

McWHIRTER REEVES
ATTORNEYS AT LAW

TAMPA OFFICE:
400 NORTH TAMPA STREET, SUITE 2450
TAMPA, FLORIDA 33602
P. O. BOX 3350 TAMPA, FL 33601-3350
(813) 224-0866 (813) 221-1854 FAX

PLEASE REPLY TO:

TALLAHASSEE

TALLAHASSEE OFFICE:
117 SOUTH GADSDEN
TALLAHASSEE, FLORIDA 32301
(850) 222-2525
(850) 222-5606 FAX

April 12, 2002

VIA HAND DELIVERY

Blanca S. Bayo, Director
Division of Records and Reporting
Betty Easley Conference Center
4075 Esplanade Way
Tallahassee, Florida 32399-0870

Re: Docket No.: 990649B-TP

Dear Ms. Bayo:

On behalf of Z-Tel Communications, Inc., I am enclosing the original and 15 copies, and a disc of the Z-Tel Communications, Inc.'s Prehearing Statement.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and pleading by returning the same. Thank you for your assistance in this matter.

Thank you for your assistance in this matter.

Yours truly,



Joseph A. McGlothlin

JAM/mls
Enclosure

DOCUMENT NUMBER - DATE

04124 APR 12 2002

FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation into)
pricing of unbundled network)
elements (Sprint/Verizon track))
_____)

Docket No. 990649B-TP

Filed: April 12, 2002

PREHEARING STATEMENT OF Z-TEL COMMUNICATIONS, INC.

Pursuant to Order No. PSC-01-1592-PCO-TP, Z-Tel Communications, Inc. ("Z-Tel") files its Prehearing Statement.

A. APPEARANCES:

On Behalf of Z-Tel Communications, Inc.:

JOSEPH A. MCGLOTHLIN
McWhirter, Reeves, McGlothlin, Davidson,
Decker, Kaufman, Arnold & Steen, P.A.
117 S. Gadsden Street
Tallahassee, FL 32301

B. WITNESS:

<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
Dr. George S. Ford	Level of Verizon's UNE rates; cost of capital inputs For Verizon and Sprint.	7(c), 9(a), 12(a)

C. EXHIBITS:

<u>Witness</u>	<u>Identification</u>	<u>Description</u>
Dr. George S. Ford	GSF-1	Cost of Short-Term Debt
Dr. George S. Ford	GSF-2	Yields on Treasury Bond and Aaa Public Utility Debt
Dr. George S. Ford	GSF-3	Elements of Short-

Dr. George S. Ford	GSF-4	Term Debt
Dr. George S. Ford	GSF-5	Cost of Debt
Dr. George S. Ford	GSF-6	Betas
Dr. George S. Ford	GSF-7	Market Risk Premium
		Implied Yield for Treasury Bond Futures
Dr. George S. Ford	GSF-8	Cost of Equity
Dr. George S. Ford	GSF-9	Capital Structure
Dr. George S. Ford	GSF-10	Weighted Average Cost of Capital
Dr. George S. Ford	GSF-11	HCPM Cost Estimates for BellSouth and Verizon
Dr. George S. Ford	GSF-SR1	Yield Averages, Yield Spreads and Yield Changes from March- May 2000
Dr. George S. Ford	GSF-SR2	Components of Short- Term Debt
Dr. George S. Ford	GSF-SR3	Regression Results
Dr. George S. Ford	GSF-SR4	Nominal GDP
Dr. George S. Ford	GSF-SR5	Choice of Comparables
Dr. George S. Ford	GSF-SR6	Financial Statistics for Regional Bell Companies and Others
Dr. George S. Ford	GSF-SR7	Inputs for the DCF Analysis
Dr. George S. Ford	GSF-SR8	Two-Stage DCF Results
Dr. George S. Ford	GSF-SR9	Comparison of Betas
Dr. George S. Ford	GSF-SR10	Average RBOC Beta Over Time and Beta Coefficient of Variation Over Time
Dr. George S. Ford	GSF-SR11	Weighted Average Cost of Capital for Verizon and Sprint
Dr. George S. Ford	GSF-SR12	HCPM Cost Estimates For BellSouth and Verizon

D. STATEMENT OF BASIC POSITION:

Based on the limited resources available to them, ALECs must be selective of the markets they enter. For that reason, there is a growing degree of “competition” among states that want meaningful customer choice for the efforts of ALECs. In addition to violating the applicable legal standard, absurdly high UNE rates would create a barrier to market entry and lead resource-conscious ALECs to concentrate on other, more financially attractive markets.

