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RECORDS AND
REPORTING

September 10, 1998

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

Re: Docket No. 980696-TP (HB4785) Universal Service

Dear Ms. Bayó:

Enclosed is an original and fifteen copies of BellSouth Telecommunications, Inc.'s Prehearing Statement, 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,

RECEIVED & FILED

Nancy B. White (see)
Nancy B. White

NBW
FPSC-BUREAU OF RECORDS

NBWM

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

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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Determination of the Cost of Basic) Docket No.: 980696-TP
Local Telecommunications Service, pursuant)
to Section 364.025, Florida Statutes)
_____) Filed: September 10, 1998

PREHEARING STATEMENT OF BELL SOUTH TELECOMMUNICATIONS, INC.

BellSouth Telecommunications, Inc. ("BellSouth"), in compliance with the Order Establishing Procedure (Order No. PSC-98-0813-PCO-TP), issued on June 19, 1998, and the Order Establishing Issues (Order No. PSC-98-1008-PCO-TP), issued on July 24, 1998, hereby submits its Prehearing Statement for Docket No. 980696-TP.

A. Witnesses

BellSouth proposes to call the following witnesses to offer testimony on the issues in this docket:

<u>Witness</u>	<u>Issue(s)</u>
Dr. Kevin Duffy-Deno (Direct and Rebuttal)	2
Peter F. Martin (Direct and Rebuttal)	1, 2, 3, 5, 6(a), and 6(c)
Dr. Robert M. Bowman (Direct and Rebuttal)	2
G. David Cunningham (Direct and Rebuttal)	4(a)
Dr. Randall S. Billingsley (Direct and Rebuttal)	4(c)
D. Daonne Caldwell (Direct and Rebuttal)	2 and 4
William E. Taylor (Rebuttal)	2, 3, 4, and 5
Jamshed K. Madan, Michael D. Dirmeier, and David C. Newton (Rebuttal)	2, 3, 4, and 5

BellSouth reserves the right to call additional witnesses, witnesses to respond to Commission inquiries not addressed in direct or rebuttal testimony and witnesses to address issues not presently designated that may be designated by the Prehearing Officer at the prehearing conference to be held on September 28, 1998.

B. Exhibits

Dr. Kevin Duffy-Deno	KDD-1	Curriculum Vitae
	KDD-2	Bunnell Wire Center
Peter F. Martin	PFM-1	Florida Wire Center Level Data
Dr. Robert M. Bowman	RMB-1	Curriculum Vitae
	RMB-2	Urban and Rural Wire Centers
	RMB-3	BCPM3 Designs the Most Efficient Proxy Network
	RMB-4	Loop Network
	RMB-5 (misabeled RMB-1)	Outside Plant Engineering Handbook
	RMB-6 (misabeled RMB-2)	dB loss with 18,000 foot metallic cable
	RMB-7 (misabeled RMB-3)	OSP 363-205-010
G. David Cunningham	GDC-1	Company Composite Projection Life
	GDC-2	1998 Florida Study
	GDC-3	Comparison of Projection Lives
	GDC-4	Projection Lives

Direct Exhibits

Dr. Randall S. Billingsley

- | | |
|--------|---|
| RSB-1 | Regulatory and Economic Standards Used in Cost of Capital Analysis |
| RSB-2 | Nature and Applicability of the DCF Model in Regulatory Proceeding |
| RSB-3 | DCF and CAPM Data for BST Comparable Firm Portfolio |
| RSB-4 | DCF and CAPM Data for Sprint-FL Comparable Firm Portfolio |
| RSB-5 | Comparable Firm Identification Criteria and Methodology |
| RSB-6 | Capital Asset Pricing Model Analysis of the Cost of Equity Capital |
| RSB-7 | Treasury Bond Futures Interest Rate |
| RSB-8 | Market Risk Premium Approach to Estimating the Cost of Equity Capital |
| RSB-9 | Expected Market Risk Premium |
| RSB-10 | Expected Market Risk Premium |
| RSB-11 | Aaa vs. Treasury Bond Yields |
| RSB-12 | "A" vs. Treasury Bond Yields |
| RSB-13 | BST Capital Structure |
| RSB-14 | Sprint-FL Capital Structure |
| RSB-15 | Market Value Capital Structure of BST Comparables |
| RSB-16 | Market Value Capital Structure of Sprint-FL Comparables |
| RSB-17 | Curriculum Vitae |

