMAN

16 was called as a witness on behalf of BellSouth
17 Telecommunications, Inc. and, having been duly sworn,
18 testified as follows:

19 DIRECT EXAMINATION

20 BY MS. WHITE:

21 Q Mr. Lohman, would you please state your name
22 and address for the record?

23 A Yes, ma'am. Thomas F. Lohman, employed by
24 BellSouth Telecommunications. The business address is
25 675 West Peachtree Street, Atlanta, Georgia 30375.

1 Q What is your position with BellSouth?

2 A I'm a senior director in the finance
3 department responsible for regulatory activities in
4 the nine southeastern states.

5 Q Have you caused to be filed eight pages of
6 direct testimony and seven pages of rebuttal testimony
7 in this docket?

8 A Yes, ma'am, I have.

9 Q Do you have any changes to that testimony?

10 A No, I do not.

11 Q If I were to ask you the questions contained
12 in your direct and rebuttal testimony at this time,
13 would your answer be the same?

14 A Yes, they would.

15 MS. WHITE: I'd ask the testimony be moved
16 in the record as if read from the stand.

17 CHAIRMAN JOHNSON: It will be so inserted.

18 Q (By Ms. White) Mr. Lohman, did you have
19 any exhibits to your testimony?

20 A Yes.

21 Q Any exhibits to your direct testimony?

22 A To my direct testimony.

23 Q And was that TFL-1?

24 A Correct.

25 Q Do you have any changes in that exhibit?

1 **A** No, I do not.

2 **MS. WHITE:** I would ask that TFL-1, which is
3 attached to Mr. Lohman's direct testimony, be marked
4 as an exhibit.

5 **CHAIRMAN JOHNSON:** It will be identified as
6 Exhibit 5, and short titled TFL-1.

7 (Exhibit 5 marked for identification.)

8 **MS. WHITE:** Thank you.

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1 BELLSOUTH TELECOMMUNICATIONS, INC.
2 DIRECT TESTIMONY OF T. F. LOHMAN
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 970172-TP
5 DOCKET NO. 970281-TL
6 JULY 8, 1997

7
8 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

9
10 A. My name is Thomas F. Lohman. My business address is
11 675 West Peachtree Street N. E., Atlanta, Georgia.

12
13 Q. BY WHOM ARE YOU EMPLOYED?

14
15 A. I am employed by BellSouth Telecommunications, Inc.
16 (BellSouth) as a Senior Director-Finance.

17
18 Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL
19 BACKGROUND.

20
21 A. I received a Bachelor of Science Degree (Accounting
22 and Finance Majors) from Florida State University in
23 1972. I am a Certified Public Accountant and a
24 current member of both the American and Florida
25 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 BELLSOUTH
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 BELLSOUTH'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-POF-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 BELLSOUTH'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:

1 Page 30, line 20:

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

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

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

15

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

23

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

25

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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1 BELLSOUTH TELECOMMUNICATIONS, INC.
2 REBUTTAL TESTIMONY OF T. F. LOHMAN
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 970172-TP
5 DOCKET NO. 970281-TL
6 JULY 16, 1997
7
8

9 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS, AND
10 POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC..
11

12 A. My name is Thomas F. Lohman. My business address is
13 675 West Peachtree Street N. E., Atlanta, Georgia.
14 My position is Senior Director for the Finance
15 Department of BellSouth Telecommunications, Inc.
16 (hereinafter referred to as "BellSouth" or "the
17 Company").
18

19 Q. ARE YOU THE SAME THOMAS F. LOHMAN WHO FILED DIRECT
20 TESTIMONY IN THIS DOCKET?
21

22 A. Yes. I filed direct testimony on behalf of BellSouth
23 on July 8, 1997.
24

25 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

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.

1 MS. WHITE: Mr. Lohman, do you have a
2 summary of your testimony?

3 A Yes, ma'am, I do.

4 Q Would you please give that at this time?

5 A Yes. The 1996 Telecommunications Act and
6 the FCC orders implementing that Act required the
7 direction of payphone operations, and they gave the
8 state commissions the authority to determine the -- if
9 there's -- and required the removal of any subsidy in
10 the regulated operations that are supporting the --
11 what will now be deregulated to remove from regulated
12 operations.

13 They gave to the state commissions the
14 authority to determine which rate elements should be
15 removed -- or should be reduced to remove any
16 intrastate subsidy.

17 BellSouth has reviewed its payphone
18 operations and determined that there was a 6.5 million
19 subsidy supporting the payphone operations that are
20 now being deregulated, and filed a tariff to reduce
21 business hunting rates by 6.5 million, thereby
22 reducing the subsidy and removing it from regulated
23 operations.

24 MCI filed a petition requesting that the
25 reduction be made in switched access rates and this

1 Commission considered the issue at a March agenda. At
2 that agenda the Commission discussed extensively the
3 fact that there is no way to trace an intrastate
4 subsidy from one rate element to another rate element,
5 and determined that rather than switched access, that
6 Bell should be allowed to reduce the hunting charges
7 by the 6.5 million, thereby meeting the requirements
8 of the Telecommunications Act.

9 MCI and AT&T have since filed and in this
10 proceeding are continuing to argue that the reduction
11 should be made to switched access. BellSouth
12 disagrees and believes the access rates have been
13 reduced substantially in the last three years.

14 As a matter of fact, of the 224 million
15 required by the BellSouth settlement, 183 million have
16 gone to access. That's over 80%. And of the
17 reductions required in October, 93% went to access.

18 Our feeling is access has been reduced
19 substantially in the last three years. It's time for
20 another group of customers to benefit from a
21 reduction, and we believe the hunting charge is the
22 most appropriate place to put it.

23 There's been no evidence presented to say
24 that you can trace a subsidy from one rate element to
25 another, and, therefore, I believe there's no reason

1 has been presented for the Commission to change its
2 original decision to allow the reduction to be made to
3 hunting and benefit this other group of customers
4 other than the carriers. That concludes my testimony,
5 or summary. Thank you.

6 MS. WHITE: Mr. Lohman is now ready for
7 cross examination.

8 CHAIRMAN JOHNSON: Okay. Mr. Melson.

9 CROSS EXAMINATION

10 BY MR. MELSON:

11 Q Mr. Lohman, Rick Melson representing MCI.

12 You indicated during your summary that Bell
13 has made some substantial reductions to access charges
14 over the past couple of years.

15 Have those been in response to market
16 forces, or have those been a result of the stipulation
17 between BellSouth and the Office of Public Counsel,
18 and as a result of decisions of this Commission
19 directing where some monies were to be used?

20 A I think this is one of those questions where
21 the answer is yes.

22 The stipulation determined the total amount
23 of reductions that would be required each of the three
24 years, beginning in July of 1994. The stipulation
25 also set out that a certain amount of that would be

1 access, and that was determined in previous hearings
2 before this Commission where the -- in the acceptance
3 of the stipulation, the dollar amounts, the total
4 amount and the amount that would go to access.

5 In addition, the stipulation allowed the
6 Commission, the parties and then the Commission, to
7 decide, okay, of this remaining amount of money that
8 must be allocated or reduced, what rates should that
9 go to? And each party filed and presented their
10 reasons for that before this Commission, and the
11 Commission then accepted -- or issued an order saying
12 this amount should be access; this amount should be
13 various others.

14 So the answer is basically the stipulation
15 required the total. It also required a portion of it
16 to be to access, and this Commission has made
17 decisions concerning the remaining amount.

18 But I think the fact of the latest 1996
19 reduction -- over 93% of it went to access, and that
20 was roughly twice what was required by the
21 stipulation, if I'm remembering that correctly --
22 shows that it's time for another group of customers to
23 benefit.

24 Q Let me ask this question: Isn't it true
25 that BellSouth for the most recent October reduction

1 proposed something other than access charges?

2 A Yes.

3 Q And the Commission determined that it was
4 appropriate to use those dollars to reduce access?

5 A A portion of it. I don't believe all the
6 dollars went to access.

7 Q And would you also agree with me that access
8 is not -- switched access today is not subject to
9 competitive market forces that would tend to drive
10 down the price of switched access?

11 A I don't know that I can answer that one way
12 or the other, Mr. Melson.

13 Q Okay. Do you know whether business hunting
14 service is subject to competitive pressures that would
15 tend to drive down the price of that service?

16 A I think as we move into the ALEC world, as
17 we move into more people providing service to
18 consumers, definitely there could be a competitive
19 threat there as much as there is in access.

20 Anybody can put in a switch and provide
21 access. And through the UNEs and the various items
22 currently before this Commission, I'm not sure I can
23 say any service is more competitive than another
24 service at this time.

25 Q So you see no difference between access and

1 hunting service in the degree of competitive pressure
2 that those prices may feel?

3 A I'm not an expert on the competitive
4 pressure. I'm just saying that it's a whole new world
5 of competition coming. So it's arrived, and I'm not
6 sure I'm in a position to say which is more
7 competitive than the other.

8 MR. NELSON: I've got no further questions.
9 Thank you.

10 CHAIRMAN JOHNSON: Mr. Hatch.

11 CROSS EXAMINATION

12 BY MR. HATCH:

13 Q Could you turn to the cost study that you
14 prepared. I believe it's Exhibit No. 2 that's been
15 identified, and it's -- if you look at the top of the
16 page, I believe it's Page 12 of 27, and the original
17 version that I've got, it's Page 8 of 8.

18 MS. WHITE: I'm sorry, Tracy. What page
19 again?

20 MR. HATCH: It's in the cost study. If you
21 look at Staff's exhibit, just for reference purposes
22 at the top it says, exhibit number blank, and then
23 Page 12 of 27.

24 WITNESS LOHMAN: I'm sure we're looking at
25 the same.

1 MR. HATCH: I've got three different
2 versions of it. It's hard to track it, but I figure
3 that Staff's exhibit is probably the best place to
4 start.

5 WITNESS LOHMAN: Page 12 of 22?

6 MR. HATCH: 12 of 27 is up at the top of the
7 page. It's Page 8 of 8 of your original Exhibit 1.
8 Does that make sense to you? It's the revenue
9 listing.

10 COMMISSIONER DEASON: Is this the same as is
11 attached to his prefiled testimony?

12 MR. HATCH: Yes, sir, I believe it is.

13 WITNESS LOHMAN: Okay. Then I have it. It
14 Starts out "Heading Florida payphone subsidy
15 calculation"?

16 MR. HATCE: Summary of results, yes.

17 WITNESS LOHMAN: Yes.

18 Q (By Mr. Hatch) Do you have that?

19 A Yes, I do.

20 Q Your total revenue figure there, that's
21 52,494,000; is that correct?

22 A Correct.

23 Q That revenue basically represents
24 coin-in-the-box revenue; is that correct?

25 A Basically coin-in-the-box. It could be a

1 credit card call for the twenty -- the equivalent, the
2 25-cent local message. It would also include inmate
3 and semipublic recurring, but primarily it would be
4 the 25-cent.

5 Q Those revenues represent dollars collected
6 by BellSouth that after you split out your subsidiary
7 will be collected by your subsidiary; is that correct?

8 A Yes, that is correct.

9 Q BellSouth has elected to do payphones
10 consistent with the FCC's order by creating a wholly
11 owned separate subsidiary; is that correct?

12 A Yes.

13 Q When you create your payphone subsidiary,
14 your payphone subsidiary will be paying money to
15 BellSouth in the form of whatever access line it gets
16 from BellSouth; is that correct?

17 A That's correct, for a separate subsidiary;
18 or if it had just been done under nonstructural
19 separation, the response would be yes either way.

20 Q BellSouth has approximately 42,000 payphone
21 lines when you did this study; is that correct?

22 A Correct.

23 Q Each of these payphone lines -- or a
24 SmartLine, which I believe is an assumption in your
25 study; you can correct me if I'm wrong -- then

1 BellSouth would receive whatever your SmartLine rate
2 is. I believe that's \$45 a month for each of those
3 access lines; is that correct?

4 A If the separate subsidiary continued to
5 utilize SmartLines, that would be correct. However, I
6 believe the separate subsidiary is going to primarily
7 use dumb lines in the future.

8 I think an exception would be where it's
9 currently a semipublic, which requires the
10 functionality to be at the central office. If people
11 continue to buy the semipublic from the BellSouth
12 payphone group, then BellSouth would pay a SmartLine
13 for them.

14 The majority of their sets are now going to
15 be on a dumb line basis.

16 Q The majority of BellSouth's sets today are
17 dumb phones; is that correct? Or will be classified
18 as dumb phones?

19 A The majority of the services received in
20 1995, which is the year of the study, they were
21 receiving SmartLine service. It didn't necessarily
22 mean the phone was a dumb phone. It could have been a
23 smart phone with the functionality not turned on,
24 because there was no need to work the service order to
25 do that issue since you already had the functionality

1 in the CO.

2 There's items on a smart phone that provides
3 such as when the box is full, is it working, those
4 type items, other than the functionality you receive
5 through the SmartLine.

6 Q And what is your dumb line rate; do you
7 know?

8 A I believe it averages \$27 is the flat rate
9 business rate.

10 Q So if you assume that all of your BellSouth
11 subsidiaries' lines will be dumb lines, if you
12 multiply that -- I think \$27 times 12, if you do the
13 math; I didn't do that calculation -- what would that
14 be?

15 A Well, I got 13.6 million, but subject to
16 check.

17 Q That's what I got. We're close enough, I
18 expect.

19 A Substantially below the 52 million.

20 Q If you assume that even if they use dumb
21 lines, you're going to generate \$13,600,000
22 approximately in revenues from sales of those dumb
23 lines, right?

24 A Correct. And if you look at the access line
25 expense, which is the next line on that, the access

1 line expense for providing the service to this dumb
2 lines is 14.8 million.

3 Q And if you assume that BellSouth will use
4 some SmartLines in that mix, that revenue number will
5 be commensurately higher based on that \$45 a month,
6 correct?

7 A It will be a little higher, but there's not
8 very many semipublic lines, and I believe that's the
9 majority of the places that would be SmartLines.

10 Q Did BellSouth include any of this revenue
11 stream in its subsidy calculations?

12 A No. It's not appropriate to include the
13 future revenue streams in determining what a subsidy
14 was at a point in time. A subsidy is based on the
15 revenues and expenses that were in effect.

16 Q Nevertheless, notwithstanding your subsidy
17 calculations, when the subsidy goes into operation at
18 whatever lines it buys, those revenues will be paid to
19 BellSouth, the regulated entity; is that correct? Or
20 the semiregulated entity, depending on how you look at
21 it.

22 A Correct; to recover the cost of providing
23 those lines, just like any other payphone provider.

24 Q So BellSouth is going to find itself better
25 off revenue-wise, an additional revenue stream; it's

1 not included in your subsidy calculations?

2 A BellSouth Telecommunications does not
3 improve its revenues. As I've said, the revenues,
4 subject to check, were about 13.6, and we're giving up
5 52 million.

6 Q That's assuming everybody goes to a dumb
7 line instead of using the current SmartLine that's
8 currently being used, right?

9 A That's the assumption. That's my
10 understanding.

11 Q Was the BellSouth study designed to provide
12 a revenue neutral result with respect to the regulated
13 entity?

14 A No, sir. The BellSouth study was designed
15 to determine what the revenues and expenses were and
16 to determine what subsidy, if any, was in the
17 regulated world being provided to the payphones.

18 Q I believe the cost of capital number that
19 you used was 11.25; is that correct?

20 A That's the number that was utilized on the
21 payphone assets, yes.

22 Q How was that number derived?

23 A That's the current FCC authorized rate of
24 return on rate base; 11 --

25 Q That's a weighted average cost of capital

1 that the FCC has set?

2 A It's the set FCC rate.

3 Q Is that essentially the most current and
4 accurate number for weighted average cost that are
5 current for BellSouth?

6 A It's the most current, and it's probably the
7 highest. The higher the return you use, the higher
8 the subsidy would be.

9 Q Has the carrier common line charge been
10 identified as providing subsidies to local rates for
11 BellSouth?

12 A I believe it's the common understanding the
13 carrier common line is priced above cost. Hunting is
14 priced above cost, vertical services are priced above
15 cost; operator services, toll, all of these are
16 providing contribution.

