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April 22, 1998

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

In re: Docket No. 970808-TL

Dear Ms. Bayo:

Enclosed please find the original and 15 copies of the Prehearing Statement of GTC, Inc.,
in Docket No. 970808-TL.

Copies have been provided to each party as indicated in the Certificate of Service.

Sincerely,



David B. Erwin

ACK DBE:jm

AFA *Wright* Copy to: John H. Vaughan

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FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of BellSouth)
Telecommunications, Inc.)
to remove St. Joseph Telephone)
and Telegraph Company's)
interLATA access subsidy.)
_____)

Docket No. 970808-TL

Filed: April 22, 1998

PREHEARING STATEMENT
OF GTC, INC.

GTC, Inc. (GTC), through its attorney, files this Prehearing Statement, pursuant to the provisions of Rule 25-22.038, F.A.C., as follows:

- a) GTC does not intend to call any witnesses.
- b) GTC does not intend to file any exhibits, but may request that the Commission take notice of several of its own orders.
- c) The basic position of GTC is that the petition of BellSouth Telecommunications, Inc. (BellSouth) should be denied.
- d through g) - See Appendix A attached hereto.
- h) GTC has not stipulated to any issues.
- i) GTC has no pending motions upon which action is sought.
- j) GTC knows of no requirement of the Prehearing Officer that cannot be complied with, but as previously indicated GTC must continue to take issue with the legal implications of the BellSouth discovery in the First Set of Interrogatories, even while fully responding to the Second Set of Interrogatories.

Respectfully Submitted,



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FLORIDA PUBLIC SERVICE COMMISSION

APPENDIX A

1. **Issue:** What is the interLATA access subsidy and why was the interLATA access subsidy established?

Position: The interLATA access subsidy was created to end the pooling of access charges and move to a bill and keep system of access charges that would keep each company "...in the same financial position it would have been in prior to implementing bill and keep." (See Order No. 14452, page 11, Docket No. 820537-TP.) The result of the methodology used was a "... respective shortfall or surplus from bill and keep for each company..." (See Order No. 14452, page 12, Docket No. 820537-TP.) The subsidy pool was established to maintain uniform access charges and to create a "wash;" it was funded by having each LEC contribute a portion of the access revenue received by the LEC. (See Order No. 14452, page 12, Docket No. 820537-TP.) In essence, BellSouth Telecommunications, Inc., as the subsidy pool administrator, has been collecting GTC, Inc.'s access charge revenue and paying that access charge revenue to GTC, Inc.

- 1b. **Issue:** What is the history of the interLATA access subsidy and how has Commission policy regarding the subsidy evolved since the subsidy was established?

Position: The interLATA access subsidy has persisted for more than a decade, since it has taken different LECs differing amounts of time to exit the arrangement. Before the onset of price regulation the Commission considered earnings as the criteria for subsidy termination. Since price regulation the Commission has had no occasion to consider a non-consensual elimination of any LEC from the interLATA subsidy pool until BellSouth Telecommunications initiated this docket. Consequently, the Commission has not yet developed criteria for ending a subsidy under the law in effect for price regulated companies; under that law, earnings is not a lawful criteria for ending a subsidy.

2. **Issue:** Was the interLATA access subsidy pool intended to be a permanent subsidy? If not, what criteria should be used for ending the interLATA access subsidy pool?

Position: The interLATA subsidy pool was not intended to be permanent. The interLATA subsidy pool should end at an appropriate time and through means that do not depart from the essential requirements of law. It should also end in a manner that furthers the original intent of the Commission to create a "wash" through the implementation of bill and keep.

3. **Issue:** What is the lawful authority for the BellSouth Telecommunications, Inc.'s proposal to eliminate the interLATA access subsidy of GTC, Inc.?

Position: There is no statutory authority for BellSouth Telecommunications' proposal to eliminate the interLATA access subsidy of GTC, Inc. The Commission has addressed the interLATA access subsidy through its orders, but it must be recognized that all of those orders were either issued before the Florida Telecommunications Act of 1995 or, in one

instance, concerned a rate base regulated LEC (Frontier Communications of the South, Inc.). This is the first instance of an attempt to end the subsidy of a price regulated LEC under the new law.

4. **Issue:** Considering that the rates of a small LEC electing price cap regulation may not be altered during the period rates are frozen, except as provided for in Section 364.051(5), Florida Statutes, may the subsidy in effect at the time price cap regulation was elected be discontinued during the period rates are frozen?

Position: No, GTC asserts the Commission cannot, as a matter of law, and should not, as a matter of policy, selectively alter one component of rates during the period they are frozen. 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 regulation of its rate of return, but, its rates are frozen for a period of at least three, and probably, five years. Thereafter, price increases are capped by the rate of inflation less one percent. Section 364.051(4), F.S. 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, particularly adjustments based on traditional rate of return calculations.

5. **Issue:** Should the interLATA access subsidy received by GTC, Inc. be removed?

Position: The interLATA access subsidy should not be removed as long as rates are frozen under the new telecommunications law. There is one alternative approach to eliminating the access subsidy, however. The collection of access charges by BellSouth Telecommunications on behalf of GTC, Inc. could be ended, and the access charges could be paid directly to GTC, Inc. This would have the effect of terminating the subsidy. It would further the original intent of the Commission in the bill and keep docket to create a "wash." Although this methodology would create non-uniform access charges, that would be no problem, since the concept of uniform access charges, originally fostered by the Commission in the access bill and keep docket, was abandoned years ago.

6. **Issue:** If the access subsidy being paid to GTC, Inc. is eliminated, should BellSouth Telecommunications, Inc. be directed to cease collection of the access subsidy funds? If the access subsidy being paid to GTC, Inc. is eliminated, and collection of the access subsidy funds is not terminated, what disposition should be made of the funds?

Position: If the access subsidy being paid to GTC, Inc. is eliminated, BellSouth Telecommunications should be directed to cease collection of the subsidy funds. The money that makes up the subsidy is access charge revenue from IXC's. BellSouth Telecommunications is merely the subsidy administrator through which the IXC access charge revenue flows from the IXCs to GTC, Inc. This money could just as well flow directly to GTC, Inc. (See the Position of GTC, Inc. to Issue 5, above.)

7. **Issue:** If the subsidy should be removed, should it be removed entirely at one time, or should the subsidy be phased out over a certain time period?

Position: If the subsidy is removed, it should be phased out over a period of time beginning at the time when GTC can legally raise rates to offset the loss of the subsidy. If, however, there is a conversion to a direct payment of access charges to GTC, Inc., with elimination of the subsidy administrator, the removal could be accomplished at one time.

8. **Issue:** If the subsidy should be removed entirely at one time, on what date should the removal be effective?

Position: If the subsidy is removed at one time, it should be removed at the time when GTC can legally raise rates to offset the loss of the subsidy or at the time the access subsidy is converted to a direct payment of access charges to GTC.

9. **Issue:** If the subsidy should be phased out, over what time period should the phase out take place and how much should the reduction of the subsidy be in each period?

Position: If the subsidy is phased out, it should be phased out over the period of time it takes GTC to lawfully increase its basic local rates to offset the loss of the subsidy.


**CERTIFICATE OF SERVICE
DOCKET NO. 970808-TL**

I HEREBY CERTIFY that a true copy of the Prehearing Statement of GTC, Inc. has been furnished by U.S. Mail or by hand delivery this 22nd day of April, 1998 to the following:

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