

YOUNG, VAN ASSENDERP & VARNADOE, P. A.  
ATTORNEYS AT LAW

ORIGINAL  
FILE COPY

REPLY TO:

R. BRUCE ANDERSON  
TASHA O. BUFORD  
DAVID B. ERWIN  
DAVID P. HOPSTETTER\*  
C. LAURENCE KEESEY  
ANDREW I. SOLIS  
KENZA VAN ASSENDERP  
GEORGE L. VARNADOE  
ROY C. YOUNG

GALLIE'S HALL  
225 SOUTH ADAMS STREET, SUITE 200  
POST OFFICE BOX 1833  
TALLAHASSEE, FLORIDA 32302-1833  
TELEPHONE (904) 222-7206  
TELECOPIER (904) 561-6834

SUNTRUST BUILDING  
801 LAUREL OAK DRIVE, SUITE 300  
POST OFFICE BOX 7907  
NAPLES, FLORIDA 34101-7907  
TELEPHONE (941) 597-2814  
TELECOPIER (941) 597-1060

\*BOARD CERTIFIED REAL ESTATE LAWYER

August 11, 1997

WILLIAM J. ROBERTS  
OF COUNSEL

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

In re: Petition of BellSouth Telecommunications, Inc. for removal of St. Joseph  
Telephone and Telegraph Company's InterLATA subsidy  
Docket No. 970808-TP

ACK \_\_\_\_\_  
AFA 2 Dear Ms. Bayo:

APP \_\_\_\_\_ Enclosed are the original and 15 copies of the Answer of St. Joseph Telephone and  
CAF \_\_\_\_\_ Telegraph Company to BellSouth Telecommunications, Inc.'s Revised Petition to remove  
CMU \_\_\_\_\_ InterLATA Subsidy. Copies have been sent to parties of record.

CTR \_\_\_\_\_  
EAR \_\_\_\_\_  
LEI 1  
LVI 3  
OFC \_\_\_\_\_

Sincerely,



David B. Erwin

FCI \_\_\_\_\_ DBE:akh  
SEC 1 Enclosures  
WAS \_\_\_\_\_ cc: John H. Vaughan  
OTH \_\_\_\_\_

DOCUMENT NUMBER-DATE  
08142 AUG 11 97  
FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL  
FILE COPY

In re: Petition of BellSouth Telecommunications, )  
Inc., for removal of St. Joseph Telephone and )  
Telegraph Company's interLATA access subsidy. )  
\_\_\_\_\_ )

Docket No.: 970808-TP

Filed: August 11, 1997

**ANSWER OF ST. JOSEPH TELEPHONE AND  
TELEGRAPH COMPANY TO BELLSOUTH  
TELECOMMUNICATIONS, INC.'S REVISED  
PETITION TO REMOVE INTERLATA SUBSIDY**

St. Joseph Telephone and Telegraph Company, Inc. ("St. Joseph"), files this Answer to the Revised Petition of BellSouth Telecommunications, Inc. ("BellSouth") to remove the interLATA subsidy received by St. Joseph, pursuant to Florida Public Service Commission orders, and states as follows:

1. St. Joseph admits the allegations of BellSouth relating to names, addresses and the receipt by St. Joseph of an interLATA subsidy established by Commission Order and paid to St. Joseph on a periodic basis by BellSouth, in an amount approved by the Commission.

2. St. Joseph denies that BellSouth has set forth any acceptable basis to justify termination of the subsidy. BellSouth suggests that its shareholders should retain the money that is paid to St. Joseph (sharing some of the money with BellSouth's customers, if particular contingencies should occur). The allegation constitutes no justification to remove the subsidy.

3. The sole basis asserted by BellSouth for ending the subsidy is St. Joseph's election of price cap regulation in June 1996. Nothing in the legislation establishing the option of price cap regulation even suggests that election of the option, in and of itself, would furnish a basis for changing a component of a company's rates that are frozen by the act of election. In effect, BellSouth would have the Commission impose a penalty for electing a course of action the

Legislature clearly encourages both the Commission and the companies it regulates to pursue.

