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April 22, 1998

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

Re: 970808-TL (St. Joseph) InterLATA Access Subsidy

Dear Ms. Bayó:

Enclosed is an original and fifteen copies of BellSouth Telecommunications, Inc.'s Rebuttal Testimony of T. F. Lohman, which we ask that you file in the captioned docket.

A copy of this letter is enclosed. Please mark it to indicate that the original was filed and return the copy to me. Copies have been served to the parties shown on the attached Certificate of Service.

Sincerely,

Nancy B. White (KR)

Nancy B. White

- ACK _____
- AFA *Wright* Enclosures
- APP _____
- CAF _____ cc: All parties of record
- CMU 1 A. M. Lombardo
- CTR _____ R. G. Beatty
- EAG _____ William J. Ellenberg II
- LEG 1
- LIN *5 Log*
- OPD _____
- ROP _____
- SEC 1
- WIS _____
- OTH _____

DOCUMENT CONTROL DATE

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**CERTIFICATE OF SERVICE
Docket No. 970808-TL**

I HEREBY CERTIFY that a true and correct copy of the foregoing was served via
U.S. Mail this 22nd day of April, 1998 to the following:

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Nancy B. White (HE)
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BELLSOUTH TELECOMMUNICATIONS, INC.

REBUTTAL TESTIMONY OF T. F. LOHMAN

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 970808-TL

APRIL 22, 1998

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

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

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

A. Yes. I filed direct testimony on behalf of BellSouth on March 9, 1998.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

1 A. My testimony addresses several issues presented in
2 Mr. Mailhot's direct testimony filed April 15, 1998.

3

4 Q. DO YOU AGREE WITH MR. MAILHOT'S STATEMENT THAT THE
5 INTERLATA SUBSIDY POOL WAS ESTABLISHED AS A TEMPORARY
6 MECHANISM?

7

8 A. Yes. The subsidy pool was established in 1985 as a
9 temporary, transitional measure as the industry moved
10 to bill and keep of access revenues. This issue was
11 addressed at length in my direct testimony and I
12 arrived at the same conclusion. In fact, GTC's
13 Counsel at a recent agenda also agreed the subsidy
14 was intended to be temporary.

15

16 Q. DO YOU AGREE WITH MR. MAILHOT'S TESTIMONY THAT IF THE
17 COMMISSION DETERMINES THAT EARNINGS ARE THE
18 APPROPRIATE CRITERIA AND THAT EARNINGS ARE SUFFICIENT
19 THEN THE SUBSIDY SHOULD BE REMOVED?

20

21 A. Yes. This was also addressed extensively in my
22 direct testimony and I will not repeat my earlier
23 arguments other than to state my agreement with Mr.
24 Mailhot.

25

1 Q. DOES THE COMMISSION HAVE TO CONDUCT AN EARNINGS
2 REVIEW TO ELIMINATE THE PAYMENT?
3

4 A. No, it does not. Although the Commission has, for
5 rate of return regulated companies, utilized earnings
6 as the basis for eliminating the payments, it has
7 also recognized that it could address the issue in
8 either a rate case or "other proceeding" (Docket No.
9 911108-TL Order No. PSC-92-0028-FOF-TL). The
10 Commission's approval of price regulation for GTC is
11 certainly a Commission action that provides the
12 impetus to eliminate a "temporary" payment to GTC.
13

14 Q. MR. MAILHOT STATES IN HIS ALTERNATE APPROACH, THAT
15 BELLSOUTH "... COLLECTS ACCESS CHARGES WHICH IT
16 PASSES ON TO GTC, INC. AS SUBSIDY PAYMENT". DO YOU
17 AGREE WITH THIS DESCRIPTION?
18

19 A. No, I do not. Mr. Mailhot's statement describes the
20 conditions existing when the original Docket No.
21 820537-TP Orders No. 14452, No. 15821 and No. 17321
22 were issued. BellSouth at that point (Order No.
23 17321) was a contributor to the pool of \$2.391
24 million and had a surplus of \$2.534 million (Order
25 No. 17321 Appendix A Chart 6). As Mr. Mailhot

1 stated, the Commission set uniform, statewide access
2 rates at that point and established the subsidy pool
3 to make revenue changes a "wash".

4

5 Q. DOES BELLSOUTH STILL HAVE AN ACCESS REVENUE "SURPLUS"
6 FROM MOVING TO BILL AND KEEP FOR ACCESS CHARGES?

7

8 A. No, definitely not. The above "surplus" was based on
9 1987 revenues and recognition of previous Commission
10 actions. The calculation led to BellSouth's making
11 subsidy payments of \$2.391 million that were passed
12 on to other companies based on the uniform access
13 rates and financial effect on each company at that
14 point in time. However, "collecting and passing on"
15 access revenues ceased being a valid description of
16 the process once the Commission stopped requiring
17 uniform statewide rates. As Mr. Mailhot stated,
18 beginning in 1988, access rates were no longer
19 uniform, varying from company to company.