17 I don't know that I can trace -- the fact is
18 I know I can't trace a particular rate element
19 providing subsidy to another particular rate element,
20 but they are all providing contribution above their
21 cost.

22 Q Are you familiar with BellSouth's
23 participation in the Florida intrastate universal
24 service proceeding approximately a year ago, year and
25 a half ago?

1 A I'm aware that there was the proceeding. I
2 was not involved in the proceeding.

3 Q Do you recall that it was BellSouth's
4 position that it would remove significant amounts out
5 of access and place those into the universal service
6 support under the theory that it was access that was
7 providing the bulk of the subsidies for local rates?

8 A I'm not aware. I said that access
9 definitely provides a contribution, as does toll,
10 operator services, and hunting.

11 Q Has hunting ever been identified as
12 providing a specific subsidy to support local rates
13 until now?

14 A Hunting has been identified, my
15 understanding, as providing a contribution
16 significantly above cost. If it's identified as
17 providing a contribution significantly above cost,
18 then it would be similar to access as providing a
19 contribution.

20 You'd have to look at the services that are
21 below cost and say they're -- it's being supported by
22 this multitude of items.

23 Q Would you happen to know what the relative
24 percentages of contribution are between the two?

25 A I've seen an old study on hunting, and the

1 cost was somewhere less than a dime. I believe the
2 rates we're proposing are over \$6, so that's a very
3 large contribution. I believe it's larger than
4 access, but I haven't done the math.

5 MR. HATCH: No further questions.

6 CHAIRMAN JOHNSON: Ms. Green.

7 CROSS EXAMINATION

8 BY MS. GREEN:

9 Q Good morning, Mr. Lohman, I'm Angela Green,
10 and I represent the Florida Public Telecommunications
11 Association, which is a group of independent payphone
12 providers in the state of Florida.

13 I have a few questions for you. In your
14 summary of your testimony, I believe you stated that
15 it was BellSouth's position that the state Public
16 Service Commission does have the authority under the
17 FCC's order to determine which rate or rates should be
18 reduced to eliminate the subsidy we're discussing; is
19 that correct?

20 A That's correct.

21 Q And BellSouth chose to apply the reduction
22 to business hunting, correct?

23 A That is correct.

24 Q But would it be consistent with your
25 position for the state PSC to apply that reduction to

1 some other rate element?

2 A I believe it's most appropriate to apply it
3 to hunting, but I believe the Commission has the
4 authority to provide it -- to reduce any rate that's
5 priced above the cost.

6 Q Okay. So you would agree, then, they could
7 choose some other rate element based on a policy
8 reason?

9 A Yes.

10 Q I believe you also stated that you -- that
11 no one here has provided any reason that the IXCs
12 should be the ones to benefit from a rate reduction
13 due to subsidy removal?

14 A I believe I stated they have provided no
15 reason beyond what was discussed at the agenda in
16 March.

17 Q Okay. Why is BellSouth -- why did it make a
18 tariff filing on February 26th, '97, to remove a
19 subsidy? What was the motivator for that?

20 A I believe, as I stated in my summary, the
21 Telecommunications Act and the FCC orders required the
22 removal of any intrastate subsidy supporting the
23 payphone operations. In order to comply with the FCC
24 order, we filed the tariff.

25 Q And the FCC order, that was a result of the

1 implementation of Section 276 of the
2 Telecommunications Act of '96?

3 A I'd have to check the section of the Act,
4 but, yes, it's the result of the Telecommunications
5 Act.

6 Q Okay. But you agree it is a result of the
7 Telecommunications Act?

8 A Yes. I believe I've stated that several
9 times.

10 Q Okay. Do you have a copy of Section 276 of
11 the Telecommunications Act available to you?

12 A No, I don't.

13 Q Okay.

14 MS. GREEN: Madam Chairman, may I approach
15 the witness? (Hands document to witness.)

16 Q (By Ms. Green) If you could just take a
17 few moments and look at what I've provided to you.
18 This is a copy of the provision of the
19 Telecommunications Act that we have been discussing,
20 and if you could just glance through it, I'm going to
21 ask you specifically what your viewpoint is on a
22 section I've highlighted; but if you could just
23 generally look at it. (Witness examines document.)

24 MS. WHITE: Angela, what section have you
25 highlighted?

1 **MS. GREEN:** I've highlighted (b)(1). This
2 will not be put into evidence. You have identified
3 for official recognition a series of FCC orders and I
4 know it's reprinted in there. This is specifically
5 Section 276 of the Telecommunications Act that we're
6 looking at.

7 **MR. PELLEGRINI:** Thank you.

8 **Q** **(By Ms. Green)** Mr. Lohman, if you would
9 look at Subsection (b) of Section 276, and you see
10 under that there are a number of requirements. Do you
11 see in there a requirement related to removing subsidy
12 by the local exchange company? I think you'll find it
13 in (b)(1)(B).

14 **A** Correct, yes.

15 **Q** What does it say in (b)(1)(B)?

16 **A** Well, the --

17 **Q** You can paraphrase.

18 **A** Well, the issues, the (b)(1) we're talking
19 about is contents of regulation, and it lists the
20 items that the Telecommunications Act said must be
21 accomplished. The (b) section is discontinuing the
22 intrastate and interstate subsidies, to paraphrase
23 what it says.

24 **Q** Okay.

25 **A** It's what we discussed earlier.

1 Q Okay. And I'd like you to look at
2 Section (b)(1) specifically and tell me, does Congress
3 tell anything about what it has in mind about removing
4 the subsidy? Does it give you an idea of what it
5 thinks we're doing all this for?

6 A The basic -- in order to promote competition
7 among payphone providers and promote the widespread
8 deployment of payphone service to the benefit of the
9 general public.

10 Q Let me ask you this: If the rates that
11 payphone providers were reduced in any amount, would
12 that help promote widespread deployment of payphone
13 services?

14 A I don't know that I can say -- I don't know
15 the profit level of the various companies providing
16 payphone. Reducing the cost may not change that at
17 all, if there's already a very large contribution.
18 Obviously every business wants to lower its cost as
19 much as possible.

20 As I understand it, the average rate now for
21 payphone is \$27. I'm showing that my cost on an
22 embedded basis is significantly above that.

23 So to answer your question, lowering the
24 rate obviously makes it cheaper for a company to get
25 into the payphone business, but if it's not covering

1 the cost of providing the access line, I'm not sure
2 that aids competition, because you can't afford to
3 continue providing.

4 Q Well, I would agree with you those are two
5 totally separate issues and, of course, we're not
6 really talking about what your costs are to provide
7 the service. We're just speaking hypothetically that
8 if you had a rate that you charged people for a
9 payphone line, and you, or any other LEC for that
10 matter, were to reduce that rate, wouldn't it
11 logically follow that you would then have more people
12 getting more payphone lines if the price to them were
13 less?

14 A All other things being equal, if you lowered
15 the cost, then more people could get into the
16 business.

17 Whether the market can support more phones
18 is a different question. Whether it would really last
19 long term, I don't know that you can answer that.

20 Q That's true.

21 A You're basically asking me if you can make
22 the cost of business cheaper, would more people want
23 to get into the business.

24 The other part of this section where the FCC
25 orders implementing the section talks about that the

1 rates being charged to the IOP providers have to be on
2 the new services test, which means they have to cover
3 costs plus can have a reasonable contribution.

4 Q And I understand --

5 A We're talking about one section of the Act
6 here. But I'd like to say the FCC orders implementing
7 it, and I believe even the Act itself, discuss it had
8 to be at cost. I don't have the section in front of
9 me.

10 Q Okay. All right.

11 A So you said we're not talking about cost. I
12 think it's part and parcel. You can't talk about
13 reducing a rate if you're not talking about the cost
14 of providing that rate.

15 Q Okay.

16 A And that was recognized.

17 Q That's fair enough, Mr. Lohman, and I think
18 that we'll probably be looking at those in a later
19 proceeding.

20 But since you did mention the cost of
21 payphone service, if it were shown that BellSouth had
22 costs that were below the rate it was charging, then
23 you would agree that Section 276 is going to require
24 Bell to make a reduction in that rate, wouldn't you?

25 A No, I would not. The new services act says

1 you have price, a cost, plus a reasonable contribution
2 to cover shared and overhead cost.

3 Q And I understand it's your position that
4 your costs are higher on the average than the current
5 rate you're charging on the average. But what I'm
6 asking you is hypothetically if your cost on the
7 average under the new services test were below the
8 rate you were charging, you would then have to make a
9 reduction in your rate, correct?

10 A No, ma'am, I don't agree with that. The new
11 services test recovers cost plus a reasonable
12 contribution.

13 Q Okay. But -- I think maybe we do agree, if
14 costs plus a reasonable contribution turns out to
15 be -- when we look at the evidence, which we don't
16 have in front of us today -- if that turns out to be
17 below the rate the local exchange company is charging,
18 you then would need to reduce that rate.

19 MS. WHITE: I'm going to object on the basis
20 that the question has already been asked and answered
21 two times, and that I think we've gotten quite far
22 afield of what the issues are in this docket.

23 MS. GREEN: I think it requires a yes or no.
24 I don't think it's been answered. And your witness
25 opened the door with his discussion on this subject,

1 and once I get an answer I'll be glad to move on,
2 Madam Chairman.

3 CHAIRMAN JOHNSON: Go ahead and answer the
4 question, if you remember it.

5 WITNESS LOHMAN: Would you repeat the
6 question, please?

7 MS. GREEN: It will probably be a slightly
8 different version --

9 COMMISSIONER CLARK: Madam Chairman, I think
10 they're talking past each other.

11 Mr. Lohman, you've said you're entitled to
12 cost plus a reasonable contribution; if your rate is
13 above that, you're going to have to reduce your rate;
14 is that correct?

15 WITNESS LOHMAN: Correct.

16 MS. GREEN: Thank you. I appreciate that
17 answer clarifying that for us.

18 Q (By Ms. Green) Now, given that BellSouth
19 and other local exchanges companies have that
20 obligation under Section 276, wouldn't that be a
21 reason that the benefit of subsidy reduction should
22 flow to pay telephone providers?

23 I realize that requires a number of ifs and
24 leaps of faith and hypotheticals.

25 A If all of that were true -- which I'm not

1 agreeing it's true, obviously, since I have a cost in
2 my study significantly above the \$27 average, so the
3 hypothetical is beyond my realm of acceptance -- but
4 the hypothetical, it would just be one more service
5 that this Commission could look at to reduce.

6 Any service that's providing contribution
7 can be looked at if it were to reduce these rates.

8 Q Well, isn't there a nexus between the
9 purpose of Section 276 and the benefit to some end
10 user somewhere from subsidy reduction?

11 A I'm sorry. No matter where the subsidy
12 comes, it's going to -- is removed, it's going to
13 benefit a customer, or a consumer. I don't know if
14 that's what you asked me. I'm not sure.

15 Q Okay. That's fair enough.

16 If BellSouth down the road in this
17 proceeding has to make some reductions to the end user
18 rates that it charges payphone service providers, it
19 will have missed the opportunity to have offset it
20 using this subsidy, won't it?

21 A Yes -- well, I guess you're saying should we
22 have put it on payphone. We won't be able to then do
23 it if it's used somewhere else, but in that case
24 you're asking for it to benefit your clients as
25 they're -- as customers.

1 When I say it will benefit the consumer, the
2 consumer, if it's access reduction, could be AT&T,
3 MCI, because they're the user of the service; they're
4 going to get reduced rates. Or the consumer can be
5 the end user, which we're doing with the direct --
6 with directing it straight to hunting.

7 So, sure, if I don't put it on payphone now,
8 then the payphone companies aren't going to get the
9 benefit of it, including BellSouth's payphone company.
10 If I put it on access, AT&T, MCI gets the benefit of
11 it. If we put it on hunting, it goes directly to the
12 business customers. It's just a different group of
13 customers.

14 What we're talking about is which group of
15 customers gets the benefit of the reduction. We
16 believe it's most appropriate on the hunting where
17 we're putting it.

18 Q Okay. Thank you.

19 Just in closing, I want to go back to
20 something Mr. Hatch was asking you about, and I want
21 to clarify for myself the Exhibit TFL-1 that's been
22 identified as Exhibit 5, the subsidy calculation
23 attached to your testimony.

24 This does not represent, then, a picture of
25 subsidy removal on a going-forward basis under Bell's

1 current business plan that was actually implemented on
2 April 1st, does it?

3 A Yes. It reflects the removal of the
4 subsidy. And that removal of the subsidy is an
5 ongoing issue. I'm afraid this is accountant-lawyer
6 question. But the subsidy is what was happening in
7 1995; what subsidy was built into your regulated
8 operations at that point in time. That's what we're
9 removing.

10 You're asking me is it looking at what
11 payphone operations look like in the future. No.
12 That's not the subsidy we're talking about. We're
13 talking about what regulated subsidy at a point in
14 time was being provided to payphone operation.

15 Q But this is the type of study -- this would
16 make sense, wouldn't it, if the company were merely
17 moving its payphone operations over onto another set
18 of books and creating an artificial wall? This study
19 would reflect that picture as a current going-forward
20 business operation.

21 A No, it would not.

22 Q No?

23 A This study is a point in time. Once the
24 deregulation occurred, there's really no accounting
25 treatment as far as the end result between structural

1 separation and nonstructural regulation. You get the
2 same answer.

3 The subsidiary is going to be charged the
4 same access or the same tariff rate as any other.
5 That's a requirement of Part X on an affiliate
6 transaction. Whether it's structural or
7 nonstructural, you still have to charge tariffed
8 rates.

9 Q And to that extent, I mean, all of the
10 accounting things that we do are artificial
11 constructs. They necessarily have to be, wouldn't you
12 agree, because you must capture some slice of time
13 that is no longer a current slice of time? Is that
14 what you said?

15 A I don't know that I said that.

16 Q Okay. But you did agree that this subsidy
17 calculation is not a picture of Bell's revenue
18 condition on a going-forward basis with BellSouth
19 Public Telecommunications as a separate subsidiary?

20 A That's correct. This represents the subsidy
21 when both payphone and the regular operation were all
22 regulated. This is what the Commission's order in the
23 Telecommunications Act requires; what subsidies are
24 embedded in current rates on the current operation of
25 the payphones.

1 MS. GREEN: Thank you. I have no further
2 questions.

3 CHAIRMAN JOHNSON: Staff.

4 CROSS EXAMINATION

5 BY MR. PELLEGRINI:

6 Q Good morning, Mr. Lohman. Charles
7 Pellegrini on behalf of Commission Staff.

8 A Good morning.

9 Q I have some questions for you.

10 Let me refer you to your rebuttal testimony,
11 Page 7, Lines 17 through 21.

12 A Yes.

13 Q There you make a statement that "No evidence
14 has been presented by the carriers that would give the
15 Commission reason to change its original decision."
16 Is that correct?

17 A Yes.

18 Q Tell me, has BellSouth presented any
19 evidence in support of the Commission's original
20 decision?

21 A I believe it has in that it's presented the
22 dollar amounts of how much of the reductions over the
23 last three years have already gone to access. I'm not
24 sure that was discussed in the original agenda
25 conference. I could be wrong on that, but I believe

1 that's a new -- a new showing of the dollar amount.

2 Q Can you be more specific? Did you present
3 that evidence in your direct testimony?

4 A I believe it's in the rebuttal testimony.
5 It's just above that on line -- starting on Line 12.
6 I talk about the percentage in the actual dollar
7 amount.

8 Q All right.

9 A And I believe on Page 2, beginning on
10 Line 21, where we talk about that the required
11 reductions were 60, 80 and 84 million for a total of
12 27., going over to the next page, that of this amount,
13 183 million were made as access reductions, and that's
14 81%.

15 And I think even more importantly of the
16 reductions that have just gone in required for the
17 October 1, 1996, reduction, over 93% of them went to
18 access reductions.