To St. Joseph's knowledge, this is the first instance in which the Commission has been asked to rule on the meaning and ramifications of price cap regulation. The "price cap regulation" established in Section 364.051 is a series of checks and balances that are, in essence, a legislatively crafted compromise between traditional, pervasive rate base regulation and no regulation at all. The quid pro quo of price cap regulation is that a company is freed from rate base, rate of return regulatory scrutiny, but, its rates are frozen for a period of at least three, and quite possibly, five years. Thereafter, price increases are capped by the rate of inflation less one percent. During the period of time rates are frozen, St. Joseph's ability to respond to a significant adverse regulatory event is curtailed; a fair reading of the statute is that the Legislature did not anticipate that this would be a problem because it did not anticipate that there would be on-going regulatory adjustments for a company electing price cap regulation.

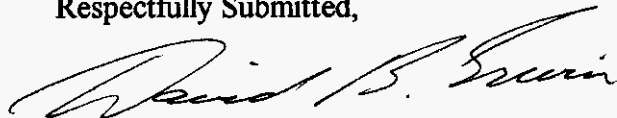
In marked contrast to its specificity on other points, the legislation makes no provision with respect to the subsidy; the legislative history is silent as well. At the time St. Joseph elected price cap regulation, the subsidy was an integral part of its annual revenue, and its rates were based on the subsidy continuing in place. In confirming St. Joseph's election of price cap regulation, continuation of the subsidy was not raised as an issue by either the Commission or BellSouth. So long as St. Joseph's rates remain frozen, the better course of regulatory wisdom would be to not review or change any component of them in isolation. Frozen rates for a time certain is a condition that ought to cut both ways. The Legislature, the Commission, and the consuming public are entitled to rely on the rates for the period of time they are frozen. The Legislature has made a determination that the

rates, which were approved by the Commission as fair and reasonable under rate of return regulation would continue to be so for at least three years after price cap regulation is elected. In return, a company electing price cap regulation ought to be able to rely on an absence of regulatory adjustment of rate components for a like period of time. While the statute does not directly address the subsidy issue, it does explicitly exempt a price regulated company from rate base, rate of return regulation. The legislation intends that a company electing price cap regulation should be challenged by the uncertainties of the market place, but that the challenge should be faced against a back drop of regulatory stability.

4. St. Joseph denies that it is in the best interest of the public to eliminate the subsidy payment to St. Joseph. Indeed, St. Joseph submits that the public interest is best served by a statutory interpretation that the election of price cap regulation does not trigger a one sided adjustment in a component of rates that are frozen upon the election of price cap regulation.

St. Joseph respectfully requests that the petition of BellSouth be denied and that no change in Orders Nos. 14452 and 22284 be made.

Respectfully Submitted,



David B. Erwin  
Young, van Assenderp & Varnadoe, P.A.  
225 S. Adams St., Ste. 200  
Tallahassee, Florida 32301  
(850) 222-7206

Attorneys for St. Joseph Telephone & Telegraph  
502 Fifth Street  
Port St. Joe, Florida 32456

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing Answer of St. Joseph Telephone and Telegraph Company to BellSouth Telecommunications, Inc's Revised Petition to Remove InterLata Subsidy has been furnished by U.S. Mail or by hand delivery this 11<sup>th</sup> day of August, 1997 to the following:

Beth Culpepper  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

Robert G. Beatty  
BellSouth Telecommunications  
150 S. Monroe St.  
Tallahassee, FL 32301

Jack Shreve  
Office of Public Counsel  
111 W. Madison St.  
812 Claude Pepper Blvd.  
Tallahassee, FL 32399-1400

Nancy B. White  
BellSouth Telecommunications  
150 S. Monroe St.  
Tallahassee, FL 32301



David B. Erwin

tlh\stjoe\answer.a11