

AUSLEY & McMULLEN

ORIGINAL

ATTORNEYS AND COUNSELORS AT LAW

227 SOUTH CALHOUN STREET
P.O. BOX 391 (ZIP 32302)
TALLAHASSEE, FLORIDA 32301
(850) 224-9115 FAX (850) 222-7560

March 16, 1998

BY HAND DELIVERY

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

Re: Docket Nos. 870790-TL; 910022-TL;
and 910528-TL

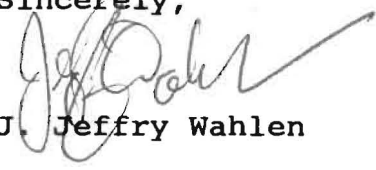
Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen (15) copies of ALLTEL Florida, Inc.'s Prepared Direct Testimony of Harriet E. Eudy and Exhibit HEE-1.

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

Thank you for your assistance in this matter.

Sincerely,


J. Jeffrey Wahlen

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU** _____
- CTR _____
- EAG _____
- LEG 1
- LIN 04+5
- OPC _____
- RCR _____
- SEC 1
- WAS _____
- YTH Leach dt

Enclosures

cc: All parties of record

all/870790.byo

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U. S. Mail or hand delivery (*) this 16th day of March, 1998, to the following:

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

Joseph McGlothlin
Vicki Kaufman
McWhirter Law Firm
117 S. Gadsden Street
Tallahassee, FL 32301

Rhonda P. Merritt
AT&T Communications
101 N. Monroe St., Suite 700
Tallahassee, FL 32301

Gary Adams
Putnam County Board of
Commissioners
P. O. Box 758
Palatka, FL 32178

Nancy H. Sims
BellSouth Telecommunications
150 S. Monroe St., Suite 400
Tallahassee, FL 32301

Starke-Bradford Counties
Chamber of Commerce
P. O. Box 576
Starke, FL 32091

Burt & Lancaster
114 E. First Street
Trenton, FL 32693

Florida Competitive Carriers
c/o J.P. Gillan and Associates
P. O. Box 541038
Orlando, FL 32854

Gilchrist County Board
of Commissioners
P.O. Box 37
Trenton, FL 32693



Attorney

1 **BEFORE THE PUBLIC SERVICE COMMISSION**

2 **DIRECT TESTIMONY**

3 **OF**

4 **HARRIET E. EUDY**

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

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

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

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

15
16 **Q.** Please describe your educational background.

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

24

1 Q. What is the purpose of your testimony?

2

3 A. The purpose of my testimony is to provide background
4 information about ALLTEL and to present ALLTEL's position
5 on the issues in these dockets.

6

7 Q. Have you prepared an exhibit to accompany this testimony?

8

9 A. Yes. Exhibit ___ (HEE-1) is a composite exhibit prepared
10 under my direction and supervision that contains certain
11 community of interest data for the ALLTEL routes involved
12 in this docket. The information in the exhibit is taken
13 from the business records of ALLTEL and is true and correct
14 to the best of my information and belief.

15

16

ABOUT ALLTEL

17

18 Q. Where does ALLTEL provide local exchange services in
19 Florida?

20

21 A. ALLTEL provides local exchange telecommunications services
22 to all or parts of thirteen (13) counties in North Central
23 Florida. This service is provided under authority from the
24 Commission as evidenced by Certificates of Public
25 Convenience and Necessity. We serve all of the counties of

1 Suwannee, Hamilton and Lafayette and parts of the counties
2 of Alachua, Gilchrist, Bradford, Nassau, Marion, Putnam,
3 Clay, Columbia, St. Johns and Union.

4

5 Q. How many exchanges has ALLTEL established to serve this
6 area?

7

8 A. The Company presently has twenty-seven (27) exchanges which
9 are located at Alachua, Branford, Brooker, Callahan, Citra,
10 Crescent City, Dowling Park, Florahome, Florida Sheriffs
11 Boys Ranch, Fort White, Hastings, High Springs, Hilliard,
12 Interlachen, Jasper, Jennings, Lake Butler, Live Oak,
13 Luraville, Mayo, McIntosh, Melrose, Orange Springs,
14 Raiford, Waldo, Wellborn, and White Springs.

15

16 Q. What is the geographical size and density of the area the
17 Company serves?

18

19 A. ALLTEL's service territory is approximately 3,700 square
20 miles. As of June 30, 1997, ALLTEL served approximately
21 79,000 access lines. This equates to approximately 21.35
22 access lines per square mile, which is relatively low
23 compared to the larger local exchange companies in Florida.