Rebuttal Exhibits

	RSB-1	DCF and CAPM Data for BST Comparable Firm Portfolio
	RSB-2	DCF and CAPM Data for Sprint-FL Comparable Firm Portfolio
	RSB-3	Comparable Firm Identification Criteria and Methodology
	RSB-4	Treasury Bond Futures Interest Rate
	RSB-5	Expected Market Risk Premium: Aaa Rating Base
	RSB-6	Expected Market Risk Premium: "A" Rating Base
	RSB-7	Aaa vs. Treasury Bond Yields
	RSB-8	A vs. Treasury Bond Yields
	RSB-9	BST Capital Structure
	RSB-10	Sprint FL Capital Structure
	RSB-11	Market Value Capital Structure of BST Comparables
	RSB-12	Market Value Capital Structure of Sprint FL Comparables
D. Daonne Caldwell	DDC-1	Benchmark Cost Proxy Model, Version 3.1
William E. Taylor	WET-1	Curriculum Vitae
Jamshed K. Madan, Michael D. Dirmeler, and David C. Newton	Appendix A	Glossary of Defined Terms
	Appendices B-D	Statements of Qualifications
	GCG-1	Identification of Sensitive Input Groups

GCG-2	Values for User-Adjustable Inputs
GCG-3	Sensitive Input Group I: NID and Drop
GCG-4	Sensitive Input Group II: Terminal and Splice
GCG-5	Sensitive Input Group III: Distribution Investment
GCG-6	Sensitive Input Group IV: Copper Feeder Investment
GCG-7	Sensitive Input Group V: Fiber Feeder Investment
GCG-8	Sensitive Input Group VI: Structure Placement Fractions
GCG-9	Sensitive Input Group VII: Structure Sharing Fractions
GCG-10	Sensitive Input Group VIII: Copper And Fiber Sizing Factors
GCG-11	Sensitive Input Group IX: DLC
GCG-12	Sensitive Input Group X: Interoffice Investment
GCG-13	Sensitive Input Group XI: Switching Factors
GCG-14	Sensitive Input Group XII: Expense Factors
GCG-15	Sensitive Input Group XIII: Cost of Capital
GCG-16	Sensitive Input Group XIV: Depreciation
GCG-17	Sensitive Input Group XV: Universal Service Support

BellSouth reserves the right to file exhibits to any additional testimony that may be filed under the circumstances identified in Section "A" above. BellSouth also reserves the right to introduce exhibits for cross-examination, impeachment, or any other purpose authorized by the applicable Florida Rules of Evidence and Rules of this Commission.

C. Statement of Basic Position

BellSouth believes that the Florida Public Service Commission (the "Commission") should adopt a cost proxy model that engineers a forward looking network that is capable of actually transmitting telephone calls in a quality manner and that is based on realistic inputs. The end result should be a sustainable and sufficient universal service fund as required by the Telecommunications Act of 1996.

BellSouth proposes that the Commission adopt BellSouth's universal cost calculations for submittal to the Florida legislature. Specifically, BellSouth urges the Commission to select the Benchmark Cost Proxy Model ("BCPM") Version 3.1 model as the appropriate cost model for determining the total forward-looking cost of providing basic local telecommunications service. The BCPM 3.1 model was designed for this purpose and meets the criteria set forth in the Federal Communications Commission's ("FCC") Universal Service Order of May 8, 1997.

BellSouth further proposes that the model be run initially on a wire center basis. The goal should be to move the basis of support calculations from a wire center basis

to that of a smaller geographic area. BellSouth is also recommending BellSouth-specific inputs that reflect BellSouth's provisioning practices and costs in Florida.

It is critically important that the Commission determine the appropriate cost of universal service. Consumers will be ill served if the costs are underestimated.

D. BellSouth's Position on the Issues

Issue 1: What is the definition of the basic local telecommunications service referred to in Section 364.025(4)(b), Florida Statutes?

Position: Basic local telecommunications service is that defined in Section 364.02(2), Florida Statutes.

Issue 2: For purposes of determining the cost of basic local telecommunications service appropriate for establishing a permanent universal service mechanism, what is the appropriate cost proxy model to determine the total forward-looking cost of providing basic local telecommunications service pursuant to Section 364.025(4)(b), Florida Statutes?

Position: The BCPM 3.1 model is the appropriate cost proxy model to determine the total forward-looking cost of providing basic local telecommunications service.