19 We may have talked in generalities at the
20 agenda about that, but I don't believe we showed the
21 total dollar amount to this degree.

22 Q I understand that. But that doesn't
23 directly go to the support of hunting charges as the
24 appropriate element for reduction, does it?

25 A It does to me, because the -- what's coming

1 in being argued in this hearing was that it should go
2 on access, not hunting. So I believe by saying and
3 showing why it shouldn't go on access, that supports
4 hunting; but that may be semantics.

5 Q I understand what you're saying is that the
6 reduction should -- that no further reduction should
7 be made to switched access, and I understand that.

8 I understand your reasoning for making that
9 statement, but I don't think that necessarily supports
10 BellSouth's election of hunting charges as the
11 element -- as the place for the reductions to have
12 been made, or to be made.

13 A I believe the only other is that it goes
14 directly to the end user. We talked about that in
15 this case, that the hunting reduction actually
16 benefits directly another group of our customers. I
17 believe that's support for it also.

18 COMMISSIONER DEASON: Mr. Lohman, while he's
19 hesitating for a moment, I believe I understood you to
20 say in response to a question on cross examination
21 that it's your belief that the contribution from
22 hunting is larger than that derived from access.

23 WITNESS LOHMAN: I believe I said I hadn't
24 calculated and compared it to, Commissioner Deason.
25 But the study I looked at -- and it's an old study; I

1 don't remember the year -- but it showed it was about
2 a dime cost for hunting, and the rates are in \$6 and
3 \$7 range, and more than that, I believe, pre this
4 reduction we made.

5 I didn't do the calculation, but I believe
6 it would probably be higher than the numbers in
7 Mr. Guedel's, but I have not done the calculation.
8 It's a significant contribution, obviously; over \$6
9 compared to a dime.

10 (By Mr. Pellegrini) Mr. Lohman, let me
11 turn your attention now to Exhibit TFL-1 attached to
12 your direct testimony.

13 A Yes.

14 Q And specifically to the number for access
15 line expense, 14.803 million.

16 A Yes.

17 Q Tell me, please, how was that number
18 calculated or estimated?

19 A That number is based on the cost study
20 supporting the SmartLine tariff. It's a cost study
21 specifically identifying the cost of SmartLine
22 service.

23 That was an incremental study, so it had to
24 be taken to an embedded cost study, which is the
25 appropriate way to look at a study -- at a subsidy is

1 on an embedded basis. But it's basically taking a
2 cost study that identified the particular cost of
3 providing SmartLine service; the CO cost, the loop
4 cost, those type items.

5 Q What was the year of that study, Mr. Lohman?

6 A It was a -- I believe it was a 1993 study.
7 It was then brought forward to a 1995 basis by looking
8 at the TPI index, the change of embedded costs from
9 '93 to '95 showing a growth in the cost to bring it to
10 an up-to-date study. So it was originally a '93 study
11 updated on a factor basis to place it on a 1995 basis.

12 Q Does that amount, the 14.803 million
13 expense, include a return component?

14 A Yes, it does.

15 Q What was the rate used to calculate the
16 return?

17 A There were several rates in the cost study
18 itself. I believe they were over 12%. I don't
19 remember the exact -- it's in an interrogatory. I can
20 get it for you. But it was over 12%.

21 And on the difference -- on the incremental
22 piece bringing it to a current basis, on the study
23 basis, to embed it, and then to a '95 basis, we used
24 the 11.25 rate of return on that.

25 So the lowest return in it was a 11.25, and

1 the return on the major part of the studies was over
2 12%; I believe 12.36, but I'd have to look at the
3 interrogatory.

4 So it is a rate of return above the 11.25
5 for the majority of this study. (Pause) I'm sorry.
6 And once again, the higher the return, the higher the
7 subsidy. I just want to make that fact clear.

8 Q Yes. Does that number represent all of the
9 line expense in BellSouth's calculation of the
10 payphone subsidy?

11 A Yes. That is our total embedded cost,
12 including a return on investment for providing the
13 SmartLine service.

14 Q The rest of the expense, then, is set
15 expense; is that correct?

16 A Correct. The reason we've broken it out to
17 two pieces is the access line, the SmartLine, stays
18 regulated. So what we did in the study, we say how
19 much revenues did you receive. We assigned that first
20 to the regulated operation and covered those costs.
21 The remainder is the payphone operation that's being
22 deregulated, and see how much revenue was left to
23 cover those costs.

24 And that's how you determine there was a
25 subsidy, because there wasn't a reasonable rate of

1 return, the 11.25, on the payphone operation itself,
2 the piece that's being deregulated.

3 Q Let me ask you this, Mr. Lohman: Was the
4 set expense component calculated differently from the
5 line expense component?

6 A Yes. I did not have a study on the set
7 expense side. For calculation of that, we went to the
8 1995 ARMIS Report and utilized that to determine the
9 cost of the payphone operation.

10 Q Why would you not have used ARMIS data to
11 calculate the line expense?

12 A I don't believe it's as accurate as using a
13 specific study that addressed SmartLine. ARMIS is
14 very much an average of items. It's an average loop
15 cost. It wouldn't necessarily have the correct CO
16 equipment in it for payphone. It's just a very -- as
17 we all know, separations is a fairly broad assignment
18 of cost between categories.

19 I believe it's much more accurate to use a
20 cost study that supports the tariff filing in this
21 state for SmartLine service to price-out the cost of
22 the access line. We didn't have that study on the
23 payphone side.

24 In addition, it's much easier to identify
25 payphone cost as a separate component. The access

1 line, you know, it's an average of the 6 million
2 access lines in Florida.

3 The payphone identifies payphone. It's a
4 separate account where you can identify payphone
5 investment, payphone commissions, collection, those
6 type items. So it's more of an identified cost in
7 ARMIS for the payphone expense, whereas the access
8 line expenses is a result of broad averages.

9 And in that case we had a study that had
10 been used to support the tariff filing, and we believe
11 that's much more appropriate to utilize to identify
12 the cost. It's more specific.

13 Q The ARMIS data represents a regional
14 averaging; is that correct?

15 A It's the current original less depreciation.
16 It's the net book, so to speak, of what's there. It's
17 an average of the --

18 Q I mean to suggest it's non-Florida specific?

19 A No. It's Florida-specific. There's an
20 ARMIS Report for each state that breaks is out, and
21 it's very much state specific.

22 Q Are there any other differences in the
23 methodologies used other than that one is
24 Florida-specific and -- well, all right. You're
25 saying that in both cases the data is

1 Florida-specific. It was used both to determine line
2 expense and set expense?

3 A Yes, sir. In both cases it's
4 Florida-specific data; it's embedded cost; it's the
5 net plant. The depreciation is on a Commission basis,
6 which is different than FCC.

7 The only difference is because there's a
8 study identifying SmartLine cost that's previously
9 been utilized is backup to a tariff filing for
10 SmartLine rates, we felt that's the most appropriate
11 cost to use for the access lines, knowing that the
12 averages in ARMIS are much broader than just SmartLine
13 cost.

14 Q But were not loop costs an average across
15 BellSouth's nine states?

16 A I believe they are state-specific, is my
17 understanding of the cost study.

18 Q Is there some reason that perhaps that ought
19 to be checked further? Have you some doubt about
20 that?

21 A No, sir, I don't.

22 Q All right. Let me next refer you,
23 Mr. Lohman, to BellSouth's tariff filing. That's the
24 exhibit that has been identified I think as Exhibit 2.
25 And specifically, Pages 5 of 11 and 9 and 10 of 11.

1 A I'm sorry. I'm having a hard time finding
2 the documents that were in the package that I
3 received.

4 MS. WHITE: I think if you look at the top
5 of the exhibit, it's Page 17 of 27, and Pages 21 and
6 22 of 27; is that correct?

7 MR. PELLEGRINI: Mine isn't identified that
8 way, but I think you're correct.

9 MS. WHITE: No. It's the one you handed
10 out.

11 WITNESS LOHMAN: Page 17 of 27 on the top?
12 I'm sorry, I was looking for a different label.

13 Q (By Mr. Pellegrini) That's entitled
14 "Florida, All Other Payphone Expense Detail."

15 A Correct.

16 Q And Pages 10 -- 9 and 10 of 11 are entitled
17 "Florida Investment Detail."

18 A Yes.

19 Q All right.

20 COMMISSIONER KIESLING: 9 and 10 of 11?

21 MR. PELLEGRINI: Well, in the original
22 document, Commissioner Kiesling.

23 COMMISSIONER KIESLING: Thank you.

24 MS. WHITE: It would be Pages 21 and 22 of
25 27 at the top.

1 **COMMISSIONER KIESLING:** Thank you.

2 **Q** **(By Mr. Pellegrini)** Let me ask you this,
3 Mr. Lohman: Would you agree that the expense amounts
4 which are shown on Page 5 of 11, and the investment
5 amounts, which are shown on Pages 9 of 10 of 11, were
6 taken from BellSouth's 1995 ARMIS Report and were
7 allocated to BellSouth's payphone operations and
8 between the line and set components based upon various
9 factors?

10 **A** As identified in the ARMIS Report, these are
11 the ARMIS investments and expenses, yes. As I stated
12 earlier, we used the cost study that was more specific
13 than these costs to develop those expenses.

14 **Q** All right. Then did BellSouth use the set
15 component determined from the ARMIS Report allocation
16 and the line component determined from another source,
17 that is the cost study, to calculate the
18 \$6.501 million payphone subsidy amount?

19 **A** Yes, sir, we did. As I stated, I believe
20 the specific expense study is a better number to use
21 than ARMIS. The only data we have -- and it's
22 probably more accurate, because you have specific
23 categories of payphone on the payphone expenses
24 themselves.

25 I mean, a payphone set is a payphone set.

1 It's not lumped with all the -- there's no other items
2 to lump it with. So the answer is yes. A specific
3 study on the line expense, ARMIS on the payphone
4 expense. And this was the consistent methodology in
5 all nine states.

6 Q I understand what you've said, but why did
7 you elect not to use ARMIS data? In order to apply
8 consistent methodologies, why did you not use -- elect
9 to use, ARMIS data for the calculation of both
10 numbers?

11 A We believe the specific study data is the
12 more appropriate data to use for the SmartLine access
13 line. It's more -- by being specific, it's more
14 accurate.

15 If you look at the total company, it's just
16 the appropriate way to do it when you have specific
17 costs versus the broad average of ARMIS, if you have
18 it.

19 Q Is there a similar cost study that could
20 have been used for the calculation of the set expense
21 number?

22 A No, sir. And as I stated, the ARMIS cost
23 for the set specifically identified items that are
24 unique to payphone. It's the set itself. It's the
25 collection expense. It's the maintenance of the set

1 itself. It's the investment of the telephone set
2 enclosure.

3 So the ARMIS on the payphone piece of it is
4 fairly accurate on defining what those components are.
5 When you move to an access line, it's just a loop is a
6 loop. All loops are the same in ARMIS. So we believe
7 that's a more appropriate methodology, more
8 appropriate study.

9 Q Well, then in a hypothetical sense, if a
10 cost study existed for the calculation of set
11 expenses, would you expect a number to be materially
12 different, higher, lower, roughly the same? Have you
13 some way of making that estimation?

14 A There's not one, so I can't give you an
15 answer. Given the fact these are pretty specific
16 investments in costs, identifying collections -- and
17 the major cost components we're talking about, the set
18 itself, the expenses associated with maintenance of
19 the set, the expenses associated with collecting the
20 coins from the set, the expenses associated with the
21 sales, you know, the contract -- securing contracts at
22 various locations, I would expect that to be more
23 payphone specific than I would just a loop-is-a-loop
24 study, which is in the access line side of it.

25 Q Then are you saying under the hypothetical

1 circumstance that I've outlined that it's not possible
2 for you to predict the result?

3 A With 100% accuracy, no. But I would -- my
4 gut feeling, my instinct from doing cost accounting
5 and from regulatory stuff, is that, yeah, that number
6 is probably -- because the components of ARMIS are
7 more specifically identifiable as payphone related, a
8 study of that data would probably give you an answer
9 very close to ARMIS.

10 Q Very close. All right.

11 Mr. Lohman, it's true, is it not, that you
12 applied the principles of Parts 36 and 69 set forth in
13 the separations manual in developing the interstate
14 payphone expenses and investment?

15 A The payphone expenses, yes. It's right off
16 of ARMIS, so obviously it's utilizing that with a few
17 minor adjustments.

18 Q Would you then agree, subject to check, that
19 if the same principles were applied in developing the
20 intrastate line expenses and investment, an additional
21 subsidy amount of \$1.001 million for a total subsidy
22 calculation of \$7.502 million would result?

23 A If you just took straight ARMIS data and
24 used it, subject to check, that number is about --
25 right at \$1 million. I won't out to the 001, but yes,

1 right at \$1 million. But I don't believe that's as
2 accurate a number as using a specific cost study that
3 identifies it.

4 I did, just as a check on that number
5 following the prehearing statement, and 7.5 million
6 was introduced at that point in time. I did a check,
7 quick check on total company.

8 If I used the same procedures on total
9 BellSouth for the nine states, I would reduce the
10 overall subsidy by almost \$2 million. So it varies on
11 a state-by-state basis, but -- a higher subsidy, lower
12 subsid'. But I believe using a specific study is more
13 accurate than using the averages of the ARMIS. We
14 filed these studies' supporting tariffs. It's the
15 appropriate data to use rather than the broad averages
16 of ARMIS.

17 **MR. PELLEGRINI:** Thank you, Mr. Lohman. I
18 have no further questions.

19 **CHAIRMAN JOHNSON:** Commissioners.

20 **COMMISSIONER DEASON:** I have a question.
21 Mr. Lohman, here again I'm looking at your exhibit
22 attached to your prefiled testimony, which is the
23 calculation of the pay telephone subsidy.

24 As I understand it, the items of expense are
25 based upon an embedded cost basis; is that correct?

1 **WITNESS LOHMAN:** Yes, sir.

2 **COMMISSIONER DEASON:** Now, there's a
3 question about ARMIS, which is embedded cost, and then
4 the fact you have a specific line study for the
5 so-called SmartLines. I understand the question
6 involved there, but it's all embedded cost.

7 **WITNESS LOHMAN:** Yes. We took the
8 incremental cost study and grew it to embedded cost.

9 **CHAIRMAN JOHNSON:** And is this the way -- is
10 this your understanding that the FCC specified that
11 the subsidy was to be calculated, based upon embedded
12 cost?

13 **WITNESS LOHMAN:** Yes.

14 **COMMISSIONER DEASON:** Do you know why they
15 specified embedded cost to determine a subsidy?

16 **WITNESS LOHMAN:** I don't remember there
17 being an explanation. They just said use the data,
18 the embedded data, the ARMIS Report for the interstate
19 side of the study. It specified that item when
20 utilizing -- because that's what's built in. That's
21 the subsidy.

22 If you look at the total cost, at the
23 subsidy that they would recognize, if they had had a
24 study like has been filed in the states on SmartLine
25 tariffs, they may have used that, but that's not a

1 filing that is made at the FCC level.

2 **COMMISSIONER DEASON:** So they required the
3 use of ARMIS data, which is embedded cost, for the
4 calculation of -- for interstate purposes?

5 **WITNESS LOHMAN:** I'm sorry. I didn't get
6 the whole question, sir.

7 **COMMISSIONER DEASON:** Did the FCC -- they
8 specified the use of embedded costs for the
9 calculation of intrastate subsidy?

10 **WITNESS LOHMAN:** Interstate, they specified
11 the embedded, yes, sir. I don't remember them
12 specifying the -- that you must use ARMIS on the
13 intrastate side. But I believe embedded cost is the
14 appropriate way to calculate it.

15 **COMMISSIONER DEASON:** I guess that's the
16 question I have, and perhaps you can help me and
17 perhaps you can't. I'm at a little bit of a loss.