24

- 1 Q. What do these density figures show?
2
- 3 A. These figures reflect the type of area we serve, i.e., a
4 predominately rural agricultural area. We do not serve a
5 major urban area or city. Rural areas tend to be more
6 costly to serve, both in terms of the cost of initial
7 construction and in terms of operating and maintenance
8 costs.
9
- 10 Q. Has ALLTEL elected to be regulated under the "price
11 regulation" provisions in Chapter 364, Florida Statutes
12 (1995)?
13
- 14 A. No. ALLTEL is a "small local exchange telecommunications
15 company" within the meaning of Section 364.052, Florida
16 Statutes (1997), and has not elected price regulation at
17 this time. Accordingly, ALLTEL remains on rate of return
18 regulation.
19
- 20 Q. To what degree will your Company be impacted by a decision
21 in these dockets?
22
- 23 A. Resolution of the issues in these dockets is very important
24 to ALLTEL. These dockets have been open for many years and
25 ALLTEL has invested considerable time and resources into

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them. ALLTEL is hopeful that the Commission can finally resolve the issues in these dockets in a manner that promotes the public interest and protects the interests of ALLTEL and its customers who do not make calls on the routes involved in these dockets.

Issues

Q. What routes of ALLTEL are involved in these three dockets?

A. ALLTEL is involved in three of the dockets that have been consolidated for hearing in this proceeding. Those three dockets are: 870790-TL, 910022-TL and 910528-TL.

Docket No. 870790-TL involves three ALLTEL routes as follows:

- Branford - Trenton
- Branford - Newberry
- High Springs - Trenton

Docket No. 910022-TL involves one ALLTEL route, i.e., the Raiford - Gainesville route.

1 Docket No. 910528-TL involves five ALLTEL routes as
2 follows:

- 3
- 4 Melrose - Palatka
- 5 Orange Springs - Palatka
- 6 Interlachen - Hawthorne
- 7 Interlachen - Keystone Heights
- 8 Florahome - Keystone Heights
- 9

10 In each instance, BellSouth is the local exchange company
11 on the other end of the route.

12

13 Q. Does ALLTEL own facilities to carry the traffic on these
14 nine routes on an end-to-end basis?

15

16 A. No. In most cases, the traffic on these routes is
17 currently being routed over facilities owned by an
18 interexchange carrier. The customers making calls over
19 these routes are paying the applicable toll rate for these
20 calls. ALLTEL does not own the facilities necessary to
21 carry the traffic on the nine routes itself, so if the
22 Commission decides to order one-way ECS, ALLTEL will be
23 required to make arrangements to build or lease facilities
24 to carry the traffic.

25

- 1 Q. How is ALLTEL currently compensated for its role in the
2 provision of service over these routes?
3
- 4 A. The calls over these routes are toll calls. If there is a
5 billing and collection arrangement between ALLTEL and the
6 IXC carrying the call, ALLTEL collects the toll revenue on
7 behalf of the IXC and remits it to the IXC pursuant to the
8 terms of the applicable billing and collection contract.
9 ALLTEL is compensated for the use of its facilities to
10 originate and terminate the IXC traffic through access
11 charges paid by the carriers. If the Commission orders
12 one-way ECS on these routes, and customers use the service,
13 ALLTEL stands to lose both access and billing and
14 collection revenues.
15
- 16 Q. Is one-way ECS appropriate on the nine ALLTEL routes listed
17 above?
18
- 19 A. No. However, in each instance, the Commission has
20 previously decided that an alternative toll plan is
21 appropriate. The Commission made its decisions based on
22 community of interest considerations that were in effect
23 when the decisions were made. As shown in my composite
24 exhibit (HEE-1), all of the routes have very low
25 communities of interest, and none of them qualified for

1 flat-rate two-way non-optional EAS or the Commission's
2 traditional 25 cent plan ECS arrangement. Since the
3 decisions were made, conditions in the telecommunications
4 market have changed and they are expected to change more in
5 the future. As the market continues to change in the
6 future, ECS plans such as the ones at issue in this case
7 will be less attractive as alternative toll plans.

8
9 Having said that, I understand that the Commission is very
10 interested in developing a workable solution to the calling
11 concerns of customers on the affected routes. Accordingly,
12 ALLTEL believes that one-way ECS is appropriate only if the
13 Company is allowed to price the service at a level that
14 allows it to recover all of the costs associated with
15 providing the service. For the Commission to impose a one-
16 way ECS requirement in a manner that does not allow ALLTEL
17 to recover all of the costs associated with providing the
18 service from the customers using the service would be
19 inconsistent with sound regulatory policy.

