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May 15, 1998

ORIGINAL

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 Surrebuttal 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
Nancy B. White (PWA)

- ACK
- AFA
- APP _____
- CAF _____
- CMU 2
- CTR _____
- EAG _____
- LEG 1
- LIN 5 to g
- OPC _____
- RCH _____
- SEC 1
- WAS _____
- OTH _____

Enclosures

cc: All parties of record
A. M. Lombardo
R. G. Beatty
William J. Ellenberg II

RECEIVED & FILED

14
BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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

I HEREBY CERTIFY that a true and correct copy of the foregoing was served via
Facsimile and Hand-Delivery this 15th day of May, 1998 to the following:

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1

2 A. My testimony addresses several issues presented in
3 Mr. Guedel's direct testimony filed May 8, 1998.

4

5 Q. DO YOU AGREE WITH MR. GUEDEL'S STATEMENT THAT
6 BELLSOUTH WOULD ENJOY "WINDFALL PROFIT" IF IT DOES
7 NOT REDUCE ACCESS RATES WHEN THE SUBSIDY PAYMENT IS
8 ELIMINATED?

9

10 A. No. Mr. Guedel's logic is faulty and is based on
11 several incorrect assumptions. First, he states that
12 the subsidy pool was revenue neutral to the Local
13 Exchange Carriers (LECs), involved access revenues
14 and therefore, it was funded by the Interexchange
15 Carriers (IXCs). The facts are that, although the
16 original subsidy pool was established to be revenue
17 neutral for the LECs, it was a "wash" for the IXCs as
18 well. As discussed in Order No. 14452 page 5, the
19 Florida Public Service Commission (Commission) found
20 that 1984 access charge revenues were \$454,963,000
21 and that 1985 access charge rates should be set to
22 achieve a target revenues of \$431,419,000. This
23 target reflects adjustments to the 1984 access
24 charges (\$454,963,000) to recognize previously
25 approved Commission changes. This 1985 target was

1 utilized in the setting of access rates associated
2 with implementing bill and keep and involved no
3 funding by the IXCs.

4
5 This "neutral" target revenue goal was stated again
6 in Order No. 15821 page 2, "As stated previously, we
7 set access rates for 1985 at a level which would
8 allow the LECs to achieve the access charge revenue
9 target which in turn was based on the preliminary
10 1984 settlements data." The goal was that both LECs
11 and IXCs were to be held revenue neutral due to
12 implementing bill and keep. There was no funding by
13 the IXCs; they were required to pay for their access
14 to the local network at the same level they paid
15 before the bill and keep system was implemented.

16
17 Mr. Guedel states that the IXCs "were the true
18 funding agents of the pool." In fact, the Commission
19 itself stated that the LECs were funding the pool.
20 Order No. 14452 page 12 states, "The pool will be
21 funded by each LEC contributing a portion of the
22 access revenue it receives for use of its local
23 network." AT&T pays access charges in return for
24 access to the local network, it does not fund the

25

1 subsidy pool. The AT&T testimony is shown to be
2 incorrect by the Commission's own words in the order.

3

4 Second, Mr. Guedel states that "... BellSouth has
5 never been required to compromise its earnings to
6 fund the pool." As discussed above, it is true that
7 neither BellSouth nor AT&T compromised their earnings
8 at the point when the bill and keep pool was
9 originally established under statewide uniform access
10 rates. However, this revenue neutrality was
11 eliminated starting in 1988 as uniform access rates
12 were transitioned to LEC specific rates. BellSouth's
13 earnings are lower due to its bill and keep payment
14 to GTC after the subsequent \$200 million of access
15 reductions are considered.

16

17 Q. IS MR. GUEDEL CORRECT IN STATING THAT THE MAJOR
18 BELLSOUTH ACCESS REDUCTIONS WERE ACCOMPLISHED BECAUSE
19 THE COMMISSION DETERMINED THAT BELLSOUTH HAD EXCESS
20 EARNINGS?

21

22 A. No, once again he has not correctly stated prior
23 Commission actions. The majority of the access
24 reductions (over \$185 million) have been implemented
25 since July 1, 1994. These reductions were the result

1 of Order No. 940172 and the Commission did not make a
2 determination that BellSouth had "excess earnings".
3 The Commission approved a settlement stipulation for
4 the involved dockets that, among other things,
5 included rate reductions. The stipulation did not
6 establish an intrastate earnings level or "excess
7 earnings" that created access reductions.

8

9 The access reductions made by BellSouth has changed
10 the revenue neutral nature of access revenues
11 established in the original bill and keep order.
12 There is no windfall to BellSouth when it is merely
13 returned to the revenue neutral position that was
14 lost once LEC specific rates were implemented and the
15 Company reduced access rates.

16

17 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

18

19 A. Mr. Guedel's testimony is incorrect on several items.
20 He has stated that the IXCs fund the subsidy payment
21 even though the Commission's own order states that
22 the LECs fund it. He also stated that the majority
23 of the access reductions made by BellSouth were the
24 result of an earnings review and the subsequent
25 finding of excess revenues. In fact, \$185 million or

1 over 90% of the reductions were determined by this
2 Commission in an order approving a stipulation that
3 did not establish either an authorized or achieved
4 level of earnings and therefore could not have
5 determined there were "excess earnings" resulting in
6 rate reductions. Mr. Guedel's characterization is
7 plainly and factually incorrect.

8

9 There is no "windfall" to BellSouth from the
10 elimination of the payment because its previous
11 revenue access reductions of over \$200 million have
12 far exceeded the \$1.2 million subsidy payment that
13 was established in 1985 as being revenue neutral.

14

15 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

16

17 A. Yes.

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