18 When we were doing interconnection dockets
19 and the resale and things -- everything was
20 incremental costs, total service long-run incremental
21 costs, and they were saying they wanted to avoid
22 subsidies, and that to avoid a subsidy, things have
23 got to be based upon incremental cost, and while
24 incremental cost may be below embedded cost or fully
25 allocated cost or accounting cost, when you define a

1 subsidy, a subsidy is based upon incremental cost.

2 And now they're telling us that for purposes
3 of this, subsidy should be based upon embedded cost.
4 Why all of a sudden the change?

5 WITNESS LOHMAN: I don't know why they
6 changed their argument on that, sir.

7 COMMISSIONER DEASON: Do you have any idea
8 what your incremental cost is in comparison to these
9 embedded costs at the time of the 1995? Wouldn't it
10 be much lower than fully embedded cost as you've
11 calculated it?

12 WITNESS LOHMAN: Yes. We're talking about a
13 cost here of -- I believe we have \$39 per line. And
14 I'm going back to what's been filed before this
15 Commission and the various proceedings you discussed.
16 I believe it was significantly lower than that, but I
17 don't have the exact number.

18 COMMISSIONER DEASON: So it's possible -- I
19 know you've not done the calculation, but it's
20 possible if we were to do this on an incremental cost
21 basis, perhaps there's no subsidy at all.

22 WITNESS LOHMAN: Probably there would not be
23 a subsidy on an incremental cost basis.

24 COMMISSIONER DEASON: Thank you.

25 CHAIRMAN JOHNSON: Any other questions,

1 Commissioners?

2 **COMMISSIONER CLARK:** I have a question.
3 Could you enumerate for me, Mr. Lohman, in the other
4 states where BellSouth operates, what was the
5 subsidy -- I don't really need to know the amount of
6 the subsidy, but what rates were reduced to eliminate
7 the subsidy?

8 **WITNESS LOHMAN:** In all states other than
9 Mississippi where there's been a final decision
10 reached -- I believe it's been hunting -- Mississippi
11 was in access rates.

12 **COMMISSIONER CLARK:** No other state was
13 access charges reduction.

14 **WITNESS LOHMAN:** No.

15 **COMMISSIONER CLARK:** Why was the --

16 **WITNESS LOHMAN:** Well, let me back up.
17 Louisiana tied it into an overall reduction tied in
18 with some other regulatory activities. So I'm not
19 sure I can say specifically what was reduced for
20 payphone, because it was just added to another large
21 amount of money and kind of disappeared. So that one
22 is iffy.

23 North Carolina specifically did hunting,
24 South Carolina has specifically done hunting.
25 Kentucky has specifically done hunting.

1 **COMMISSIONER CLARK:** Now, when you say
2 specifically done hunting, the Commission has taken
3 action.

4 **WITNESS LOHMAN:** Yes, ma'am.

5 **COMMISSIONER CLARK:** And directed you to do
6 hunting? Or did you suggest hunting?

7 **WITNESS LOHMAN:** We requested hunting in
8 those states and the Commission accepted it based on
9 agenda-type proceedings, and in South Carolina a full
10 hearing.

11 **COMMISSIONER CLARK:** Okay. The access
12 charges in Mississippi, did they have a hearing and
13 then direct you to do access charges?

14 **WITNESS LOHMAN:** No, ma'am. I believe it
15 was more on an agenda agreement-type item. I'm not
16 sure. I was not present at that.

17 **COMMISSIONER CLARK:** Well, did BellSouth
18 propose access charges and they accepted it?

19 **WITNESS LOHMAN:** I believe BellSouth
20 originally proposed hunting, and there were -- it may
21 have been as a stipulation, an agreement. I'm not
22 exact -- I only presented to our regulatory people in
23 Mississippi the subsidy study. I wasn't involved in
24 from that point on, so I'm not exactly sure how it got
25 from hunting to this.

1 **COMMISSIONER CLARK:** Thank you, Mr. Lohman.

2 **MS. WHITE:** I have no redirect.

3 **CHAIRMAN JOHNSON:** There was one exhibit.

4 **MS. WHITE:** Yes. I'd like to move

5 Exhibit 5.

6 **CHAIRMAN JOHNSON:** Show it admitted without

7 objection.

8 (Exhibit 5 received in evidence.)

9 **CHAIRMAN JOHNSON:** Thank you, sir.

10 **MS. WHITE:** May Mr. Lohman be excused?

11 **CHAIRMAN JOHNSON:** Yes.

12 (Witness Lohman excused.)

13 - - - - -

14 **CHAIRMAN JOHNSON:** We'll take a 10-minute

15 break.

16 (Brief recess taken.)

17 - - - - -

18 **CHAIRMAN JOHNSON:** We're going to go back on

19 the record. AT&T, you can call your witness.

20 **MR. HATCH:** AT&T calls Mike Guedel to the

21 stand.

22

23

24

25

MIKE GUEDEL

1
2 was called as a witness on behalf of AT&T
3 Communications of the Southern States and, having been
4 duly sworn, testified as follows:

DIRECT EXAMINATION

5
6 **BY MR. HATCH:**

7 Q Could you please state your name and address
8 for the record, please?

9 A My name is Mike Guedel. My address is 1200
10 Peachtree Street Northeast, Atlanta, Georgia 30309.

11 Q By whom are you employed and in what
12 capacity?

13 A I'm employed by AT&T as a manager in the
14 Network Services Division.

15 Q Did you prepare and cause to be filed direct
16 testimony in this proceeding?

17 A Yes, I have.

18 Q Do you have any changes or corrections to
19 that testimony?

20 A No, I do not.

21 Q If I asked you the same questions today
22 would your answers be the same?

23 A Yes.

24 **MR. HATCH:** Madam Chairman, move that the
25 direct testimony be inserted into the record as though

1 read.

2 **CHAIRMAN JOHNSON:** It will be so inserted.

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1 DIRECT TESTIMONY OF MIKE GUEDEL
2 ON BEHALF OF AT&T COMMUNICATIONS
3 OF THE SOUTHERN STATES INC.
4

5 BEFORE THE
6 FLORIDA PUBLIC SERVICE COMMISSION
7 DOCKET NOS. 970172-TP, 970173-TP,
8 970281-TL
9 FILED: JULY 8, 1997
10
11
12

13 Q. WILL YOU PLEASE IDENTIFY YOURSELF?
14

15 A. My name is Mike Guedel and my business address
16 is AT&T, 1200 Peachtree Street, NE, Atlanta,
17 Georgia, 30309. I am employed by AT&T as
18 Manager-Network Services Division.
19
20

21 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
22 WORK EXPERIENCES.
23

24 A. I received a Master of Business Administration
25 with a concentration in Finance from Kennesaw

1 State College, Marietta, GA in 1994. I
2 received a Bachelor of Science degree in
3 Business Administration from Miami University,
4 Oxford, Ohio. Over the past years, I have
5 attended numerous industry schools and seminars
6 covering a variety of technical and regulatory
7 issues. I joined the Rates and Economics
8 Department of South Central Bell in February of
9 1980. My initial assignments included cost
10 analysis of terminal equipment and special
11 assembly offerings. In 1982, I began working
12 on access charge design and development. From
13 May of 1983 through September of 1983, as part
14 of an AT&T task force, I developed local
15 transport rates for the initial NECA interstate
16 filing. Post divestiture, I remained with
17 South Central Bell with specific responsibility
18 for cost analysis, design, and development
19 relating to switched access services and
20 intraLATA toll. In June of 1985, I joined
21 AT&T, assuming responsibility for cost analysis
22 of network services including access charge
23 impacts for the five South Central States
24 (Alabama, Kentucky, Louisiana, Mississippi, and
25 Tennessee).

1 Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

2

3 A. My current responsibilities include directing
4 analytical support activities necessary for
5 AT&T's provision of intrastate communications
6 services in Florida and other southern states.
7 This includes detailed analysis of access
8 charges and other Local Exchange Company (LEC)
9 filings to assess their impact on AT&T and its
10 customers. In this capacity, I have
11 represented AT&T through formal testimony
12 before the Florida Public Service Commission,
13 as well as regulatory commissions in the states
14 of Georgia, Kentucky, North Carolina, and South
15 Carolina.

16

17

18 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

19

20 A. The purpose of my testimony is to recommend
21 that the Commission utilize all available
22 revenues identified through this payphone
23 operations investigation to reduce intrastate
24 switched access charges (specifically the
25 Carrier Common Line or RIC elements).

1 Q. COULD YOU DESCRIBE THE GENESIS OF THIS
2 PROCEEDING?

3

4 A. Yes. In order to promote competition among
5 payphone service providers, the
6 Telecommunications Act of 1996 (the Act)
7 directed the Federal Communications Commission
8 (FCC) to:

9

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

19 (B) discontinue the intrastate and
20 interstate carrier access charge payphone
21 service elements and payments in effect on
22 such date of enactment, and all intrastate
23 and interstate payphone subsidies from
24 basic exchange and exchange access
25 revenues, in favor of a compensation plan

1 as specified in subparagraph (A); 47 U.S.C
2 Section 276(b)(1)(A)&(B).
3

4 Issues pending before the Commission in this
5 docket flow directly from this statutory
6 language or from FCC orders implementing the
7 contained directives.
8
9

10 **Q. HAS THE FCC REQUIRED LOCAL EXCHANGE COMPANIES**
11 **(LECs) TO ESTABLISH PROCEDURES TO ENSURE THAT**
12 **LEC PAYPHONE SERVICE OPERATIONS ARE NOT BEING**
13 **SUBSIDIZED BY LEC REGULATED OPERATIONS?**
14

15 **A.** Yes. Through CC Docket No. 96-128, the FCC
16 required that each LEC (including the BOCs)
17 classify its payphone operations as non-
18 regulated for Part 32 accounting purposes. In
19 addition, the FCC required each BOC to
20 establish non-structural safeguards (including
21 accounting firewalls) separating its payphone
22 operations from its continuing regulated
23 operations. Further, the FCC identified the
24 interstate financial flows associated with the
25 reclassification and transfer of LEC payphone

1 service operations and ordered each LEC to
2 adjust its respective Carrier Common (CCL)
3 revenues (and/or reduce the current CCL Cap for
4 price cap companies) by the determined dollar
5 amount.

6

7

8 **Q. HOW DID THE FCC DETERMINE THE APPROPRIATE**
9 **ADJUSTMENT AMOUNTS?**

10

11 **A.** The amounts were determined in a two step
12 approach:

13

14 First, the FCC identified the costs that would
15 be transferred from the regulated to the non-
16 regulated operation - essentially the costs
17 associated with the Payphone CPE.

18

19 Second, the FCC identified the additional
20 dollars that the regulated operation would
21 receive in new Subscriber Line Charge (SLC)
22 payments associated with the payphone access
23 lines that the non-regulated operation would be
24 purchasing from the regulated operation.

25

1 The sum of these two revenue amounts equaled
2 the required dollar reduction in CCL revenue.
3 The net effect of this process was to hold the
4 regulated operation revenue neutral - in a
5 revenue requirements sense.

6

7

8 **Q. HAVE THE LECS PROPOSED REDUCTIONS IN THEIR**
9 **INTRASTATE SWITCHED ACCESS CHARGES IN FLORIDA**
10 **AS A RESULT OF THE PAYPHONE RECLASSIFICATION**
11 **PROCESS?**

12

13 **A. No. BellSouth has identified revenues**
14 **available for rate reductions. However,**
15 **instead of utilizing the available revenues**
16 **toward reductions in the CCL, BellSouth has**
17 **chosen to apply the amount toward reductions in**
18 **rotary hunting charges. For reasons discussed**
19 **below, this proposal is not in the public**
20 **interest and should be rejected by the**
21 **Commission.**

22

23

24 **Q. HAS BELLSOUTH AGREED TO REDUCE ITS SWITCHED**
25 **ACCESS CHARGES IN OTHER STATE JURISDICTIONS IN**

1 **CONJUNCTION WITH ITS RECLASSIFICATION OF ITS**
2 **PAYPHONE OPERATIONS?**

3
4 A. Yes. BellSouth agreed to reduce its intrastate
5 CCL rate element in Mississippi by \$1,380,000,
6 the amount identified in its Mississippi
7 Payphone Subsidy Study, without a hearing. In
8 North Carolina, BellSouth stated that it did
9 not object to reducing access with amounts
10 identified in the North Carolina Payphone
11 Subsidy Study if the North Carolina Utilities
12 Commission ordered it.

13
14
15 Q. **COULD YOU DESCRIBE THE CURRENT LEVEL OF**
16 **INTRASTATE SWITCHED ACCESS CHARGES IN FLORIDIA?**

17
18 A. Yes. BellSouth's switched access charges are
19 approximately \$.05 (5 cents) per minute
20 including two ends of switched access - or, on
21 an average basis, approximately \$.025 (2.5
22 cents) per access minute of use (one end of
23 access). GTE switched access charges are
24 approximately \$.12 (12 cents) per minute
25 including two ends of switched access - or, on

1 an average basis, approximately \$.06 (6 cents)
2 per access minute of use (one end of access).
3 Access charges for other Florida LECs range
4 from approximately 11 cents for Indiantown to a
5 high of over 14 cent for Centel - again
6 including two ends of switched access.

7

8

9 **Q. HOW DOES THIS PRICE LEVEL COMPARE WITH THE**
10 **UNDERLYING COST OF PROVIDING SWITCHED ACCESS**
11 **SERVICES?**

12

13 **A.** Information made available through Florida
14 Public Service Commission Docket No. 950985-TP
15 indicates that BellSouth's cost of providing
16 switched access service is less than \$.0025 per
17 access minute of use - perhaps as low as \$.002
18 or less. Thus, the price of BellSouth's
19 switched access remains at a level of 10 to 13
20 times that of the underlying cost. Said
21 another way, BellSouth is enjoying a mark-up
22 above cost of at least 900% and possibly as
23 much as 1200% in the provision of its switched
24 access services. This mark-up is significantly
25 higher than the mark-up BellSouth enjoys on any

1 other major revenue producing service that it
2 offers.

3
4 Similar information made available through
5 Florida Public Service Commission Docket No.
6 950985-TP indicates that GTE's cost of
7 providing switched access service is likewise
8 less than \$.0025 per access minute of use.
9 Thus, the price of GTE's switched access
10 remains at a level of 24 times that of the
11 underlying cost. Said another way, GTE is
12 enjoying a mark-up above cost of at least 2300%
13 in the provision of its switched access
14 services. This mark-up is significantly higher
15 than the mark-up GTE enjoys on any other major
16 revenue producing service that it offers.

17
18
19 **Q. WHAT IS THE INCREMENTAL COST INCURRED BY THE**
20 **LECS IN PROVIDING THE CCL ELEMENT?**

21
22 **A.** The incremental cost is zero. In other words,
23 a 10% increase in demand for the CCL would
24 result in a zero percent increase in a LEC's
25 costs. The CCL is a pure contribution element,

1 a tax if you will, levied by LECs on all
2 interexchange carriers purchasing LEC local
3 switching access service.
4
5

6 **Q. WHY IS IT NECESSARY FOR THE COMMISSION TO**
7 **UTILIZE ALL AVAILABLE REVENUES TO REDUCE LECS**
8 **SWITCHED ACCESS CHARGES AT THIS TIME?**
9

10 A. The Commission has long recognized the need to
11 reduce Switched access charges in Florida - and
12 the Commission has made some significant
13 progress over the years. However, recent
14 events have raised the stakes surrounding high
15 access charges.
16

17 First, the Telecommunication Act of 1996 has
18 become law with a spirit of introducing
19 competition into all phases of the
20 telecommunications industry. High access
21 charges have never been conducive of
22 competitive development - and they will surely
23 become much more of an impediment under the new
24 Act. Access charges in excess of incremental
25 cost provide the incumbent monopolist with the

1 opportunity to exact a contribution or "a
2 tribute" from any potential competitor that
3 would "dare" to attempt to compete with an
4 incumbent's retail services. High access
5 charges can distort the economics of
6 competitive local entry - perhaps encouraging
7 potential entrants to build facilities where
8 other forms of entry such as resale may make
9 better economic sense. In either case, the end
10 user receives less than the desired results of
11 competition.

