

BELLSOUTH TELECOMMUNICATIONS, INC.

REBUTTAL TESTIMONY OF D. DAONNE CALDWELL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 833-TP

AUGUST 30, 1996

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

A. My name is D. Daonne Caldwell. My business address is 675 W. Peachtree St., N.E., Atlanta, Georgia. I am a manager in the Finance Department of BellSouth Telecommunications, Inc. ("BellSouth").

Q. ARE YOU THE SAME D. DAONNE CALDWELL WHO FILED DIRECT AND SUPPLEMENTAL DIRECT TESTIMONY IN THIS DOCKET?

A. Yes. I filed direct testimony on behalf of BellSouth on August 12, 1996, and I filed supplemental direct testimony on August 23, 1996.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

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1 A. The purpose of my rebuttal testimony is to address the positions regarding
2 BellSouth's cost studies taken by AT&T witness Wayne Ellison in direct
3 testimony in this proceeding.

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6 Q. THROUGHOUT HIS TESTIMONY, MR. ELLISON ALLEGES THAT
7 BELLSOUTH HAS NOT ADEQUATELY RESPONDED TO AT&T'S
8 REQUEST FOR COST INFORMATION. IS THIS TRUE?

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10 A. No. BellSouth has provided AT&T with over 250 cost studies in connection with
11 the negotiations concerning local interconnection and unbundling. In addition to
12 the cost studies themselves, AT&T has requested and received backup
13 information relative to many of the studies. For example, backup for all the
14 digital loop carrier and multiplexer files was provided for the loop cost study.
15 This required several days work by a BellSouth cost analyst to track every input
16 for AT&T from the number used in the LoopCost Model to the original inputs
17 from BellSouth Network.

18 Additionally, BellSouth has participated in several face-to-face meetings and
19 telephone discussions with AT&T, both to discuss AT&T's needs relative to cost
20 studies and to explain the studies. AT&T submitted such a large volume of both
21 written and verbal requests that BellSouth asked AT&T to prioritize the requests
22 in order to best meet AT&T's needs. At the present time, BellSouth continues to
23 receive and respond to new requests.

1 Q. ON PAGE 10 OF HIS TESTIMONY, MR. ELLISON DESCRIBES HOW AT&T
2 ANALYZED BELLSOUTH'S COST STUDIES. DO YOU AGREE WITH HIS
3 ANALYSIS?

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5 A. No. AT&T's analysis consisted simply of making unfounded and unsupported
6 assumptions that "significant problems" existed with the studies and using those
7 unfounded and unsupported assumptions to make adjustments to the final costs. I
8 would characterize this method of analysis as simply reducing the costs for the
9 sole purpose of reducing the costs, by using inappropriate and unsupported
10 adjustments. Mr. Ellison makes several inappropriate assumptions and
11 adjustments to BellSouth's cost studies in general. I will discuss **them** first. I will
12 also discuss inappropriate assumptions and adjustments Mr. Ellison makes
13 concerning specific BellSouth cost studies.

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15 GENERAL INAPPROPRIATE ASSUMPTIONS AND ADJUSTMENTS

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17 Q. ON PAGE 13, LINE 24 OF HIS DIRECT TESTIMONY, MR. ELLISON
18 STATES THAT BELLSOUTH'S COST STUDIES "INCLUDE RETURN ON
19 EQUITY ASSUMPTIONS OF UP TO 17 OR 18 %." IS HE CORRECT?

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21 A. No. In fact, BellSouth uses a 13.2% cost of money in its cost studies, which is
22 based on a return on equity of 16% and a cost of debt of 8.9%. Mr. Ellison
23 arbitrarily decides that 11.5% is a reasonable equity return; however, he provides
24 no support for his assumption and, in fact, he cannot support his assumption.
25 Indeed, prior to the passage of price regulation, in Florida, BellSouth was

