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RECORDS AND REPORTING

ORIGINAL

June 17, 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 dockets are the original and fifteen (15) copies of ALLTEL Florida, Inc.'s Post-Hearing Statement.

We are also submitting the Post-Hearing Statement on a 3.5" high-density diskette generated on a DOS computer in WordPerfect 5.1 format.

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.

RECEIVED - FILED

Sincerely,

J. Jeffrey Wahlen
for J. Jeffrey Wahlen

J. Jeffrey Wahlen
FPSC-BUREAU OF RECORDS

- ACK _____
- AFA _____
- APP _____
- CAF _____ Enclosures
- CMU Shelley _____
- CTR _____
- EAG _____
- LEG 1 _____
- LIN 3 _____
- OPC _____
- RCH _____
- SEC 1 _____
- WAS _____

cc: All parties of record

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DOCUMENT NUMBER-DATE

06414 JUN 17 88

FILED RECORDS/REPORTING

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request by Gilchrist County) Docket No. 870790-TL
Commissioners for Extended Area)
Service Throughout Gilchrist County)
_____)

In re: Resolution by Bradford County) Docket No. 910022-TL
Commission Requesting Extended Area)
Service Within Bradford County and)
Between Bradford County, Union)
County and Gainesville)
_____)

In re: Request by Putnam County) Docket No. 910528-TL
Board of County Commissioners for)
Extended Service Between the) Filed: June 17, 1998
Crescent City, Hawthorne, Orange)
Springs, and Melrose Exchanges,)
and the Palatka Exchange)
_____)

ALLTEL FLORIDA INC.'S POST-HEARING STATEMENT

Pursuant to Order No. PSC-98-0708-PHO-TL, and Rule 25-22.056, Florida Administrative Code, ALLTEL FLORIDA, INC. ("ALLTEL" or the "Company") submits the following Post-Hearing Statement:

I.

Introduction

This proceeding involves nine extended area service ("EAS") dockets that address routes that cross a LATA boundary and originate/terminate in the territory of BellSouth Telecommunications, Inc. ("BellSouth"). These dockets have been open for years pending a determination regarding BellSouth's ability to lawfully transport traffic across a LATA boundary under the Modified Final Judgment. Following the passage of the Telecommunications Act of 1996 ("Act"), the issue changed to

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whether BellSouth could lawfully offer an alternative toll plan on interLATA routes in light of the restrictions in Sections 271 and 272 of the Act. By Order No. PSC-97-0622-FOF-TL, issued May 30, 1997, the Commission determined that BellSouth should not be required to offer an alterative toll plan on interLATA routes in light of the restrictions in the Act.

ALLTEL is a party to three of the nine dockets consolidated for hearing in the proceeding. The routes at issue for ALLTEL and the related docket numbers are:

Docket	Routes
870790-TL	Branford - Trenton Branford - Newberry High Springs - Trenton
910022-TL	Raiford - Gainesville
910528-TL	Melrose - Palatka Orange Springs - Palatka Interlachen - Hawthorne Interlachen - Keystone Heights Florahome - Keystone Heights

For each route, the Commission has determined that the routes do not qualify for EAS under the Commission's rules, but that other community of interest considerations may justify some form of alternative toll relief if it can be granted. Since BellSouth has been relieved of its obligation to offer an alternative toll plan on these routes, the remaining question is whether local exchange companies, like ALLTEL, should be required to provide some form of one-way alternative toll relief, such as Extended Call Service ("ECS") on these routes.

II.

Basic Position

ALLTEL should not be required to offer one-way ECS on the affected routes, because pricing the service at a compensatory level (i.e., a level that covers ALLTEL's cost of providing the service) does not result in a service that will be viewed by customers as a viable alternative to existing toll services.

III.

Procedural History

The hearing in these dockets was scheduled for May 27, 1998. By agreement of the parties, the prefiled testimony and exhibits was inserted into the record without cross-examination or live testimony. See Order No. PSC-98-0708-PHO-TL, Issued May 22, 1998. ALLTEL sponsored the prepared direct testimony of Harriet E. Eudy, which was admitted into the record at Tr. 8. Ms. Eudy's exhibit (HEE-1) (revised May 4, 1998) was identified as Exhibit 1, and was admitted into evidence at Tr. 43. Exhibit 1 shows the costs that ALLTEL would incur if it is required to provide one-way ECS, and is attached to this filing for ease of reference as Attachment One. The cost support for the pricing proposal is included with this brief as Attachment Two.

IV.

ISSUES AND POSITIONS

ALLTEL's position on the issues in this case, and its arguments in support of its positions, are set forth below.