20

21 BellSouth has reduced access rates by well over \$200
22 million since the "surplus" of about \$2.5 million was
23 calculated in 1987. Obviously, Commission actions
24 subsequent to Order No. 17321 rendered in 1987 have
25 eliminated the "surplus" many times over. BellSouth

1 is no longer collecting access revenues for GTC as
2 described by GTC and Mr. Mailhot.

3

4 Q. MR. MAILHOT STATES THAT IF THE COMMISSION ELIMINATES
5 THE SUBSIDY PAYMENT THEN BELLSOUTH SHOULD REDUCE SOME
6 RATES BY AN EQUAL AMOUNT IN ORDER TO BE KEPT WHOLE
7 AND NOT BE ALLOWED ANY WINDFALL. DOES BELLSOUTH
8 RECEIVE A WINDFALL FROM GOING TO BILL AND KEEP IF IT
9 DOESN'T REDUCE RATES UPON ELIMINATION OF THE SUBSIDY
10 PAYMENT?

11

12 A. No. Companies in Florida no longer have uniform
13 rates and, as shown above, BellSouth has reduced
14 rates by many times the potential windfall created by
15 implementing bill and keep in 1985. There is
16 currently no surplus or windfall that would benefit
17 BellSouth, therefore, BellSouth should be allowed to
18 keep the dollars it has been paying to GTC since it
19 long ago eliminated the windfall by reducing access
20 rates.

21

22 Q. DO YOU BELIEVE, AS SUGGESTED IN MR. MAILHOT'S
23 ALTERNATE APPROACH, THAT GTC SHOULD BE ALLOWED TO
24 INCREASE ACCESS RATES?

25

1 A. No, not without an earnings review. BellSouth and
2 all the other companies involved except GTC have
3 eliminated any windfall or shortfall created by
4 moving to bill and keep. The Commission never
5 anticipated allowing a company to increase rates due
6 to bill and keep without an earnings review to
7 determine their financial needs. It does not seem
8 reasonable that GTC can escape this requirement by
9 electing price regulation.

10

11 Q. DOES THE COMMISSION HAVE THE AUTHORITY TO ALLOW GTC
12 TO INCREASE ACCESS RATES AND REQUIRE BELLSOUTH TO
13 REDUCE ITS ACCESS CHARGES AS SUGGESTED IN MR.
14 MAILHOT'S ALTERNATIVE APPROACH?

15

16 A. No. Although I am not an attorney, based on my
17 reading of Section 364.163, Florida Statutes, I
18 believe the election of price regulation by GTC
19 freezes their access rates for three years from the
20 election of price regulation and allows only limited
21 increases after that time. Also, based on Section
22 364.163, Florida Statutes, I do not believe the
23 Commission has the authority to order BellSouth, who
24 has also elected price regulation, to reduce access
25 rates.

1

2 Q. SINCE BELLSOUTH HAS REDUCED ACCESS RATES BY WELL OVER
3 \$200 MILLION (THUS IS NO LONGER COLLECTING REVENUES
4 FOR GTC), SHOULD BELLSOUTH REDUCE ACCESS RATES IF GTC
5 IS ALLOWED TO INCREASE THEIR ACCESS RATES?

6

7 A. No. As previously explained, actions by this
8 Commission and BellSouth have reduced access rates by
9 over \$200 million since the implementation of bill
10 and keep for access charges. These subsequent
11 Commission actions have eliminated any windfall
12 created by moving to the bill and keep system.

13

14 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

15

16 A. Mr. Mailhot is correct in stating that BellSouth's
17 payment to GTC was intended to be temporary and
18 should be eliminated by the Commission. The payment
19 was created in 1985 in a rate of return regulated
20 telecommunication industry and was never intended to
21 be a permanent payment. All thirteen Florida
22 telephone companies were originally in the pool and
23 all payment recipients except GTC have been
24 eliminated from receiving a subsidy payment.
25 BellSouth is currently paying GTC \$1.2 million a year

1 due to a potential "windfall" calculated in 1987 that
2 has long ago been eliminated due to BellSouth's
3 subsequent access reductions of over \$200 million.
4 Because of those reductions, there is no potential
5 windfall and BellSouth is not collecting GTC's access
6 revenues and paying it to them as GTC has argued.

7
8 The time has come for the Commission to bring closure
9 to this "temporary" payment. Both GTC and BellSouth
10 are price regulated companies and potential
11 competitors. Therefore, there is no reason for
12 BellSouth to continue subsidizing GTC's operations.
13 GTC has chosen price regulation and this decision
14 provides the Commission the opportunity to complete
15 the transition of access charges to a bill and keep
16 basis as described so many years ago in Order No.
17 14452 rendered June 10, 1985.

18
19 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

20
21 A. Yes.

22
23
24
25