1 authorized by this Commission, under incentive regulation, to earn a minimum of
2 12.5% return on equity with no sharing and a maximum of 17.5% with a
3 provision for sharing a portion of the earnings.
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5 Q. EXPLAIN HOW MR. ELLISON'S DIRECT TESTIMONY REFLECTS
6 AT&T'S INAPPROPRIATE USE OF BELL SOUTH'S COST STUDIES?
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8 A. AT&T used the BellSouth cost studies which were service or network element
9 specific to disaggregate the costs for sub-elements. If AT&T was unable to so
10 disaggregate, Mr. Ellison complains that the costs could not be disaggregated into
11 costs for sub-elements. AT&T's use of the BellSouth cost studies in this manner
12 was inappropriate in the following respects:
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14 (1) On page 16 of his direct testimony, Mr. Ellison complains that BellSouth
15 did not provide cost information for each sub-loop component. Even if such cost
16 information could be developed, it would not be relevant because sub-loop
17 unbundling is not technically feasible. This issue is discussed in Mr. Milner's
18 direct testimony.
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20 (2) On page 18 of his direct testimony, Mr. Ellison complains that "It has been
21 necessary for AT&T to interpret and restructure BellSouth's cost estimates to
22 obtain unbundled costs for the local switch as a stand-alone unbundled element."
23 He claims that "This step has been necessary because BellSouth aggregated its
24 study results to include both local switch costs and costs associated with the
25 separate transport element." As discussed in Mr. Scheye's direct testimony,

1 unbundled local switching includes the line termination, end office switching and
2 local transport. Therefore, the BellSouth cost studies appropriately aggregate the
3 local switching cost and the transport cost.

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5 3) AT&T uses studies performed by BellSouth earlier than those provided in
6 this docket and makes comparisons that are not relevant to this proceeding. The
7 "initial" loop study to which Mr. Ellison refers on page 13 of his direct testimony
8 is superseded by the unbundled loop studies filed in this docket. The unbundled
9 loop studies provided in this docket contain the most recent information available
10 and, therefore, are the only studies that should be considered. In some cases, Mr.
11 Ellison compares studies that are not even for the same service. For instance, the
12 local measured usage cost studies associated with the unbundled ports, which
13 appropriately identify costs for local usage rating and billing, are the only usage
14 cost studies that are included in this docket. However, on pages 18 & 19 of this
15 direct testimony, Mr. Ellison compares these local usage cost studies to a cost
16 study for usage associated with a totally different type of service.

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18 (4) AT&T inappropriately relies on cost studies performed for other BellSouth
19 states without support for whether those states incur costs similar to those for
20 Florida.

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22 INAPPROPRIATE ASSUMPTIONS AND ADJUSTMENTS CONCERNING
23 SPECIFIC COST STUDIES

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25 I. UNBUNDLED LOOPS

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Q. ON PAGES 11 THROUGH 15 OF HIS DIRECT TESTIMONY, MR. ELLISON MAINTAINS THAT BELLSOUTH'S 2-WIRE ANALOG, 4-WIRE ANALOG, AND 2-WIRE ISDN DIGITAL UNBUNDLED LOOP STUDIES DO NOT REFLECT LEAST COST, FORWARD LOOKING TECHNOLOGIES. IS HE CORRECT?

A. No. BellSouth's cost studies for 2-wire analog, 4-wire analog and 2-wire ISDN unbundled loops include copper and digital loop carrier on fiber as deployment technologies. Copper and digital loop carrier on fiber represent the most efficient forward looking technologies for deploying voice grade (2-wire and 4-wire) and 2-wire ISDN unbundled loops now and in the future. The network is not designed for a particular service; it is designed on the most efficient and economical technologies for the network as a whole, considering all services provided. Copper cable is the most efficient means of providing service for the whole network up to an economically determined point. Beyond this point, digital loop carrier on fiber becomes more economical. BellSouth deploys several types of digital loop carrier systems based on the most economical system for the density of the area served. When the density of the area makes it economically feasible, BellSouth deploys systems that combine the multiplexer and digital loop carrier equipment in a single unit, further reducing the cost.