ALLTEL's position on the issues for publication in the staff recommendation are indicated with an asterisk (*).

Issue 1: Is one-way ECS appropriate on the routes in question?

Position: * No. The compensatory price for one-way ECS would be 50 cents for the first minute and 32 cents for every minute thereafter, which exceeds prevailing toll rates. Consequently, customers would not view one-way ECS as a meaningful alternative to existing toll services, and ALLTEL should not be required to offer the service.

* * *

Despite the way the issues were numbered in this case, and the order of presentation in this brief, this issue should not be the first issue decided by the Commission. Rather, it should only be decided after the Commission has considered the implications of issues three (3) and four (4). While the Commission has previously considered community of interest factors for the routes at issue, and has shown interest in developing a meaningful toll alternative for those routes, the Commission should decline to do so. As shown under Issue 3, below, if the Commission adopts the traditional 25 cent for residential and 10/6 cent for business ECS plan on these routes, ALLTEL will be unable to recover the costs of providing the service from the customers using the service, and the Commission would be forced to rely on an implicit subsidy by the general body of rate payers. As shown under Issue 4, below, if the Commission allows ALLTEL to price the service to recover all of the costs of

providing the service from the customers using the service, the resulting price would be higher than prevailing toll rates, and the service would not be perceived by customers as a viable toll alternative. Since neither of these two results conforms with sound regulatory policy, the Commission should not require ALLTEL to provide one-way ECS on the routes in question.

The critical policy issue in this case is whether the Commission should order ALLTEL to provide a service to a select group of customers at a price that does not cover the cost of providing the service. While ALLTEL continues to be regulated under rate of return regulation and the Commission continues to have plenary authority over ALLTEL's rates, the recent activity in the Florida Legislature and the march of competition in the telecommunications industry strongly suggest that pricing below cost and reliance on implicit subsidies from other services should be avoided if possible. Under House Bill 4785, the Commission is obligated to investigate and report to the Legislature on the complicated relationships among the costs and charges associated with providing basic local services and other local exchange services. The modern trend is to identify and eliminate implicit subsidies and to let competitive markets work to provide services where demand exists. The Commission should not let community of interest¹ concerns override the ever increasing need to price

¹This is particularly true in light of the evidence regarding community of interest in this case. As shown in Exhibit 1 (HEE-1)(revised May 4, 1998), all of the ALLTEL routes have very low communities of interest, and none of them qualified for flat-rate two-way non-optional EAS or the Commission's traditional 25 cent plan ECS arrangement. [Tr. 14-15]

services in a manner that requires subscribing customers to bear the costs of the service.

At the same time, the Commission should recognize that pricing one-way ECS at a compensatory level as proposed by ALLTEL in issue 4 will likely result in a service that will not be perceived by customers as a meaningful alternative to existing toll services. Under ALLTEL's proposal, the rates for one-way ECS would be 50 cents for the first minute and 32 for every minute thereafter. These rates are necessary to cover the costs associated with the service, exceed the prevailing toll rates on the routes in question, and would probably not be selected by an informed consumer. Since the existing toll services are being provided at rates below the compensatory rates proposed by ALLTEL, the Commission should find that an alternative toll plan on these routes is not appropriate.

Issue 2: If one-way ECS is appropriate, what rate, if any, should BellSouth charge to terminate ECS interLATA traffic for all carriers?

Position: No position.

Issue 3: If one-way ECS is ordered on the routes in question, and a termination charge is deemed appropriate, what economic impact will this have on the originating LEC?

Position: * If rates are set properly, there should be no economic impact on ALLTEL, because the rates will cover the costs of service, including any terminating charges. The Commission

should not impose one-way ECS in a manner that has a negative economic impact on ALLTEL.

* * *

As noted in Exhibit 1 (HEE-1) (revised May 4, 1998), ALLTEL estimates the cost of providing service on the routes at issue to be about 38 cents per minute. This estimate assumes 200 percent stimulation and includes costs such as the costs to lease or build the facilities needed to carry the traffic,² the costs of originating the calls, whatever terminating charge may be applicable, lost access charge and billing and collection revenue, and administrative costs such as billing system changes. [Tr. 16] If the rate design and levels for the one-way ECS service are set properly, there should be no economic impact on ALLTEL as the originating LEC, because all of these costs will be recovered from the end user. As discussed under Issue 1, it would be inappropriate to authorize a rate levels and design that are not compensatory.