20
21 Q. If one-way ECS is appropriate on the nine ALLTEL routes in
22 question, and a termination charge is appropriate, what
23 economic impact will this have on ALLTEL as the originating
24 LEC?

25

1 A. If the rate design and levels for the one-way ECS service
2 are set properly, there should be no economic impact on
3 ALLTEL as the originating LEC. However, to avoid an
4 economic impact on the originating LEC, the Commission must
5 set the end-user rate for the one-way ECS service at a
6 level sufficient to cover all of the costs of the service,
7 including the related terminating charges, if any. If the
8 rates are not designed to recover applicable terminating
9 charges from the customers using the service, those costs
10 will be borne by ALLTEL's general body of rate payers. As
11 the march of competition proceeds, it is becoming more
12 important to ensure that the customers that use the service
13 are paying the costs associated with providing the service.

14
15 Q. If one-way ECS is appropriate for the nine ALLTEL routes
16 listed above, what rate structure and rate levels should
17 ALLTEL charge to the end users?

18
19 A. The rate structure and levels should be set in a manner so
20 that all of ALLTEL's costs of providing the service are
21 recovered from the end user customer.

22
23 Q. What are the relevant costs associated with the provision
24 of one-way ECS on the nine ALLTEL routes listed above?

25

1 A. ALLTEL has not completed quantification of the actual
2 dollar costs associated with provision of a one-way ECS
3 plan, but does know the kinds of costs involved in the
4 provision of this service. In general terms, those costs
5 include the costs to lease or build the facilities needed
6 to carry the traffic, the costs of originating the calls,
7 whatever terminating charge may be applicable, lost access
8 charge and billing and collection revenue, and
9 administrative costs such billing system changes. My
10 composite exhibit contains a summary of the known costs by
11 route and an estimate of the kinds of rates that would need
12 to be charged for ALLTEL to recover all of the costs
13 associated with the provision of one-way ECS.

14

15 Q. Do you have a specific proposal for a rate design?

16

17 A. Yes. ALLTEL would propose a rate design that is similar to
18 the rate design used for business customers under the
19 Commission's traditional 10 cent/6 cent plan. This kind of
20 rate design, which would apply to all customers, would
21 charge one rate for the first minute and a lower rate for
22 subsequent minutes, and would best allow ALLTEL to recover
23 all of the costs associated with the provision of one-way
24 ECS.

25

1 If the Commission decides that one-way ECS is appropriate
2 for the nine ALLTEL routes listed above, ALLTEL should be
3 allowed to file a tariff with this rate design and specific
4 rate levels that cover all of the relevant costs as
5 described above. That tariff would be approved under the
6 normal Commission process with the normal procedural
7 safeguards for persons interested in challenging the rates
8 contained in the tariff.

9

10 Q. Does that conclude your direct testimony?

11

12 A. Yes, it does.

13

14 all\970882-TI

15

INTERLATA ECS COST INFORMATION/COMMENTS
ALLTEL FLORIDA, INC.

General: Using some assumptions, ALLTEL has looked at the cost of implementation of a toll relief option as a resolution of the interLATA ECS situation on the following ALLTEL-BellSouth routes:

Docket No. 870790-TL	Gilchrist County	Branford - Trenton
		High Springs - Trenton
Docket No. 910022-TL	Bradford County	Raiford - Gainesville
Docket No. 910528-TL	Putnam County	Melrose - Palatka
		Orange Springs - Palatka
		Interlachen - Hawthorne
		Interlachen - Keystone Heights
		Florahome(659) - Kystn Heights

ALLTEL would like to offer the following generic concerns with this approach: While alternative plans can technically be implemented on interlata routes, there are attendant problems.

Community of Interest. The routes under consideration all showed very low communities of interest in terms of traffic volumes at the time of the initial studies in these dockets. None qualified under the Commission's rules for implementation of flat-rate two-way non-optional EAS and none qualified under the Commission's traditional treatment for ECS or 25 Cent Plans.

Potential Effect on Earnings of ALLTEL. ALLTEL is a rate-of-return regulated company subject to exclusive Commission authority. If the Commission orders implementation of an alternative toll plan that results in a net loss to ALLTEL, the company could be placed in a posture of decreased earnings. This, combined with other potentially significant revenue losses resulting from changes in the law, introduction of intralata presubscription, reductions in access charges, and other events, may put ALLTEL in the posture of requesting rate relief. This could put upward pressure on other rates to make up these shortfalls. The following discusses some of the costs involved to implement toll relief on these routes.