Q. ON PAGE 12 OF HIS DIRECT TESTIMONY, MR. ELLISON STATES THAT BELLSOUTH INCLUDES "INAPPROPRIATE COSTS" IN THE 2-WIRE ANALOG UNBUNDLED LOOP STUDY BY ASSUMING THAT LOOPS

1 PROVIDED OVER DIGITAL LOOP CARRIER WOULD BE CONVERTED
2 TO ANALOG FORMAT AT THE WIRE CENTER. IS THAT TRUE?

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4 A. No. All the costs included in the unbundled loop cost studies are appropriate. In
5 particular, since the analog (2-wire and 4-wire) loops must be provided to the
6 Alternate Local Exchange Company (ALEC) at the analog voice grade level, a
7 central office terminal is required to convert the incoming digital DS1s to analog.
8 The central office terminal is also required to segregate the individual voice grade
9 circuits in the incoming bitstream when the loop is served via digital loop carrier.
10 When the ISDN circuit is served via digital loop carrier, the circuit remains a
11 2B+D ISDN (digital format) circuit. However, the central office terminal is
12 required in order to segregate the individual ISDN circuits in the incoming
13 bitstream.
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15 Q. ON PAGE 13 OF HIS DIRECT TESTIMONY, MR. ELLISON ASSERTS THAT
16 BELL SOUTH USES INCORRECT DIGITAL LOOP CARRIER
17 TECHNOLOGY IN THE 2-WIRE LOOP STUDIES. IS THIS TRUE?

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19 A. No. First of all, Mr. Ellison provides no support for this assertion, and, in fact, he
20 cannot. The digital loop carrier technologies that BellSouth uses in the Florida 2-
21 wire analog loop study filed with my testimony on August 12, 1996 represent the
22 most forward looking technologies based on the densities of the areas where the
23 equipment is being placed. BellSouth uses multiple vendors for digital loop
24 carrier equipment to avoid becoming dependent on any particular type of

1 equipment or any single vendor. Investments are developed from material prices
2 based on BellSouth's negotiated contracts with these vendors.

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4 Q. ON PAGE 15 OF THIS DIRECT TESTIMONY, MR. ELLISON STATES
5 THAT THE "COMMISSION SHOULD ALSO REJECT" BELLSOUTH'S
6 BASIC RATE INTERFACE ISDN (BRI ISDN) LOOP STUDIES. DO YOU
7 AGREE?

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9 A. No. Mr. Ellison's reasons for asking that these studies be rejected are invalid.
10 His first assertion is that the BellSouth ISDN loop studies do not reflect the most
11 efficient technologies. He is incorrect. As previously discussed in this testimony,
12 the network is designed to be efficient for all services offered rather than for any
13 particular service. Therefore, the technologies studied for ISDN service are
14 appropriate. His second assertion is that the cost studies reflect "the same
15 inefficient analog conversion included in BellSouth's 2 and 4-wire studies." First
16 of all, BellSouth does not convert the ISDN signal to an analog signal. The
17 necessity for the central office terminal used in provisioning unbundled ISDN
18 loops is addressed earlier in this testimony. Mr. Ellison's third assertion, that an
19 inappropriate cost of money is used in the study, is also incorrect and has been
20 previously addressed in this testimony.

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22 II. OPERATOR SERVICES

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Q. ON PAGE 19 OF HIS DIRECT TESTIMONY, MR. ELLISON STATES THAT
“AT&T ADJUSTED BELLSOUTH’S COSTS DOWNWARD BY A FACTOR
OF 10% TO REFLECT THE POSSIBILITY OF INAPPROPRIATE COST
LOADINGS”. DO YOU AGREE WITH THIS?

A. No. Mr. Ellison provides no support for the 10% factor used to downward adjust
the costs. He is simply speculating, as evidenced by his term “possibility of
inappropriate cost loadings.” Mr. Ellison cites no facts as to which cost loadings
he finds inappropriate, nor does he address any inappropriate application of the
loading factors. There is, in fact, no support for this action other than the fact that
AT&T wants to lower the cost. Operator Services cost studies were filed with my
testimony on August 12, 1996, and the costs presented in these studies are valid.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. BellSouth provided AT&T with more than 250 cost studies from various states for
numerous services and elements from unbundled loops to Operator Services. In
his direct testimony, Mr. Ellison presented his analysis of the BellSouth cost
studies. Various statements in his direct testimony imply that the BellSouth cost
studies are not accurate. However, he does not support these statements. Rather

1 than analyzing the studies, he made what he refers to as “adjustments”. The
2 overall impact of Mr. Ellison’s flawed analysis is to produce lower costs.

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4 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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6 A. Yes.