Issue 3: For purposes of determining the cost of basic local telecommunications service appropriate for establishing a permanent universal service mechanism, should the total forward-looking cost of basic local telecommunications service pursuant to Section 364.025(4)(b), Florida Statutes, be determined by a cost proxy model on a basis smaller than a wire center? If so, on what basis should it be determined?

Position: Initially, the cost should be calculated at the wire center level. The goal should be to eventually move the basis of support calculations to a smaller geographic area.

Issue 4: For purposes of determining the cost of basic local telecommunications service appropriate for establishing a permanent universal service mechanism, for each of the following categories what input values to the cost proxy model identified in Issue 2 are appropriate for each Florida LEC?

- (a) Depreciation rates
- (b) Cost of money
- (c) Tax rates
- (d) Supporting structures
- (e) Structure sharing factors
- (f) Fill factors
- (g) Manholes
- (h) Fiber cable costs
- (i) Copper cable costs
- (j) Drops
- (k) Network interface devices
- (l) Outside plant mix
- (m) Digital loop carrier costs
- (n) Terminal costs
- (o) Switching costs and associated variables
- (p) Traffic data
- (q) Signaling system costs
- (r) Transport system costs and associated variables
- (s) Expenses
- (t) Other inputs

Position: The appropriate input values are the Florida specific values proposed by BellSouth. These values are contained in the BCPM 3.1 model attached to the testimony of D. Daonne Caldwell. Page numbers referenced are the Bate Stamped page numbers.

- (a) Depreciation rates - page 258
- (b) Cost of money - page 251
- (c) Tax rates - pages 251, 255
- (d) Supporting structures - pages 191-235, 241

- (e) Structure sharing factors - pages 191-235, 244-245
- (f) Fill factors - pages 166 and 251
- (g) Manholes - pages 236-240
- (h) Fiber cable costs - pages 176-180
- (i) Copper cable costs - 180.1-180.15
- (j) Drops - pages 171-175
- (k) Network interface devices - pages 171-175
- (l) Outside plant mix - pages 242-243
- (m) Digital loop carrier costs - page 246
- (n) Terminal costs - pages 181-185
- (o) Switching costs and associated variables - pages 161-169, 257
- (p) Traffic data - pages 161, 163-165
- (q) Signaling system costs - page 170
- (r) Transport system costs and associated variables - pages 247-249
- (s) Expenses - pages 252-254
- (t) Other inputs - pages 250-251

Issue 5: (a) For purposes of determining the cost of basic local telecommunications service appropriate for establishing a permanent universal service mechanism, for which Florida local exchange companies must the cost of basic local telecommunications service be determined using the cost proxy model identified in Issue 2?

(b) For each of the LECs identified in (a), what cost results from using the input values identified in Issue 4 in the cost proxy model identified in Issue 2?

Position: (a) The BCPM 3.1 model should be used to determine the cost of basic local telecommunications service for the non-rural local exchange companies in Florida, i.e., BellSouth, Sprint and GTE.

(b) The forward-looking costs for BellSouth by wire center from the BCPM 3.1 model are located in Exhibit PFM-1 attached to Mr. Peter Martin's direct testimony.

- Issue 6:** (a) For purposes of determining the cost of basic local telecommunication service appropriate for establishing a permanent universal service mechanism, should the cost of basic local telecommunications service for each of the LECs that serve fewer than 100,000 access lines be computed using the cost proxy model identified in Issue 2 with the input values identified in Issue 4?
- (b) If yes, for each of the LECs that serve fewer than 100,000 access lines, what cost results from using the input values identified in Issue 4 in the cost proxy model identified in Issue 2?
- (c) If not, for each of the Florida LECs that serve fewer than 100,000 access lines, what approach should be employed to determine the cost of basic local telecommunications service and what is the resulting cost?

Position: (a) No.

(b) Not applicable.

(c) Embedded costs should be used to determine the cost of basic local telecommunications service for rural local exchange companies.

E. Stipulations

There are no stipulations of which BellSouth is aware.

F. Pending Motions

BellSouth has filed a Motion to Compel Production from AT&T, which is pending at this time.

G. Other Requirements

BellSouth knows of no requirement set forth in any prehearing order with which it cannot comply.

Respectfully submitted this 10th day of September, 1998.

BELLSOUTH TELECOMMUNICATIONS, INC.

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**CERTIFICATE OF SERVICE
DOCKET NO. 980696-TP (HB4785)**

I HEREBY CERTIFY that a true and correct copy of the foregoing was served via Federal Express this 10th day of September, 1998 to the following:

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