

ORIGINAL

DOCKET NO.: 970808-TL Petition of BellSouth Telecommunications, Inc. To Remove InterLATA Access Subsidy Received By St. Joseph Telephone And Telegraph Company

WITNESS: Direct Testimony Of Dale N. Mailhot. Appearing On Behalf Of The Staff Of The Florida Public Service Commission, Division Of Auditing And Financial Analysis

DATE FILED: April 15, 1998

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FPSC-RECORDS/REPORTING

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of BellSouth
Telecommunications, Inc. to
remove interLATA access subsidy
received by St. Joseph Telephone
& Telegraph Company.

DOCKET NO. 970808-TL

FILED: APRIL 15, 1998

CERTIFICATE OF SERVICE

I Hereby Certify that a true and correct copy of Staff's
Direct Testimony of Dale N. Mailhot has been furnished by U.S.
Mail, this 15th day of April, to the following:

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GTC, Inc.
c/o St. Joe Communications,
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Mr. Bill Thomas
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DIRECT TESTIMONY OF DALE N. MAILHOT

1 |
2 | Q. Please state your name and business address.

3 | A. My name is Dale N. Mailhot. My business address is 2540 Shumard Oak
4 | Boulevard, Tallahassee, Florida, 32399-0865.

5 | Q. By whom are you presently employed and in what capacity?

6 | A. I am employed by the Florida Public Service Commission as the Chief,
7 | Bureau of Revenue Requirements, Division of Auditing and Financial Analysis.

8 | Q. How long have you been employed by the Commission?

9 | A. I have been employed by the Florida Public Service Commission for
10 | approximately 19 years.

11 | Q. Briefly review your educational and professional background.

12 | A. I graduated from Florida State University in 1976 with a Bachelor of
13 | Science Degree in Accounting. I was employed by the Auditor General's Office
14 | of the State of Florida for almost two years as an auditor. I became a
15 | Certified Public Accountant in 1978. I began working as an auditor for the
16 | Florida Public Service Commission in 1979. I became the Tallahassee Audit
17 | Supervisor and then the Chief, Bureau of Accounting, Division of
18 | Communications.

19 | Q. Please describe your current responsibilities.

20 | A. Currently, as the Chief, Bureau of Revenue Requirements, I am
21 | responsible for the accounting and revenue requirements of the local exchange
22 | telecommunications companies, the investor owned electric utilities and the
23 | investor owned gas companies.

24 | Q. Have you presented expert testimony before this Commission or any other
25 | regulatory agency?

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FPSC-REGULATIONS/REPORTING

1 A. Yes. I have presented testimony before this Commission.

2 Q. What is the purpose of your testimony today?

3 A. The purpose of my testimony is to address issues 2, 5, and 6.

4 Q. Was the interLATA access subsidy pool intended to be a permanent subsidy
5 (Issue 2)?

6 A. No. The interLATA subsidy pool was established as a temporary mechanism
7 to ease the transition from an access charge pooling environment to a bill and
8 keep environment for access charges. Currently, the interLATA subsidy pool
9 consists of only BellSouth making subsidy payments to GTC, Inc., formerly St.
10 Joseph Telephone and Telegraph. All the remaining local exchange companies
11 have been removed from the subsidy pool by prior Commission action.

12 Q. What criteria should be used for ending the interLATA access subsidy
13 pool (Issue 2)?

14 A. Prior to the beginning of price cap regulation, the earnings of the
15 subsidy recipient were the only criteria used by the Commission for ending the
16 subsidy. If a company had sufficient or excess earnings, then the subsidy was
17 often eliminated by specific action of the Commission in a Modified Minimum
18 Filing Requirements docket or in an over earnings investigation.

19 Since the beginning of price cap regulation, GTC, Inc. has been the only
20 company receiving an interLATA subsidy. In the next section of my testimony,
21 I discuss an alternative approach to using earnings criteria for ending the
22 subsidy payments.

23 Q. Should the interLATA access subsidy received by GTC, Inc. be removed
24 (Issue 5)?

25 A. If the Commission determines that it is appropriate to use GTC, Inc's.

1 earnings as the criteria for removal of the subsidy and the Commission finds
2 that GTC, Inc.'s. earnings are sufficient, then the subsidy should be removed.
3 This is consistent with prior Commission decisions for ending a company's
4 subsidy.

5 Q. Is there an alternative approach to eliminating the interLATA access
6 subsidy payments from BellSouth to GTC, Inc.?

7 A. Yes. The Commission could allow GTC, Inc. to increase its access
8 charges and to cease collecting subsidy payments from BellSouth. When the
9 subsidy pool was established, the payments made into the pool by each company,
10 including BellSouth, came from its access charges. In effect, BellSouth
11 collects access charges which it passes on to GTC, Inc. as subsidy payments.

12 Q. Why would it be reasonable to eliminate the subsidy payments?

13 A. One of the primary reasons for establishing the subsidy payments was to
14 maintain uniform statewide access charges when the interLATA access charge
15 pooling arrangement ended. It was commonly believed that uniform statewide
16 access charges were needed to avoid having IXC's serve only those parts of the
17 state which have low access charges. However, by late 1988, access charge
18 rates began to vary between companies and have continued to vary ever since.
19 The Commission could have adjusted each company's access charges to eliminate
20 the subsidy system in a generic proceeding, once access charges became non-
21 uniform. The Commission's method of eliminating the subsidy by reviewing
22 earnings on a case by case basis was working and there appeared to be no need
23 for a generic proceeding.

24 With the change in Florida Law in 1995 allowing for price cap
25 regulation, the lack of regular earnings information from price cap companies,

1 and the non-uniform access charges already in place, there is no reason to
2 maintain the interLATA access charge subsidy pool.

3 Q. If the access subsidy being paid to GTC, Inc. is eliminated, should
4 BellSouth Telecommunications, Inc. be directed to cease collection of the
5 access subsidy Funds (Issue 6)?

6 A. Yes. In prior cases when the Commission has eliminated the payment of
7 the subsidy to a company due to the company's earnings, the Commission has
8 ordered the payor of the subsidy to reduce some rate by an amount equal to the
9 subsidy payment. In this way the payor of the subsidy was kept whole and not
10 allowed any windfall, which was one of the original goals of the bill and keep
11 docket. If the Commission reduces or eliminates the subsidy payment to GTC,
12 Inc. due to GTC, Inc.'s earnings, based on consistency with prior Commission
13 decisions, the Commission should also require BellSouth to reduce its rates
14 by an amount equal to the reduced or eliminated subsidy payment.

15 If the Commission follows my alternative approach to eliminate the
16 subsidy payment and allows GTC, Inc. to increase its access charges, then the
17 Commission should require BellSouth to reduce its access charges so that there
18 is no net increase in access charges on a statewide basis.

19 Q. Does this conclude your testimony?

20 A. Yes, it does.

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