Verizon’s proposed rates do not pass a sanity test. The sanity test, derived from the FCC’s “TELRIC test” or “benchmark test” that is used extensively to validate TELRIC compliance of UNE rates in the agency’s review of 271 applications, is based on the sensible proposition that, since UNE rates are to be cost-based, there should be a consistent relationship between costs and UNE rates. A comparison of the costs of Verizon and BellSouth to provide UNEs, uniformly measured, shows that *Verizon’s costs of providing UNEs are no higher than BellSouth’s*. Yet, Verizon’s proposed rates far exceed those approved by this Commission for BellSouth. While Z-Tel does not contend that the FCC’s cost model – an important tool used for the TELRIC Test -- Z-Tel asserts that the sanity test renders Verizon’s proposed rates facially suspect.

In computing UNE rates, the cost of capital is an important element of the cost studies in which small changes can materially alter most UNE rates. The cost of capital analyses in this phase of the proceedings should follow the well-reasoned cost of capital analysis that this Commission developed and adopted in the BellSouth phase of this proceeding. Applying the cost of capital analysis earlier, the cost of capital for Verizon and Sprint should fall in the range of 8.0% to 8.5%, with Sprint’s cost of capital possibly being slightly higher than Verizon’s.

E. STATEMENT OF ISSUES AND POSITIONS:

Issue 1: What factors should the Commission consider in establishing rates and charges for UNEs (including deaveraged UNEs and UNE combinations)?

Z-TEL: While Z-Tel does not suggest that it be used to set the absolute value of rates, Z-Tel recommends that the Commission take into account the sanity test formulated by Dr. George Ford. The test examines the relationship between the costs of BellSouth and Verizon to provide UNE rates, as measured by publicly available output reports of the FCC's HCPM cost model, on the one hand, and the rates in effect for BellSouth and the rates proposed by Verizon, on the other. Verizon, which has costs roughly similar to those of Bellsouth, has not justified proposed rates that are so very far above those approved by the Commission for BellSouth. The disparity in UNE rates between BellSouth-Florida and Verizon-Florida simply does not compute.

Issue 2: (a) What is the appropriate methodology to deaverage UNEs and what is the appropriate rate structure for deaveraged UNEs?

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

(b) For which of the following UNEs should the Commission set deaveraged rates?

- (1) loops (all);
- (2) local switching;
- (3) interoffice transport (dedicated and shared);
- (4) other (including combinations).

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

Issue 3: (a) What are xDSL capable loops?

(b) Should a cost study for xDSL-capable loops make distinctions based on loop length and/or the particular DSL technology to be deployed?

Z-TEL: No position.

Issue 4: (a) Which subloop elements, if any, should be unbundled in this proceeding, and how should prices be set?

(b) How should access to such subloop elements be provided, and how should prices be set?

Z-TEL: No position.

Issue 5: For which signaling networks and call-related databases should rates be set?

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

Issue 6: Under what circumstances, if any, is it appropriate to recover non-recurring costs through recurring rates?

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

Issue 7: What are the appropriate assumptions and inputs for the following items to be used in the forward-looking recurring UNE cost studies?

(a) network design (including customer location assumptions);

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

(b) depreciation;

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

(c) cost of capital;

Z-Tel: As to Issue 7(c), Z-Tel contends that the Commission should reject the cost of capital proposed by Verizon and Sprint. The Commission should look to harmonize its decision in the BellSouth track with that of this proceeding when calculating the appropriate cost of capital to be used when setting UNE rates. At a minimum, the Commission should not violate the principles it set forth for estimating the cost of capital in the BellSouth track. Based on the application of the same Commission methodology used earlier in this proceeding, Sprint and Verizon's cost of capital should fall in the range of 8.0% to 8.5%, with Sprint's cost of capital possibly being slightly higher than Verizon's.

(d) tax rates;

Z-TEL: No position.

(e) structure sharing;

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

(f) structure costs;

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

(g) fill factors;

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

(h) manholes;

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

(i) fiber cable (material and placement costs);

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

(j) copper cable (material and placement costs);

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

(k) drops;

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

(l) network interface devices;

Z-TEL: No position.

(m) digital loop carrier costs;

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

(n) terminal costs;

Z-TEL: No position.

(o) switching costs and associated variables;

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

(p) traffic data;

Z-TEL: No position.