12
13 Second, LEC election of "price cap" regulation
14 under the recent Florida statute has greatly
15 limited the Commission's authority to control
16 access rates. This instant opportunity may
17 offer the Commission a last obvious chance to
18 drive access charges closer to (though still
19 very far from) the underlying cost.

20

21

22 **Q. SHOULD THE COMMISSION FOCUS ON APPLYING THE**
23 **AVAILABLE REVENUES TOWARD REDUCING RATES THAT**
24 **WILL "HELP LECS MEET COMPETITION"?**

25

1 A. No. Most LECs have elected price cap
2 regulation under the current Florida statutes
3 as a means to adjust their prices to meet
4 competitive needs. With respect to these
5 companies, the Commission need not further
6 augment this process. The Commission should
7 instead focus its prescribed rate relief on
8 those rate elements or services that are:
9 1) recognized to be priced in excess of cost
10 today, and 2) either not likely to be
11 positively influenced by competition, or likely
12 to frustrate competition if prices remain at
13 current levels. This focus will tend to
14 optimize the consumer benefits associated with
15 this revenue disposition.

16
17
18 Q. WOULD YOU SUMMARIZE YOUR TESTIMONY?

19
20 A. Yes. The Commission should utilize all
21 available revenues resulting from the
22 reclassification of payphone operations toward
23 the reduction of switched access charges.
24 Switched access charges currently include mark-
25 ups above cost that are significantly higher

1 than current mark-ups on any other major
2 revenue producing service offered by the LECs.
3 In fact, the incremental cost of providing two
4 of the switched access elements (the CCL and
5 the RIC) is zero. The Commission should take
6 this opportunity to move toward the complete
7 elimination of these switched access elements.

8

9

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

11

12 **A. Yes.**

1 Q (By Mr. Hatch) Do you have a summary of
2 your testimony?

3 A Yes, I do.

4 Q Could you give that please?

5 A Yes.

6 Remaining before the Commission are
7 essentially two issues. First, the determination of
8 the amount of subsidy traditionally enjoyed by
9 BellSouth's payphone operation. And secondly, the
10 removal or disposition of that subsidy amount.

11 To the first issue, BellSouth has identified
12 some \$6.5 million in subsidy. The Staff has
13 tentatively suggested that perhaps 7.5 million is a
14 more appropriate number.

15 AT&T continues to believe that at least
16 \$6.5 million in rate reductions are warranted, but
17 leaves the final disposition of this issue to the
18 Commission's reading of the evidence in this case.

19 To the second, BellSouth has proposed
20 reducing prices charged for hunting arrangements.
21 While AT&T does not object to BellSouth reducing its
22 prices for hunting arrangements, so long as the rates
23 continue to cover the underlying cost of providing
24 that service, AT&T does not believe that the reduction
25 in hunting charges represents the appropriate

1 disposition of the available subsidy dollars.
2 Instead, AT&T recommends that the Commission utilize
3 all available revenues to reduce switched access
4 charges; specifically, BellSouth's carrier common line
5 charge.

6 In taking this action the Commission should
7 consider the following: Access charges are still
8 priced significantly above their underlying cost. In
9 BellSouth's case, approximately 10 to 13 times the
10 underlying cost.

11 Secondly, the markup on switched access
12 charges is significantly higher than the markup
13 BellSouth enjoys on any other major revenue producing
14 service that it offers.

15 Third, incremental cost incurred in
16 providing the carrier common line charge is zero.
17 This element is clearly providing a subsidy.

18 Fourth, switched access has traditionally
19 been recognized to be priced artificially high in a
20 effort to keep other rates low. This statement cannot
21 be directly made of hunting arrangements or other
22 local service offerings.

23 Fifth, under elected price cap regulation
24 BellSouth already has sufficient opportunity to reduce
25 end user rates to meet potential competitive markets.

CROSS EXAMINATION

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BY MR. NELSON:

Q Mr. Guedel, you said right at the end of your summary that access is not subject to competition. What's the basis for that conclusion?

A It's my experience that the incumbent LECs at this point in time are sole providers of switched access service, and their prices have never been subject to competition.

Q Would you think that the -- in your opinion is the price of hunting service more or less subject to competition than the price of access service?

A The price of hunting service will be subject to competition certainly sooner than the price of access service. Very simply, an alternative provider of service could put in a local switch and compete with BellSouth, for example, for PBX trunks. And in competing with them they could offer hunting arrangements and there could be some price competition. I don't know that that's happened yet but in theory that will happen.

However, even in that arrangement access charges, terminating access charges specifically, will still not be competitive. The local company who has the access line sets the terminating access charges

1 and they are going to be what that company sets them
2 to be.

3 So it's going to be a significantly longer
4 period of time before access will be competitive.

5 MR. NELSON: Thank. No further questions.

6 CHAIRMAN JOHNSON: Ms. Green.

7 MS. GREEN: No questions.

8 MS. WHITE: Yes. Thank you.

9 CROSS EXAMINATION

10 BY MS. WHITE:

11 Q Mr. Guedel, my name is Nancy White. I
12 represent BellSouth.

13 In your testimony you recommend that all of
14 the available revenues from the BellSouth payphone
15 subsidy should be used to reduce intrastate switched
16 access charges, specifically the carrier common line
17 charge or the residual interconnection charge; is that
18 correct?

19 A That is correct.

20 Q Isn't it true that this Commission recently
21 eliminated BellSouth's residual interconnection
22 charge?

23 A Yes, that is correct. This testimony was
24 written at a time when other parties were also
25 participating in this case other than BellSouth. In

1 BellSouth's case the RIC has been eliminated so the
2 reduction should be applied to the carrier common
3 line. That was not true of other parties.

4 Q Now, are you familiar with the stipulation
5 that BellSouth entered into with Public Counsel and
6 various other parties including AT&T in 1994 that
7 called for certain rate reductions?

8 A I'm familiar, yes, that has been done, yes.

9 Q Will you accept, subject to check, that in
10 1994 BellSouth was required to make \$60 million worth
11 of rate reductions and \$50 million of that was made to
12 access charges?

13 A Subject to check that sounds reasonable.

14 Q Now, was any of that access charge reduction
15 flowed through to AT&T's customers?

16 A Yes, it's my understanding that it was.

17 Q How much of that \$50 million access charge
18 reduction was flowed through to AT&T's customers?

19 A It's my understanding we flowed through all
20 of it, at least our portion of the 50 million.

21 Q Okay. And to what services was that flowed
22 through?

23 A I don't recall.

24 Q Do you recall to what kinds of customers
25 that was flowed through to?

1 A I really don't recall the marketing activity
2 that was involved there.

3 Q Now, in 1995 under that stipulation will you
4 accept, subject to check, that \$80 million --
5 BellSouth was required to make \$80 million worth of
6 rate reductions and \$55 million of that was to access
7 charge reductions?

8 A Again, subject to check, I'll accept those
9 numbers.

10 Q Was any of that \$55 million in access charge
11 reductions flowed through to AT&T's customers?

12 A Yes. It's again my understanding that we
13 flowed through our portion of that access reduction.

14 Q Can you tell me to what services or to what
15 customers?

16 A Again, I'm not aware of the marketing plans
17 that were utilized.

18 Q In 1996 will you accept, subject to check,
19 that BellSouth was required to make \$84 million in
20 rate reductions and \$78 million of that went to reduce
21 switched access charges?

22 A Subject to check.

23 Q Was any of that flowed through to AT&T's
24 customers?

25 A It's my understanding that our portion of

1 that access reduction was flowed through to our
2 customers.

3 Q And can you tell me to what services or to
4 what customers?

5 A Again, I'm not aware of the marketing plans
6 that were utilized to flow that money through.

7 MS. WHITE: Madam Chairman, I'd like to ask
8 for a late-filed hearing exhibit that shows what
9 changes AT&T made in the flow-through, to what
10 services or what customers.

11 MR. HATCH: Madam Chairman, at this point
12 I'm going to really have to object. I've been rather
13 lenient letting them go on about this.

14 Flow-through is not an issue in this
15 proceeding. It's not within the scope of his
16 testimony. He is not the marketing person responsible
17 for determining where and how it was done.

18 MS. WHITE: BellSouth believes it is an
19 issue. BellSouth believes that hunting is the
20 appropriate service to which the reduction from the
21 subsidy should apply because it benefits the end users
22 the most. The interexchange carriers are stating that
23 should be access charges. We're trying to find out if
24 that reduction in access charges has benefited the end
25 users and to what extent.

1 **CHAIRMAN JOHNSON:** Mr. Hatch, anything else?

2 **MR. HATCH:** There isn't an issue in this
3 proceeding related to whether and how, and how much
4 any of the access has been flowed through to end
5 users. To the extent there's an issue about whether
6 IXCs should be required to flow through any access
7 reduction stemming from this proceeding, it should
8 have been identified up front and earlier.

9 **MS. WHITE:** BellSouth's position is that the
10 reduction in hunting best benefits end users. The
11 interexchange carriers are saying that the reduction
12 in switched access charges will best benefit
13 customers.

14 I'm trying to find out is there pattern from
15 the prior access charge reductions, of whether that
16 has occurred; whether access charge reductions have
17 benefited the end users of the interexchange
18 customers, what end users or how.

19 **CHAIRMAN JOHNSON:** Let me make sure I
20 understand, you're saying how access reductions will
21 benefit the end users.

22 **MS. WHITE:** That's correct. To what
23 services have those reductions been put? To what
24 customers have they been applied?

25 **CHAIRMAN JOHNSON:** Mr. Hatch, do you have

1 anything else to add?

2 MR. HATCH: No, ma'am.

3 CHAIRMAN JOHNSON: Staff, anything?

4 MS. BROWN: The question is not really
5 relevant to Staff's analysis of the evidence in this
6 case. We have no opinion either way. We don't think
7 that we need that information in order to compile our
8 recommendation for you.

9 CHAIRMAN JOHNSON: Ms. White, it's not a
10 directly stated issue. I understand the tie that
11 you're trying to make, but I'm going to sustain the
12 objection. It's just not directly related nor is it
13 tied to any of the direct testimony.

14 MS. WHITE: Thank you. I'll move on.

15 Q (By Ms. White) Mr. Guedel, will you accept
16 that if my math is right, out of \$224 million in
17 required rate reductions over the last three years,
18 \$183 million of that has gone to reduce switched
19 access charges.

20 A If your math is correct those numbers are a
21 matter of public record.

22 Q Okay. Now, on Page 8 of your testimony you
23 state that BellSouth has agreed to reduce the carrier
24 common line in Mississippi by \$1.38 million; is that
25 correct?

1 A That's correct.

2 Q And that was the amount of BellSouth's
3 payphone subsidy in Mississippi?

4 A That's correct.

5 Q At the risk of getting another objection,
6 has AT&T flowed through or does AT&T intend to flow
7 through that reduction?

8 A I don't know the answer to that question.

9 Q Okay. If this Commission accepts your
10 recommendation in this case, that the \$6.5 million
11 that BellSouth states is its payphone subsidy should
12 go to reducing the carrier common line, does AT&T
13 intend to flow that through to its customers?

14 A Yes.

15 Q Do you know to what services or what
16 customers?

17 A No, I do not. That will be again developed
18 by the marketing department.

19 Q Do you agree that the Commission, the
20 Florida Commission, the state commission, has the
21 authority to determine which rate elements should be
22 reduced to eliminate the subsidy under the FCC order?

23 A Could you repeat that?

24 Q Do you agree that under the FCC order, the
25 state commission has the authority to determine which

1 rate element should be reduced to eliminate the
2 subsidy, the payphone subsidy?

3 MR. HATCH: I assume you're asking him his
4 opinion as a layperson and not as a lawyer.

5 MS. WHITE: Of course.

6 A Yes, I'm assuming that.

7 Q Okay. On Page 8, Line 8 of your direct
8 testimony, you stated that BellSouth in North Carolina
9 stated it did not object to reducing access with the
10 amounts identified in the North Carolina payphone
11 subsidy study if the North Carolina Utilities
12 Commission ordered BellSouth to reduce access. Do you
13 see that?

14 A Yes, I do.

15 Q Now, based on your understanding of the FCC
16 order and the state commission's authority, and
17 understanding that you are a layperson and not an
18 attorney, what could BellSouth object to if the
19 Commission ordered it?

20 A Oh, I'm not sure what their legal recourse
21 would be. My knowledge of the North Carolina
22 situation in which BellSouth made that statement
23 publicly, that if the Commission orders to do this we
24 will do it, I don't know what their legal recourse
25 would be if the Commission had done something they

1 didn't want the commission to do.

2 **CHAIRMAN JOHNSON:** Could you repeat that
3 question?

4 **MS. WHITE:** Yes. He states on Page 8,
5 Lines 8 through 12 of his testimony that BellSouth
6 stated that it would not object, or it did not object
7 to reducing access charges with the amounts from the
8 payphone subsidy in North Carolina if the North
9 Carolina Commission ordered it.

10 And he had already stated that the state
11 commission has the authority to determine which rate
12 element should be reduced. So my question is given
13 his understanding of the FCC order and the state
14 commission's authority, and the fact that BellSouth
15 said they would do it if the Commission ordered it,
16 what could BellSouth object to?

17 **Q** **(By Ms. White)** On Pages 9 and 10 your
18 testimony you state that the subsidy should be applied
19 to reduce access charges because access charges are
20 above cost. Isn't it true that BellSouth has other
21 services that are priced above cost?

22 **A** Yes. I'm convinced they have other services
23 that are priced above cost.

24 My point in this section is that the markup
25 on these access costs, these switched access costs,

1 are higher than BellSouth receives from major revenue
2 producing services.

3 Q Now, has AT&T performed any studies to
4 determine the amount of BellSouth's intrastate
5 payphone subsidy in Florida?

6 A No, we've not performed any formal study.

7 Q Okay. The FCC order that is the discussion
8 of this docket also requires long distance companies
9 to compensate payphone providers or payphone owners
10 for coinless calls. Are you aware of that?

11 A I believe that's correct.

12 Q Do you know how AT&T is recovering that
13 cost?

14 A Well, I don't know where that issue stands.
15 It's my understanding that the compensation issue was
16 referred to a Circuit Court and a ruling has come out
17 from the Circuit Court that remanded it back to the
18 FCC, and I'm not terribly sure what the standing of
19 that is.

20 Q Is AT&T paying long distance companies
21 compensation for coinless calls -- I mean, excuse me,
22 is AT&T paying payphone owners compensation for
23 coinless calls?

24 A I don't know what the status of that is at
25 this point.

1 Q Okay.

2 MS. WHITE: I have nothing further. Thank
3 you.

4 CHAIRMAN JOHNSON: Thank you. Staff.

5 MS. BROWN: Chairman Johnson, could we have
6 just five minutes to review our questions. We don't
7 want to be repetitive here.

8 CHAIRMAN JOHNSON: We'll go off the record
9 for five minutes.

10 (Brief recess.)

11 - - - - -

12 CHAIRMAN JOHNSON: We'll go back to the
13 record.

14 CROSS EXAMINATION

15 BY MS. BROWN:

16 Q Good morning, Mr. Guedel, I'm Martha Brown
17 representing the Commission Staff this morning.

18 A Good morning.

19 Q I have just a few questions for you. If you
20 would turn to Pages 5 and 6 of your direct testimony,
21 Lines 23 through 5 you stated there that "Further, the
22 FCC identified the interstate financial flows
23 associated with the reclassification and transfer of
24 LEC payphone service operations and ordered each LEC
25 to adjust its respective carrier common line revenues

1 and/or reduce the current carrier common line cap for
2 price cap companies by the determined dollar amount."

3 Correct?

4 A That's correct.

5 Q And I think you just answered a question
6 from Ms. White that you had not done any studies to
7 determine if BellSouth's intrastate revenues could
8 be -- the subsidy flowing from the intrastate revenues
9 for payphones could be identified; is that correct?

10 A We have not done any studies to calculate
11 what that amount would be, I believe was my response.

12 Q Do you believe that the intrastate financial
13 flows associated with the reclassification and
14 transfer of LEC payphone service operations can be
15 identified?