Application of the Commission's traditional 25 cent ECS plan (flat rate of \$0.25 per residential call and 10/6 cents for business calls) in this case would result in an adverse impact to ALLTEL as the originating carrier. Based on the data in Exhibit 1

²In most cases, the traffic on the routes is currently being routed over facilities owned by an interexchange carrier. [Tr. 13] The customers making calls over these routes are paying the applicable toll rate for these calls. [Tr. 13] ALLTEL does not own the facilities necessary to carry the traffic on the nine routes itself, so if the Commission decides to order one-way ECS, ALLTEL will be required to make arrangements to build or lease facilities to carry the traffic. [Tr. 13]

(HEE-1) (revised May 4, 1998), if the Commission adopts the 10/6 plan for business customers, ALLTEL would lose about 28 cents on the first minute of a business call and 32 cents for each minute thereafter. Likewise, if residential calls are priced at a flat \$0.25 per call, ALLTEL would lose 13 cents on the first minute and 38 cents for every subsequent minute. Because the flat rate \$0.25 charge for residential and the 10/6 for business are all below ALLTEL's per minute cost, ALLTEL could never expect to earn a reasonable return on these calls based on increase volume or stimulation.

Issue 4: If one-way ECS is appropriate, what rate structure and rate levels should the LEC charge the end user?

Position: * If one-way ECS is appropriate, which it is not, a usage based rate design will best recover the cost of the service. To recover all of the costs of providing the service, ALLTEL should be allowed to price the service at 50 cents for the first minute and 32 cents for every minute thereafter.

* * *

As noted above, ALLTEL does not believe that one-way ECS is appropriate on these routes. However, if the Commission disagrees with ALLTEL, and decides to approve an alternative toll plan for these routes, ALLTEL would propose a rate design that is similar to the rate design used for business customers under the Commission's traditional 10 cent/6 cent plan. [Tr. 17] This kind of rate design, which would apply to all customers, would charge one rate for the first minute and a lower rate for subsequent minutes, and

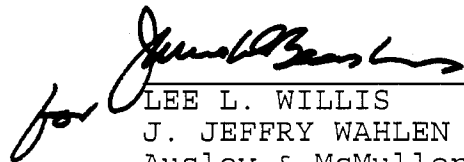
would best allow ALLTEL to recover all of the costs associated with the provision of one-way ECS. [Tr. 17] Based on the cost data provided by ALLTEL in Exhibit 1 (HEE-1) (revised May 4, 1998), the rate level for one-way ECS should be 50 cents for the first minute and 32 cents for every subsequent minute. As discussed in Issue 1, these rate levels exceeds the prevailing toll rates for these routes; therefore, the Commission should not require one-way ECS for the ALLTEL routes in this case.

v.

Conclusion

ALLTEL estimates its cost per minute for the routes in question to be about 38 cents a minute. That being the case, the Commission cannot craft a one-way ECS plan that would allow ALLTEL to recover the costs of providing the service from the subscribers to the service and that customers would recognize as a meaningful alternative to toll, and the Commission should decline to approve a one-way ECS alternative toll plan for the ALLTEL routes in this proceeding.

DATED this 17th day of June, 1998.



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ATTORNEYS FOR ALLTEL

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 17th day of June, 1998, to the following:

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Attorney

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 7 @ \$3,000/mo		\$ 252,000
Lost Revenues from Access		\$ 95,060
Lost B&C Revenues		\$ 55,673
System Programming		\$ 4,000
Terminating Access Expense		\$ 102,772
Total Cost of Plan		\$ 525,185
 <u>Minute of Use Plan</u>		
Total Annual Conversation MOU With 200% Stimulation - all routes		1,388,772
Total Cost		\$ 525,185
Stimulated Annual MOU Average Rate Per Minute		\$.3782 per MOU To Meet Cost with No Profit

ALLTEL FLORIDA, INC.
DOCKET NO. 870790-TL, 910022-TL, and 910528-TL
Calculations for Rate Design

Rate Structure: 50 cents 1st minute
32 each additional minute

Total Annual Cost of Plan - \$525,185

Total MOU with 200% stimulation - 1,388,772

Total Estimated Minutes per Message (based on usage studies) - 2.81

Total Estimated Annual Messages - 494,225

$494,225 \times \$0.50 = \$247,113$ - revenues from 1st minute of use

\$525,185 (total cost of plan)

-247,113 (1st minute of use revenues)

\$278,072 (cost to be recovered from additional minutes of use)

1,388,772 (total MOU)

-494,225 (number of assumed 1st minutes of use)

894,547 (number of assumed additional minutes of use)

$\$278,072 \text{ divided by } 894,547 = \$0.310852308 \text{ rounded to } \0.32^*

*Rounded up due to the fact that the stimulation factor is likely high. [To have used a lower stimulation factor would have made the costs per minute even higher.]