The Internet. Any plan that is implemented going forward should be one that is priced based on minutes of use. Currently, our EAS networks are being bombarded with Internet users who can potentially tie up a line for 24 hours with either no compensation, or a meager 25 cents per call. Initially, this usage was relatively small, but residential customers are becoming more and more computer literate and are literally champing at the bit to gain access to Internet as cheaply as possible. We do not believe it should be at the expense of our regulated ratepayers.

ALLTEL Comments/Economic Analysis of InterLATA ECS
Page 2

Facilities. This traffic is currently being handled by an interexchange carrier. This means ALLTEL does not typically have facilities in place to provide the routing for the traffic. If we are to provide the service, we must either construct a facility or lease facilities from a carrier. This will be a significant expense to ALLTEL.

Compensation. ALLTEL currently is compensated for the use of its facilities to originate and terminate the interexchange carrier traffic through access charges billed to the carriers. We will lose the access compensation we currently receive, resulting in greater expense.

Toll Rates. The toll on these routes is currently the property of the interexchange carriers. ALLTEL collects the toll revenues on their behalf (assuming we have a billing and collection agreement with the carrier) and turns the revenue over to the carriers. Any minute of use rate that is developed and implemented on these routes as an ECS solution would have to be provided via a dialing plan that keeps it separate from other interLATA traffic, i.e., local 7-digit. Currently, when customers dial the "to" number using 1+ dialing, they are presubscribed to an interexchange carrier. If we convert this traffic to local, we will code each customer's line with a special central office line classification that will cause the call to be recorded as a message-rated call. This will allow ALLTEL's billing system to identify and bill the call at the appropriate rate. Carriers can still carry traffic on the route, but the customer must "dial around" to use the carrier of choice, requiring them to dial extra digits.

Since these will be "one-way" offerings, ALLTEL may still be required to pay BellSouth terminating access rates. If the Commission mandates existing access rates as the appropriate charge for BellSouth to terminate this traffic, this would result in a further loss to ALLTEL. The rate ALLTEL would have to pay for terminating access is likely to be greater than the minute of use rate we will bill and keep, even without the facilities cost.

Billing System Changes. If ALLTEL is required to structure a new billing plan for calling on these routes, our billing systems would have to be modified to implement the new structure. This would also be an additional cost to ALLTEL.

Having stated all this, ALLTEL has, for illustrative purposes, estimated the economic effect of implementing a local minute of use structure for interLATA calling. We have used the methodology used in responding to Staff's request

ALLTEL Comments/Economic Analysis on InterLATA ECS
Page 3

for data from the 11/18/96 workshop in these dockets and tried to update it as best we could using minutes of use extracted from our CABS billing system. We are unable to obtain current customer billing data, since these routes are interLATA, owned by the IXCs, and we do not have records of usage for these routes. What we have done is extract access minutes from our CABS billing system and assumed a non-conversation additive for conversion back to conversation time.

Conversation mins. were derived by using an assumed non-conversation additive of .307 and converting back from access to conversation minutes using the inverse factor.

Some of the estimated M/A/Ms are higher than were determined to exist in the original traffic studies filed with the Commission in these dockets. We assume that some of the increase could be attributable to gains in numbers of customer access lines, and numbers of customers who have gained access to Internet. Call distribution studies are not available.

ALLTEL Comments/Economic Analysis on InterLATA ECS
 Page 4

Economic Impact Statement - ALLTEL Only
 Non-Optional One-Way with Dedicated Trunks
 Toll Relief Plan

Revenue Requirement to Support Added Investment:

C. O. Trunking	\$ 50,000	
Annual Carrying Charge	31.36%	\$ 15,680
Estimated Lease Cost for T1s		\$ 252,000
7 @ \$3,000/mo		
Lost Revenues from Access		\$ 95,060
Lost B&C Revenues		\$ 55,673
System Programming		\$ 4,000
Terminating Access Expense (to BellSouth-incremental)		\$ 51,386
Total Cost of Plan		\$ 473,799

Minute of Use Plan

Total Annual Conversation MOU	
With 200% Stimulation - all routes	1,388,772

Total Cost	\$ 473,799	
Stimulated Annual MOU		
Average Rate Per Minute	\$.3412 per MOU	To Meet Cost with No Profit