16 A Yes. The flows that I'm referring to are
17 flows that will move from the regulated entity to --
18 yeah, from the regulated entity to the deregulated
19 entity in the future. And, yes, I believe those can
20 be identified.

21 Q Can you point the Commission to the evidence
22 that is in this record to identify where those flows
23 are?

24 A I believe they are captured in part in
25 BellSouth's analysis. I'm not totally in agreement

1 with BellSouth's analysis, but I believe they are
2 captured in part. They essentially are looking at the
3 costs of providing payphone operations today, which is
4 the CPE. The costs of collecting the coins, stuff
5 like that, which are moving from the regulated entity,
6 and in BellSouth's case to a fully separate
7 subsidiary. So you have basically have a transfer of
8 costs from the books of one entity to the books of
9 another. I think those could be identified. In fact,
10 they would have to be identified or you wouldn't be
11 able to set up the separate entity.

12 Q You are saying that the costs can be
13 identified. Can you identify the subsidies?

14 A Again, AT&T has not put together a formal
15 study to identify that subsidy amount.

16 Q You were here for Mr. Lohman's testimony,
17 weren't you?

18 A Yes, I was.

19 Q Do you remember in response to a question --
20 I don't remember exactly who asked it -- Mr. Lohman
21 stated that you can't trace a particular rate element
22 providing subsidy to another rate element. Do you
23 remember that?

24 A Yes.

25 Q Do you agree with that?

1 A Yes, I do agree with that in the intrastate
2 environment. There's no direct mapping between
3 subsidies or excess contribution produced by one
4 service to a service that may receive a subsidy to the
5 extent such services are priced below cost today. Not
6 admitting that that's the case, but if they were.

7 So yes, there's not a line-by-line transfer.
8 And we recognize that and that's really not the basis
9 of my argument for why the carrier common line should
10 be adjusted here.

11 Q Well, the next question I'm going to ask you
12 then is if you cannot make that determination, on what
13 basis do you then decide which rate element needs to
14 be reduced, given that you have established there is a
15 subsidy amount and that the FCC -- that the Act and
16 the FCC order require that that subsidy amount be
17 eliminated, if you cannot determine where the subsidy
18 comes from, on what basis do you make the decision on
19 which rate element to reduce?

20 A I think you make the decision based upon the
21 six points I included in my summary and the six points
22 we've included in the prehearing statement. And I
23 think it's, you know, basically you look at the
24 services that are the making the major contributions,
25 which are switched access charges. Switched access

1 charges have traditionally been recognized, including
2 by BellSouth, as services that are providing
3 contributions or subsidy amounts, if you believe that
4 some of their services are priced below cost. Access
5 charges are probably -- switched access charges,
6 excuse me, are probably the last service that
7 BellSouth is offering that could ever be subject to
8 any kind of competition in this state.

9 And since BellSouth has already been granted
10 the authority, and the financial wherewithall, to make
11 the kinds of reductions that it made with respect to
12 hunting arrangements, or other potentially competitive
13 services, we don't believe it's necessary to reduce
14 those any further. And for those, and perhaps related
15 reasons I've included in my testimony, we believe the
16 carrier common line charge is the logical place to
17 make this kind of a reduction.

18 Q Now, I think in earlier responses to cross
19 examination -- I hope it was you -- you stated that
20 there were other rate elements that were providing
21 considerable contribution above cost. Is that
22 correct? Not just access charges. And do you agree?

23 A I agree, and I believe that there are other
24 services offered by BellSouth that produced
25 contribution or economic profit or profit in excess of

1 rate of return, yes.

2 Q So if you are trying to develop a basis upon
3 which you can make the decision on which rate element
4 needs to be reduced, would you agree -- and I think
5 this is one of your six points -- that you can look
6 at -- one way to do it is to look at the array of rate
7 elements that are providing contributions above cost,
8 including switched access and other rate elements,
9 correct? That's one.

10 A I think that is an issue. You certainly
11 wouldn't want to reduce the price of a service that
12 was not -- was not at least in some sense priced above
13 cost. So that would be an absolute cutoff, yes.

14 Q All right. So if you have established that
15 point, then you need to make -- and you have
16 established the point that there are several choices
17 to be made here.

18 A Correct.

19 Q Then what is the next basis that you use for
20 deciding between those choices? You see what I'm
21 asking?

22 A I think I know -- well, I think I know what
23 you're asking, but I think the response is the same
24 response I gave you to a previous question, that the
25 six points start out with exactly where you started;

1 that certainly you do not want to reduce the price of
2 a service that may be receiving a subsidy, or a
3 break-even service, so that's definitely step one.
4 But then you want to look at the other aspects. You
5 want to look at the historical aspects of switched
6 access charges. You want to look at the fact that a
7 carrier common line charge has zero cost. I mean it's
8 a pure subsidy element. There can be no dispute one
9 way or the other on that. And you want to look at the
10 competitive ramifications recognizing the authority
11 and the financial capability that price cap regulation
12 has already given BellSouth.

13 I don't think you would want to reduce a
14 service that BellSouth is going to reduce anyway to
15 meet competition because they've already been granted
16 that ability to do that. So you want to address a
17 service that competition will not favorably affect and
18 I think switched access charges is that service. It's
19 clearly that service.

20 Q Would you agree that once you get beyond the
21 point of not being able to determine factually and
22 specifically where the subsidy is located, you are
23 dealing with a lot of extrinsic, or a variety of
24 extraneous circumstances upon which you might want to
25 base your decision. Extraneous may not be the exact

1 word. Would you agree with that? You're ranging
2 further afield from a factual basis for a decision.

3 A I don't think I'd agree with your
4 characterization.

5 Q Let me restate the question then.

6 When you get to that point, aren't you
7 making a judgment call on what -- if you have a
8 variety of rate elements that have similar aspects and
9 you want to pick one over the other, you want to do it
10 for a variety of reasons and make a policy decision
11 that is fundamentally your call on other matters
12 rather than where the specific subsidy is?

13 A I'm going to say yes, but I've got to
14 qualify that yes.

15 I totally agree that there's no direct
16 mapping between the subsidy of an intrastate element
17 and the service receiving that subsidy. I agree with
18 that.

19 Secondly, I think you need to look,
20 therefore, at other aspects surrounding the pricing of
21 all of BellSouth's services, look at other aspects of
22 the cost/price relationship of those services, other
23 aspects of the competitive nature of the BellSouth
24 services, other aspects of the legislative authority
25 that BellSouth has already been given. Now, I don't

1 believe those are nonfacts. I believe those are
2 facts. So I'm not asking you to ignore facts or I'm
3 not asking you to base judgment on things that are not
4 facts. I will admit you don't have a direct mapping
5 so you have to look at something else. But I believe
6 fully the Commission must make this decision based
7 upon facts, based upon the evidence presented to them
8 in this case, and to use good judgment. And that's
9 all we can ask. But yes, it is a judgment call, but I
10 think the facts tell you what good judgment and bad
11 judgment is.

12 Q There have been some other alternatives
13 proposed in this hearing so far on what rate elements
14 should be reduced. Do you agree? BellSouth's
15 proposal is one?

16 A I'm familiar with BellSouth's proposal.

17 Q Right. The Pay Telephone Association has
18 begun another proposal as well, that the rate
19 reduction should be related to a benefit to the pay
20 telephone companies. Correct? I mean those are
21 proposals?

22 A I haven't seen any testimony to that effect
23 but I'll accept that.

24 Q There were some questions asked of
25 Mr. Lohman earlier that --

1 A There may have been some questions but I
2 don't know if those questions constitute a proposal.

3 Q Well, we'll see. There might be some other
4 proposals based on reasonable -- certainly based on
5 facts, not specifically in that specific mapping
6 scenario that we talked about. For instance, that
7 rate reduction should be made to rate elements that
8 related to the provision of pay telephone service.
9 Would you agree that that would be a potential
10 proposal that could be made on where the Commission
11 should make its decision on what to reduce?

12 A I certainly can't dispute with you that
13 other parties, hypothetical parties to this case,
14 could come up with separate proposals. And I believe,
15 you know, we would have to address those proposals on
16 their merits, and whether or not they actually did
17 meet the facts that were available before the
18 Commission in this case, the facts which I believe
19 I've included in my testimony. I don't discount that
20 as a possibility.

21 Q I guess what I'm trying to get at,
22 Mr. Guedel, is that when you get past the point of
23 your specific mapping correlation between where the
24 subsidy is and reducing a rate element to take care of
25 it, and you're getting into more extraneous matters,

1 reasonable minds could well differ on what rate
2 element should be reduced. Will you agree with that?

3 A I can't disagree with that. I think clearly
4 the task before this Commission is a little more
5 difficult than the task that was placed before the
6 FCC. Because the FCC's mapping was fairly direct and
7 they simply had to go to a revenue requirements type
8 of thought and move some things on from one pot to
9 another, and it all worked out pretty clean.

10 So to say that the Florida Commission has to
11 deal with a different set of facts than the FCC had to
12 deal with, I agree with that, they do have to deal
13 with a different set of facts. And arguably it's a
14 little more complicated here than it was before the
15 Federal Communications Commission.

16 I personally believe the facts point very
17 clearly in one direction. Now, I will not be able to
18 dispute that another mind may see things differently.

19 Q I think you also did agree with Ms. White
20 that the Commission has the authority and the
21 discretion to make that ultimate decision here,
22 correct?

23 A I believe the Commission has the authority
24 to make that decision. Certainly that's the layman's
25 opinion and certainly that's why I'm here.

1 Q Do you agree that switched access intrastate
2 toll and operator charges are logical network revenue
3 streams that are part of the intrastate financial
4 flows associated with payphones?

5 A I'm not sure how to answer that question.
6 They are not really associated with payphone service
7 or a payphone itself. They are services that can be
8 purchased or accessed through a payphone instrument.
9 But I want to be specific and I want to try to be
10 clear, I don't know that they are specifically
11 payphone services, and, therefore, they shouldn't be
12 services that you would necessarily consider in
13 developing a subsidy amount or something like that.

14 Q Mr. Guedel, I want to ask you just three
15 questions that have to do with some questions that
16 Commissioner Deason asked of Mr. Lohman earlier.

17 The first is would you agree that the issue
18 of whether or not a particular LEC has a payphone
19 subsidy is -- I think you said there earlier -- is a
20 historical question that pertains to the period prior
21 to the deregulation of payphones. We're looking back
22 here when we're trying to answer the questions in this
23 hearing.

24 A I think you could characterize it that way.
25 I think one way of reaching the conclusion or the

1 answer to the question, however, is to look at the
2 cash flows in the future, which move from the payphone
3 regulated to the deregulated entity and vice versa;
4 you can come to that answer. I think you can also
5 characterize it as a historical situation depending
6 upon the language that you use. I don't think either
7 one is absolute.

8 Q That would then call for perhaps an embedded
9 analysis rather than a completely forward-looking
10 analysis?

11 A Okay. I think the answer to that question
12 is yes. And I think -- keep in mind what the FCC did
13 here. The FCC started out by moving certain
14 accounting data from the books of one company to the
15 books of another company, or another entity, or in
16 some cases just a deregulated or less regulated part
17 of the company.

18 And essentially when the FCC was not trying
19 to price a service. And the concept of
20 forward-looking long run incremental cost, or TSLRIC,
21 is clearly the costs you use in pricing a service.
22 There can be no question about that. But that's not
23 exactly what the FCC was trying to do here.

24 What they were trying to do here was to move
25 revenue requirements, if you will -- because it was

1 certainly done in a revenue requirements mentality,
2 even though there are price caps involved in the
3 federal arena -- to move us out of revenue
4 requirements from the books of a regulated entity to
5 the books of a deregulated entity. And the FCC came
6 up with two methods of doing it: one would be net
7 book value and the other, I think, is fair market
8 value. And in all fairness those are before an
9 appellate court, also, and they have been remanded to
10 the FCC. Those are the kind of techniques you would
11 use to do the kinds of things they were trying to do.
12 And you probably have to do very similar things in the
13 intrastate world to come up with what the appropriate
14 subsidy amount is going to be.

15 A TSLRIC application --

16 COMMISSIONER DEASON: Let me interrupt you.
17 How do you define subsidy then? What is your
18 definition of subsidy? You can have one subsidy for
19 one purpose and another subsidy calculation for
20 another purpose?

21 WITNESS GUEDEL: No, you should not.

22 COMMISSIONER DEASON: Okay. Well, what is
23 your definition of subsidy then?

24 WITNESS GUEDEL: A subsidy, in the purest
25 sense, is a service -- well, it's more complicated

1 than that.

2 A service is receiving a subsidy if that
3 service is priced before the long run incremental
4 cost that -- or the total service long run incremental
5 costs that are incurred in providing the service.

6 COMMISSIONER DEASON: But you're advocating
7 a calculation of subsidy for pay telephone service for
8 purposes of this document which is calculated on
9 different basis than total service long run
10 incremental cost.

11 WITNESS GUEDEL: I'm describing -- and let
12 me be clear on this. I'm describing here what the FCC
13 did and I'm also saying you can use a similar
14 methodology here.

15 AT&T has not done a formal study of how that
16 subsidy should be, so I can't give you a
17 recommendation on what those numbers should look like,
18 or what numbers specifically should be used.

19 COMMISSIONER DEASON: If incremental cost
20 were used, would the amount of subsidy be less or more
21 than what is being calculated under embedded cost
22 methodology?

23 WITNESS GUEDEL: It would be less in a pure
24 TSLRIC basis. However, if you assumed, which I think
25 is appropriate, that the actual cost -- that the

1 imputed cost, if you will -- the imputed cost of the
2 access line in the current payphone environment -- in
3 other words, if you looked at the imputed cost of that
4 access line rather than the TSLRIC cost, then I
5 believe a subsidy would be at or slightly greater than
6 what BellSouth has proposed.

7 **COMMISSIONER DEASON:** I'm sorry, you need to
8 repeat that. I didn't follow that.

9 **WITNESS GUEDEL:** In calculating the subsidy,
10 if you looked at the imputed costs of an access line
11 and assumed that today BellSouth's payphone covered
12 the imputed cost of the line -- in other words,
13 covered what the COCOTs were paid.

14 **COMMISSIONER DEASON:** Now, are you saying
15 cost or prices that other people have to pay for the
16 same service?

17 **WITNESS GUEDEL:** That would be an imputed
18 cost which would be the price that other people have
19 to pay.

20 **CHAIRMAN DEASON:** So, you're confusing cost
21 and price again. You're deviating from cost,
22 nonincremental cost. You're using price that other
23 competitors have to pay as a surrogate for your
24 definition of cost.

25 **WITNESS GUEDEL:** That is what an imputed

1 cost is, that's correct.

2 COMMISSIONER DEASON: Okay.

3 MS. BROWN: Staff has no further questions.

4 Thank you.

5 CHAIRMAN JOHNSON: Commissioners, any other
6 questions?

7 COMMISSIONER DEASON: I have a few
8 questions.

9 Mr. Guedel, on Page 9 of your testimony on
10 Lines 15 through 17 you quote a cost of less than a
11 quarter cent per access minute. How was that cost
12 calculated?

13 WITNESS GUEDEL: That cost came out of
14 Docket 950985, and it was represented in the
15 transcript of the Commission's review of that cost --
16 excuse me, of that docket. I believe in the voting
17 review of that docket. And Staff indicated to the
18 Commission at that point in time, in two different
19 places in that transcript, one, that the cost of
20 interconnection was a quarter of a cent, and at
21 another point in that transcript, that it was probably
22 around two-tenths of a cent. Or effectively I believe
23 the Staff said if the Commission set a rate above
24 those numbers they would be setting a rate above cost.

25 Now, the trail to get that back to access is

1 a little more complicated. Initially Staff had
2 forwarded an interrogator, or data request to
3 BellSouth in that docket asking BellSouth what the
4 cost of interconnection would be. BellSouth responded
5 to that data request by saying "We don't know. We
6 didn't do a specific study for interconnection but the
7 costs are going to be the same for switched access, so
8 here are our switched access costs." So these numbers
9 were derived from BellSouth's response to that
10 interrogatory, and that's the basis for my analysis.

11 **COMMISSIONER DEASON:** That's where it came
12 from. What was the basis of the calculation? Is this
13 an incremental cost number?

14 **WITNESS GUEDEL:** My guess is this is a
15 long-run incremental cost number.

16 **COMMISSIONER DEASON:** Now, on Page 9 again,
17 at the bottom of that page you indicate that the
18 markup over the switched access cost, which you
19 indicated is an incremental cost, is greater than any
20 other revenue producing service or major revenue
21 producing service. Am I paraphrasing that correctly?

22 **WITNESS GUEDEL:** I believe so.

23 **COMMISSIONER DEASON:** Now, what do you mean
24 by major revenue producing service?

25 **WITNESS GUEDEL:** I guess I would include in

1 that, Commissioner, single line residence service,
2 single line business service, switched access service,
3 LEC toll service and possibly special access private
4 line as a category. Those would be, I believe, the
5 five major revenue producing services BellSouth has.

6 I will acknowledge there are --

7 COMMISSIONER DEASON: But hunting services
8 is not a major revenue producing service as you define
9 it.

10 WITNESS GUEDEL: I don't believe it is in
11 that kind of a category, no.

12 COMMISSIONER DEASON: Do you know what the
13 markup is for hunting services?

14 WITNESS GUEDEL: No, I do not know what the
15 markup is for hunting services.

16 COMMISSIONER DEASON: So conceivably it
17 could be even higher than the markup that you've
18 indicated exist for switched access service?

19 WITNESS GUEDEL: Commissioner, I believe it
20 could be higher -- conceivably higher than the markup
21 for switched access service; it could not be higher
22 than the markup for carrier common line service which
23 is effectively infinite. I do believe there are some
24 costs incurred in providing hunting, so it would be
25 something higher than carrier common line -- excuse

1 me, the markup would be something less than the at
2 markup on carrier common line.

3 COMMISSIONER DEASON: And that's because
4 it's your position that the incremental cost of CCL is
5 zero.

6 WITNESS GUEDEL: That's correct.

7 COMMISSIONER DEASON: You've indicated that
8 it's your position that the subsidy that's been
9 calculated for pay telephone should be used to reduce
10 access charges and that AT&T would pass those access
11 charge reductions through to its customers; is that
12 correct?

13 WITNESS GUEDEL: Yes.

14 COMMISSIONER DEASON: Now, do you think it
15 would be appropriate for the Commission to specify --
16 if we took that course of action, to specify to AT&T
17 what specific rates and charges it should reduce to
18 pass along that access charge reduction?

19 WITNESS GUEDEL: No, I don't think that
20 would be appropriate.

21 COMMISSIONER DEASON: But you're saying it
22 would be appropriate for us to specify to BellSouth
23 how it should accomplish a revenue reduction or
24 subsidy removal, which I think is the basis for your
25 access charge reduction is to reduce the subsidy --

1 it's okay for the Commission to specify to BellSouth
2 what particular rates and charges should be reduced to
3 accomplish that. Why is it that AT&T is different
4 from BellSouth?

5 WITNESS GUEDEL: Primarily because outside
6 of any legal aspects, which I don't want to get
7 into -- primarily because we operate in a fully
8 competitive environment and the prices that we charge
9 for the services that we offer, which is a fairly
10 large array of services, targeted to a variety of
11 different customers, have to be adjusted to meet
12 market demands and to meet competition in those
13 various market demands. And we need the flexibility
14 to do that kind of thing, as do all other competitors.

15 BellSouth also needs that flexibility to an
16 extent as their markets become competitive. My only
17 point is that with respect to those markets, they've
18 already got the flexibility that they need. So the
19 Commission is sitting here with a decision to make on
20 how to dispose of X millions of dollars. And because
21 BellSouth has already accomplished what they want to
22 do in the competitive environment, at least from an
23 authoritative and financial position, then because of
24 the five or six other reasons that I've listed, it
25 makes sense that access charges should be reduced by

1 this Commission.

2 It comes down to the fact that if BellSouth
3 ever wanders into a competitive market, and if
4 Mr. Lohman's characterization of the markup on hunting
5 charges is accurate, that price is going to come down
6 and it's going to come down a lot more than BellSouth
7 has proposed for it to come down anyway today. It's
8 going to come down because competition is going to
9 force it down if competition happens.

10 Switched access on the other hand, we're
11 not going to see competition for BellSouth's switched
12 access, and, therefore, to get maximum value out to
13 the customers, the Commission could take the
14 initiative to reduce the prices of services that
15 BellSouth will not reduce under the authority that
16 it's been granted by the legislature. That maximizes
17 the benefit flowing to the Florida ratepayers.

18 **COMMISSIONER DEASON:** So you're saying that
19 BellSouth already has the flexibility to make these
20 type reductions, and that if the competition is
21 sufficient, they are going to make the reductions
22 anyway, therefore, don't allow them to make these
23 hunting charge reductions because they are probably --
24 if there is true competition, they are going to do it
25 anyway. Am I summarizing that correctly?

1 WITNESS GUEDEL: I think that's correct. As
2 competition hits they are going to lower the prices of
3 the services where competition hits, particularly if
4 there's a markup to the size that Mr. Lohman has
5 suggested.

6 COMMISSIONER DEASON: Here again on the
7 other side of that coin, I'm trying to look at it from
8 both aspects. Then what you were saying then is we
9 should look at AT&T, and to the extent that there is
10 sufficient competition and market forces that you
11 would have reduced some of your charges and rates to
12 respond to competition, that we should identify that
13 and then force you to reduce charges even further for
14 the access charge flow-throughs? Because you would
15 have done it anyway under competition. You're saying
16 BellSouth would reduce hunting charges anyway under
17 competition, so specify something else to accomplish a
18 true reduction.

19 And my question is how do we know what they
20 are really doing is as a result of competition or as a
21 result of what we order? And if we're going to treat
22 BellSouth the same -- or treat AT&T the same as you
23 propose treating BellSouth, would we need to look at
24 your operations, determine what rate reductions you
25 put in place as a result of competition, and say you

1 would have done that anyway, and then require further
2 rate reductions to fully and effectively accomplish a
3 flow-through of access charge reductions.

4 **WITNESS GUEDEL:** I guess I don't see it that
5 way. And I don't see it that way because there aren't
6 any monopoly aspects of our business. If there were,
7 I think the Commission would have at least a
8 consideration to look into that. But the fact that
9 all of our services are offered on a fully competitive
10 basis and have been for years, I don't think that's a
11 consideration this Commission needs to look at because
12 the market forces are working there.

13 My only point with BellSouth is that market
14 forces are not working with respect to switched access
15 charges, and that's why those charges should be
16 reduced.

17 **COMMISSIONER DEASON:** You say market forces
18 are not working for switched access. Is it because
19 there's not been the opportunity for there to be local
20 access competition?

21 **WITNESS GUEDEL:** That's correct. There not
22 only has not been any competition for switched access
23 charges, it's highly unlikely in the future that even
24 if alternative local companies build facilities and
25 put switches in and serve customers, they are not

1 going to compete on the price of access charges; they
2 are going to compete on the prices they charge to end
3 users for local service or for toll service or for a
4 variety of other things, and they will be able to
5 price their access charges, particularly terminating
6 access charges, at a higher level. They won't compete
7 on that charge; not only now, probably not in the
8 future, the foreseeable future either.

9 **COMMISSIONER DEASON:** Are you indicating
10 then that the level of access charges is not something
11 that is considered by potential competitors in the
12 local market?

13 **WITNESS GUEDEL:** I won't say the revenue
14 level is not considered. Because, for example, if I'm
15 an ALEC and I could get into local service and provide
16 local service to customers, I now have a monopoly on
17 terminating access because nobody else can provide
18 terminating access to that customer once I've signed
19 him up for local service. I would say the revenue
20 level may be a consideration for prospective ALECs
21 today; may be a false consideration; may be a
22 consideration that a truly competitive market would
23 not offer them, but I can't deny they wouldn't
24 consider the possibility of pricing similar to
25 BellSouth.

1 **COMMISSIONER DEASON:** But can't you, as an
2 interexchange carrier, both intrastate and interstate,
3 and interLATA, put together a marketing plan to obtain
4 that local service customer, realizing that you're
5 going to avoid having to pay the access charges if
6 they continue to be a BellSouth customer? Isn't that
7 part -- wouldn't that be part of your marketing plan
8 to that customer?

9 **WITNESS GUEDEL:** I could theoretically
10 devise a scheme to try to do that. It would be
11 extremely complicated. I think there might be legal
12 problems with trying to deaverage at that level.
13 Again, I can't totally comment on the legal nature.
14 But I'm not sure we have the flexibility to do the
15 kind of things today that we need to do to make that
16 happen, and it would be extremely complicated to make
17 that happen.

18 **COMMISSIONER DEASON:** Are you saying you
19 don't have the authority -- if you sign up a local
20 customer to give them long distance rates from a
21 different local customer, that you do not -- that is
22 not a local customer of yours?

23 **WITNESS GUEDEL:** Could you rephrase that? I
24 missed that.

25 **COMMISSIONER DEASON:** Yeah. What I got from

1 your previous answer is you're saying that you doubt
2 you have the authority to provide -- to deaverage toll
3 rates based upon whether a local customer is your
4 local customer or continues to be a local customer of
5 BellSouth, assuming AT&T is providing a package of
6 services, both local and toll.

7 **WITNESS GUEDEL:** Assuming we have that
8 authority. I don't know that we have that authority.
9 But assuming we can do that, that we could devise a
10 scheme to market to customers based upon originating
11 access rates. However, terminating access rates are
12 still locked.

13 **COMMISSIONER DEASON:** That's all I have.

14 **CHAIRMAN JOHNSON:** Any other questions?
15 Redirect?

16 **MR. HATCH:** No redirect.

17 **CHAIRMAN JOHNSON:** And there are no
18 exhibits.

19 **MR. HATCH:** Not for Mr. Guedel.

20 **CHAIRMAN JOHNSON:** The witness is excused.
21 Thank you.

22 (Witness Guedel excused.)

23 **CHAIRMAN JOHNSON:** We'll call the next
24 witness.

25 **MR. MELSON:** MCI calls Melba Reid.

1 MELBA REID

2 was called as a witness on behalf of MCI
3 Telecommunications Corporation and, having been duly
4 sworn, testified as follows:

5 DIRECT EXAMINATION

6 BY MR. NELSON:

7 Q Ms. Reid, would you state your name and
8 address for the record please?

9 A My name is Melba Reid. I work at 780
10 Johnson Ferry Road, Atlanta, Georgia.

11 Q By whom are you employed and in what
12 capacity?

13 A I'm employed by MCI. I work in the Law and
14 Public Policy Department as a policy and cost
15 specialist.

16 Q Have you prepared and filed in this docket
17 six pages of direct testimony?

18 A Yes, I have.

19 Q Do you have any changes or corrections to
20 that testimony?

21 A Yes, I do.

22 Q Would you give us that change, please?

23 A On Page 4, Line 22, I would like to remove
24 the words "supporting" and insert "that should be
25 reduced to eliminate."

1 Q And with that change if, I were to ask you
2 today the same questions that are in your direct
3 testimony, would your answers be the same?

4 A Yes, they would.

5 MR. NELSON: Madam Chairman, I'd ask that
6 Ms. Reid's direct testimony be inserted into the
7 record as though read.

8 CHAIRMAN JOHNSON: It will be inserted as
9 though read.

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DIRECT TESTIMONY OF
MELBA REID
ON BEHALF OF MCI TELECOMMUNICATIONS CORPORATION
BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
Docket No.(s) 970281-TL, 970172-TP, 970173-TP
Filed: July 8, 1997

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Melba R. Reid. My business address is 780 Johnson Ferry Road, Atlanta, Georgia 30342. I am employed by MCI Telecommunications Corporation as a Policy and Cost Specialist in the Law and Public Policy Department.

Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science degree in Economics from the University of Tennessee in 1987. My background in telecommunications includes over nine years of experience. I began my career at Sprint in 1987 in customer service where I worked as a major account field service representative. A year later, I moved into the national account arena to work as a field service representative handling larger customers and a bigger revenue base. In 1990, I accepted a position at MCI to be a trainer for the sales organization.

1 My next two positions at MCI were in network services/operations
2 where I worked as a budget analyst and then as a project manager. In
3 September of 1996, I accepted my current position in the Law and
4 Public Policy department where I work as an analyst on policy and cost
5 issues.

6
7 Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE FLORIDA
8 PUBLIC SERVICE COMMISSION?

9 A. No. I have not had the opportunity to testify before the Florida Public
10 Service Commission.

11
12 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY ?

13 A. The purpose of my testimony is to present MCI's position and
14 recommend to the Commission that the \$6.5 million identified by
15 BellSouth Telecommunication Inc. (BST) as representing the intrastate
16 payphone subsidy should be targeted to reduce BST's intrastate
17 switched access rates and specifically, the Carrier Common Line (CCL)
18 rate element.

19
20 Q. WHY IS IT NECESSARY FOR BST TO REMOVE PAYPHONE
21 SUBSIDY FROM ITS INTRASTATE REVENUES?

22 A. Section 276 (a) (1) of the Federal Telecommunications Act requires
23 that any Bell operating company that provides payphone service shall

1 not subsidize its payphone service directly or indirectly from its
2 telephone exchange service operations or its exchange access
3 operations. The Federal Telecommunications Act further directed the
4 Federal Communications Commission (FCC) to insure that any
5 payphone subsidies be removed.

6
7 The FCC addressed this issue in its Report and Order in CC Docket
8 No. 96-128 and 91-35 ("Payphone Order"), by requiring BST to
9 reduce the CCL rate element of its interstate switched access charges.
10 With respect to the intrastate payphone subsidy, Paragraph 186 of the
11 Payphone Order states "We require, pursuant to the mandate of
12 Section 276(o)(1)(B), incumbent LFCs to remove from their intrastate
13 rates any charges that recover the costs of payphones. Revised
14 intrastate rates must be effective no later than April 15, 1997 ... States
15 must determine the intrastate rate elements that must be removed to
16 eliminate any intrastate subsidies within this time frame."

17

18 Q. WHAT IS THE AMOUNT OF THE INTRASTATE PAYPHONE
19 SUBSIDY FOR BELLSOUTH IN FLORIDA ?

20 A. BST has identified \$6.5 million in payphone subsidy for its Florida
21 operations.

22

1 Q. DOES THE FCC PAYPHONE ORDER REQUIRE THE
2 COMMISSION TO SPECIFY WHICH RATE ELEMENTS
3 SHOULD BE REDUCED TO ELIMINATE THE SUBSIDY?

4 A. Yes. As stated above, Paragraph 186 of the FCC Payphone Order
5 requires that the state commissions make this determination after the
6 amount of the subsidy has been determined. MCI believes that this
7 Commission should make the determination that a \$6.5 million
8 intrastate subsidy exists for BST and should direct that BST's intrastate
9 CCL rate element should be reduced by \$6.5 million.

10
11 Q. WHY SHOULD THE COMMISSION REDUCE BST'S
12 INTRASTATE CCL TO REMOVE THE PAYPHONE SUBSIDY
13 FROM BST'S EXISTING RATES ?

14 A. BST's present CCL rates provide substantial contribution to BST's
15 telephone operations in Florida today. BST has indicated that its
16 intrastate payphone operations are being subsidized by \$6.5 million. As
17 the Commission Staff noted in its March 6, 1997 Staff
18 Recommendation, " it is logical to attribute the subsidy to one or more
19 of the various network revenue streams which can flow from a
20 payphone". This Staff Recommendation identified switched access
21 revenues and toll/operator services revenues as being the revenue
22 streams ~~supporting~~ *that should be reduced to eliminate* the intrastate payphone subsidy. Hence it is
23 appropriate for payphone subsidies to be removed by reducing the rates

1 for one of these BST services. MCI recommends that the Commission
2 specify that the CCL rate element of BST's switched access revenues
3 be reduced by the \$6.5 million identified by BST. By lowering the
4 intrastate CCL switched access rate element, the Commission will be
5 lowering the rates for a service that it has recognized is priced far in
6 excess of its cost.

7
8 Q. DOES MCI HAVE ANY OBJECTIONS TO BST'S PROPOSAL?

9 A. Yes. BST plans to reduce their hunting (rotary) rate. Lower hunting
10 charges will only serve to secure existing business customers and help
11 BST acquire business customers in the future. Furthermore, the
12 present rates for BST's (rotary) hunting charges have no basis or
13 connection to the subsidy presently being provided to BST's payphone
14 operations in Florida. Therefore, the Commission should not specify
15 BST's hunting rates as the rate element to be reduced to remove the
16 \$6.5 million in payphone subsidy. While BST may choose to lower its
17 business hunting rates as a matter of competitive necessity, BST should
18 not be permitted to claim that it has thereby eliminated the intrastate
19 payphone subsidy from its Florida operations. Only rate reductions for
20 services which bear some relationship to its payphone operations
21 should qualify as effecting a removal of the \$6.5 million in payphone
22 subsidy.

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Q. BY WHAT DATE SHOULD REVISED INTRASTATE TARIFFS WHICH ELIMINATE INTRASTATE PAYPHONE SUBSIDY BE FILED?

A. After the Commission has made their decision in this proceeding, BST should have 30 days in which to file their revised tariffs to reduce the intrastate CCL rates by \$6.5 million. The effective date of the tariffed rate reductions should be April 15, 1997.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

1 Q (By Mr. Nelson) Ms. Reid, could you please
2 give a brief summary of your testimony.

3 A Yes. Commissioners, the FCC payphone order
4 requires the Commission to determine which rate
5 element should be reduced to eliminate any intrastate
6 payphone subsidy. MCI believes the rate element
7 chosen should be the intrastate carrier common line.

8 This concludes my summary.

9 MR. NELSON: Ms. Reid is tendered for cross.

10 CHAIRMAN JOHNSON: Okay. Mr. Hatch?

11 MR. HATCH: No questions.

12 CHAIRMAN JOHNSON: Mrs. Green.

13 MS. GREEN: No questions.

14 CHAIRMAN JOHNSON: BellSouth.

15 CROSS EXAMINATION

16 BY MS. WHITE:

17 Q My name is Nancy White with BellSouth
18 Telecommunications and I just have a few questions for
19 you today.

20 In your summary you state that the FCC's
21 order requires this Commission to specify which rate
22 elements should be reduced due to BellSouth's payphone
23 subsidy; is that correct?

24 A Yes, I did.

25 Q As a layperson, not an attorney, is it your

1 position that the Commission has not met this
2 requirement?

3 A Yes, it is.

4 Q And are you familiar with the order this
5 Commission issued in which it allowed BellSouth's
6 tariff reducing hunting to be used to eliminate the
7 subsidy?

8 A Yes, I am.

9 Q And you don't think that's met the FCC's
10 order?

11 A No, ma'am.

12 Q And why is that?

13 A Referring to a document, order number
14 PSC-973-508-FOF-TP issued on March 31st, under the
15 Section 3 that refers to intrastate implementation
16 requirements, it states "We" -- I'm assuming this is
17 the Commission "We will not specify particular
18 services or elements where LECs may make rate
19 reductions. The LECs should have discretion." And I
20 believe that is in direct contradiction to "must "

21 Q But the PSC --

22 COMMISSIONER CLARK: It's in direct
23 contradiction to what?

24 WITNESS REID: Let me go back and read. It
25 says in Paragraph 183 of the payphone order.

1 **COMMISSIONER CLARK:** Which payphone order?

2 **WITNESS REID:** Paragraph 3 of the payphone
3 order.

4 **COMMISSIONER CLARK:** From this Commission or
5 from the FCC?

6 **WITNESS REID:** From the FCC. I apologize.
7 From the FCC. It says that the states must determine
8 the intrastate subsidies within the time frame. And
9 for that reason, as a layperson I interpreted that as
10 based on the language that was in the document that I
11 read, if I understood it correctly. It said that it's
12 not specified in the services, and that the LECs have
13 t'a discretion, and that was the reason for my
14 statement.

15 **Q** **(By Ms. White)** Let's try it this way:
16 You're aware that BellSouth filed a tariff reducing
17 hunting charges in order to eliminate the payphone
18 subsidy.

19 **A** Yes, I am.

20 **Q** And you're aware that this Commission
21 decided to accept that tariff and approve the hunting
22 reduction even in light of objections from MCI?

23 **A** Yes, I am aware of that.

24 **Q** So by your reading of the order, hasn't this
25 Commission determined hunting is the rate element from

1 which the subsidy should be removed?

2 A Again, I say based on the language in the
3 document that I read I don't agree.

4 Q Now, you believe that the payphone subsidy
5 should be removed from access rates, toll rates,
6 operator service rates, which one?

7 A We specified intrastate or -- excuse me,
8 yeah, intrastate switched access CCL.

9 Q And is it your recommendation that the
10 subsidy should be removed from the carrier common line
11 charge because that's where the subsidy came from?

12 A No, it's not. We believe that CCL or
13 carrier common line provides contribution, and that
14 payphone is one of the elements that requires this
15 contribution. So it probably provides some subsidy to
16 it but there apparently is no way of tracing directly
17 which ones do and do not.

18 Q So based on the change you made in your
19 testimony you now agree that you cannot identify the
20 specific rate elements that come from the payphone
21 operations.

22 A I agree that they are not traceable, but I
23 do believe CCL, since it does provide contribution, it
24 is logical that possibly some of this contribution
25 goes for that purpose.

1 Q And how -- what is that belief based on?

2 A The fact that you have services that need
3 contribution and then you have all of this
4 contribution. You have the expenses and then --

5 Q I'm sorry. Go ahead.

6 A That's fine.

7 Q So I guess what you're saying is you believe
8 that the CCLC should be the rate element used to
9 reduce the subsidy because it's priced above cost?

10 A There's different reasons for why I believe
11 CCL should be chosen.

12 Q Is that one of them?

13 A One of them, yes, ma'am.

14 Q And do you -- isn't it true that BellSouth
15 has other services that are priced above cost?

16 A I believe that's what they say, yes.

17 Q You have approximately ten years of
18 experience in the telecommunications industry?

19 A Yes, I do.

20 Q Are you familiar with the stipulation that
21 BellSouth entered into in 1994 that called for certain
22 rate reductions?

23 A I'm vaguely aware of that, yes.

24 Q Would you accept, subject to check, that
25 over the last three or four years there have been

1 approximately \$224 million in required rate reductions
2 that \$183 million of that has been used to reduce
3 access charges?

4 A I personally would prefer to see that
5 document before I give my approval to it because I
6 have not seen that. I mean what you're referring to.

7 MS. WHITE: I would ask the Commission to
8 take official recognition of the orders in 920260 for
9 over the past three years.

10 MR. HATCH: All of them?

11 MS. WHITE: The orders.

12 MR. HATCH: All of the orders in the docket
13 or are you talking about 92172?

14 MS. WHITE: I'm talking about 920260, the
15 orders that specifically implemented and approved the
16 rate reductions. I believe there would be about three
17 or four of them.

18 MR. HATCH: Okay.

19 COMMISSIONER DEASON: Ms. White, doesn't
20 your witness have that number in your testimony?

21 MS. WHITE: Yes, sir, he does.

22 COMMISSIONER DEASON: It's already in the
23 record, isn't it?

24 Q (By Ms. White) Ms. Reid, if this
25 Commission accepts your recommendation that the

1 payphone subsidy be used to eliminate the carrier
2 common line charge, does MCI intend to flow it through
3 its end users?

4 A I did not address that issue in my testimony
5 and I did not discuss it with the individual at my
6 company who makes that decision. Although I am aware
7 that MCI has been a leader in reducing access,
8 particularly in this state as late as the last tariff
9 that BellSouth filed on 3-1-97, we reduced that very
10 same day the equal amount in access. So I can discuss
11 the past, knowing that what our general policy is, but
12 I did not discuss this particular issue with the
13 people who make that decision in the company.

14 Q So your answer to my particular question
15 would be you don't know?

16 A Yes.

17 Q Okay. Now, you stated in the past you have
18 flowed it through in past access charge reduction?

19 A Yes.

20 Q And when was that, can you tell me?

21 A That was 3-1-97, when BellSouth submitted
22 their tariff, I was informed that very same day we
23 lowered our access.

24 Q Can you tell me by how much you lowered it?

25 **COMMISSIONER CLARK:** You lowered your long

1 distance rates or you lowered your access -- I mean
2 what did you do, access?

3 WITNESS REID: I'm not positive exactly what
4 was lowered but I know we met our obligation to reduce
5 access. That's what the tariff people tell me. I'm
6 not aware of the exact amount that was done.

7 Q (By Ms. White) Okay. But you took the
8 access charge reduction that BellSouth made, and you
9 reduced other charges with that money, is that what
10 you're saying?

11 A Yes.

12 Q But you don't know what other charges you
13 reduced?

14 A I did not get the specification of it. I
15 didn't address this in my testimony.

16 Q You don't know what specific services or
17 what customers that specific amount of access charge
18 reduction was flowed through to?

19 A No, ma'am. The people that address these --
20 their responsibility to these issues told me they have
21 met dollar for dollar the access reduction in the
22 state of Florida as late as the last one which was on
23 March 1st, and I did not ask them the specifics of it.

24 MS. WHITE: I have nothing further. Thank
25 you.

1 CHAIRMAN JOHNSON: Staff.

2 CROSS EXAMINATION

3 BY MR. PELLEGRINI:

4 Q Ms. Reid, Charles Pellegrini on behalf of
5 Commission Staff.

6 Let me turn your attention first to Page 4
7 of your testimony, Lines 14 and 15?

8 A I have it.

9 Q There you testified that BellSouth's present
10 CCL rates provide substantial contribution to
11 BellSouth's telephone operations, is that true?

12 A Yes, sir, I did.

13 Q In light of that, would you agree that there
14 are other services that similarly provide substantial
15 contribution to BellSouth's telephone operations?

16 A Yes, I would.

17 Q For example, toll services operator
18 services, custom calling features. Would you agree?

19 A Yes, I agree.

20 Q Again on Page 4 at Lines 18 through 20, you
21 state that Staff's recommendation is that the -- March
22 16 -- March 6th, 1997, recommendation noted it's
23 logical to attribute the subsidy to one or more of the
24 various network revenue streams which flow from a
25 payphone. Is that true?

1 A Yes, it is.

2 Q Do you agree with that?

3 A Yes, I do.

4 Q Do you believe that this kind of subsidy
5 attribution has its source in the FCC order and
6 report?

7 A I'm sorry, I don't really follow your
8 question.

9 Q Well, you've said that you agreed with
10 Staff's recommendation that it's logical to attribute
11 the subsidy to one or more of the various network
12 revenue streams which flow from a payphone?

13 A Yes.

14 Q I'm asking you if you think that attribution
15 has its source in the FCC order and report?

16 A I don't believe the order directed how it
17 was to be recovered on an intrastate level, only on an
18 interstate level, if that's what you're asking.

19 Q If not there, where would one find support
20 for that notion?

21 A It was just required that it be removed. It
22 didn't specify how it would be removed. So that there
23 would be no subsidies, no subsidizing between the two
24 directly or indirectly.

25 Q Let me ask the question this way then: Why

1 do you believe that it's I suppose reasonable to
2 attribute the subsidy to revenue streams which flow
3 from pay telephone operations?

4 A I think there's a couple of different things
5 that need to be considered in this. One is first of
6 all what elements have a relationship to payphone.
7 Since you've not been given the exact criteria in the
8 order of how to remove it, you need to come up with a
9 list of other reasons for, okay, this is what we
10 should look at as we decide how to remove it. One of
11 them should be what relationship, what elements bear
12 relationships to payphones. And as Staff recommended,
13 toll operator surcharges and access all have a linkage
14 to payphones, and with that I agree. I think that
15 other criteria also need to be taken into
16 consideration since you have three elements there.

17 The other criteria I believe should be first
18 of all we want to make sure these elements are
19 providing contribution, and if that is proven, that
20 should be considered. And last but not least is which
21 of these elements, since the state needs to choose,
22 which of them receive the most competitive pressure?
23 And I think of the three, access receives the least
24 and it's -- at least MCI's opinion the best choice
25 under the circumstance.

1 Q What about hunting charges, do you believe
2 those to be one of those revenue streams which flow
3 from pay telephone operations?

4 A I don't see how they link into the pay
5 telephone operation. I can't follow that logic.

6 Q Ms. Reid, is it a fair summary of your
7 testimony that only rate reduction bearing some
8 relationship to payphone operations qualify for
9 removal of subsidies?

10 A MCI has no objections if BellSouth wants to
11 reduce their hunting rotary charges because they have
12 some pricing flexibility with their price caps; reason
13 being they went under this regulation -- my
14 understanding -- so that they could react to
15 competition. But I don't believe that that would meet
16 the criteria in this particular situation. I do
17 believe you need to choose something that does bear
18 some relationships to payphones.

19 Q The answer to my question is yes?

20 A Yes.

21 Q And would you concur then that there are at
22 least several elements, including the CCL rate element
23 of BellSouth switched revenues, that bear such a
24 logical relationship to payphone operations?

25 A Yes, I would.

1 Q And would you further concur that neither of
2 these -- that none of these can be identified with
3 certainty as directly subsidizing payphone operations?

4 A Yes, I would agree.

5 MR. PELLEGRINI: Thank you, Ms. Reid. That
6 concludes my questions.

7 CHAIRMAN JOHNSON: Commissioners. Redirect?

8 MR. NELSON: No redirect. Ask that the
9 witness be excused.

10 CHAIRMAN JOHNSON: Witness can be excused.
11 Thank you.

12 (Witness Reid excused.)

13 CHAIRMAN JOHNSON: Are there any other
14 matters? We've admitted --

15 MR. PELLEGRINI: I would just remind the
16 parties that the transcripts are due from this hearing
17 on August 14 and that briefs are due on August 21st.

18 CHAIRMAN JOHNSON: Okay. Anything else?

19 MS. GREEN: Unless I missed this in my
20 recordkeeping, Staff had four exhibits that I don't
21 believe have been admitted.

22 MR. PELLEGRINI: They were introduced.

23 MS. GREEN: You admitted them.

24 CHAIRMAN JOHNSON: Anything else?

25 MR. PELLEGRINI: No, Chairman.

1 **CHAIRMAN JOHNSON:** The hearing is adjourned.
2 Thank you very much. Over 1230 p.m.
3 (Thereupon, the hearing concluded at
4 12:30 p.m.)

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1 STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
2 COUNTY OF LEON)

3 I, JOY KELLY, CSR, RPR, Chief, Bureau of
Reporting, Official Commission Reporter,
4

5 DO HEREBY CERTIFY that the Hearing in Docket
No. 970172-TP, 970173-TP and was heard by the Florida
Public Service Commission at the time and place herein
6 stated; it is further

7 CERTIFIED that I stenographically reported
the said proceedings; that the same has been
8 transcribed under my direct supervision; and that this
transcript, consisting of 162 pages, constitutes a
9 true transcription of my notes of said proceedings.
and the insertion of the prescribed prefiled
10 testimony of the witness.

11 DATED this 11th day of August, 1997.

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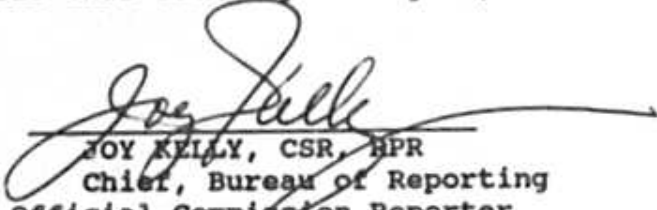
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JOY KELLY, CSR, RPR
Chief, Bureau of Reporting
Official Commission Reporter
(904) 413-6732