(q) signaling system costs;

Z-TEL: No position.

- (r) transport system costs and associated variables;

Z-TEL: No position.

- (s) loadings;

Z-TEL: No position.

- (t) expenses;

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

- (u) common costs;

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

- (v) other.

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

Issue 8: What are the appropriate assumptions and inputs for the following items to be used in the forward-looking non-recurring UNE cost studies?

- (a) network design;
- (b) OSS design;
- (c) labor rates;
- (d) required activities;
- (e) mix of manual versus electronic activities;
- (f) other.

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

Issue 9: (a) What are the appropriate recurring rates (averaged or deaveraged as the case may be) and non-recurring charges for each of the following UNEs?

- (1) 2-wire voice grade loop;
- (2) 4-wire analog loop;
- (3) 2-wire ISDN/IDSL loop;
- (4) 2-wire xDSL-capable loop;
- (5) 4-wire xDSL-capable loop;

- (6) 4-wire 56 kbps loop;
- (7) 4-wire 64 kbps loop;
- (8) DS-1 loop;
- (9) high capacity loops (DS3 and above);
- (10) dark fiber loop;
- (11) subloop elements (to the extent required by the Commission in Issue 4);
- (12) network interface devices;
- (13) circuit switching (where required);
- (14) packet switching (where required);
- (15) shared interoffice transmission;
- (16) dedicated interoffice transmission;
- (17) dark fiber interoffice facilities;
- (18) signaling networks and call-related databases;
- (19) OS/DA (where required).

Z-Tel: Z-Tel asserts that Verizon's proposed UNE rates are severely overstated. A "sanity test," derived from the FCC's TELRIC test, indicates Verizon's loop and switching rates should be no higher than the Commission-approved UNE rates for BellSouth.¹ An analysis using the FCC's HCPM model and outputs for BellSouth and Verizon shows that the cost for BellSouth and Verizon to provide UNEs in Florida are more alike than different. In fact, the cost of UNEs in Verizon's territory are typically less than in BellSouth's costs. Therefore, the rates that Verizon charges for UNEs should be similar to, or less than, that which BellSouth charges.

- (b) Subject to the standards of the FCC's Third Report and Order, should the Commission require ILECs to unbundle any other elements or combinations of elements? If so, what are they and how should they be priced?

Z-TEL: No position.

Issue 10: What is the appropriate rate, if any, for customized routing?

Z-TEL: No position.

Issue 11(a): What is the appropriate rate if any, for line conditioning, and in what situations should the rate apply?

Z-TEL: No position.

¹This is not to imply a view by Z-Tel that BellSouth's current rates are set at an appropriate level.

Issue 11(b): What is the appropriate rate, if any, for loop qualification information, and in what situations should the rate apply?

Z-TEL: No position.

Issue 12: Without deciding the situations in which such combinations are required, what are the appropriate recurring and non-recurring rates for the following UNE combinations:

- (a) “UNE platform” consisting of: loop (all), local (including packet, where required) switching (with signaling), and dedicated and shared transport (through and including local termination);

Z-Tel: Z-Tel asserts that Verizon’s proposed UNE rates are severely overstated. A “sanity test,” derived from the FCC’s TELRIC test, indicates Verizon’s loop and switching rates should be no higher than the Commission-approved UNE rates for BellSouth.² An analysis using the FCC’s HCPM model and outputs for BellSouth and Verizon shows that the cost for BellSouth and Verizon to provide UNEs in Florida are more alike than different. In fact, the cost of UNEs in Verizon’s territory are typically less than in BellSouth’s costs. Therefore, the rates that Verizon charges for UNEs should be similar to, or less than, that which BellSouth charges.

- (b) “extended links,” consisting of:

- (1) loop, DSO/1 multiplexing, DS1 interoffice transport;
- (2) DS1 loop, DS1 interoffice transport;
- (3) DS1 loop, DS1/3 multiplexing, DS3 interoffice transport.

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

Issue 13: When should the recurring and non-recurring rates and charges take effect?

Z-TEL: Z-Tel adopts the position of AT&T, WorldCom, and FDN.

F. STIPULATED ISSUES:

None.

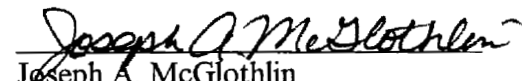
²This is not to imply a view by Z-Tel that BellSouth’s current rates are set at an appropriate level.

G. PENDING MOTIONS:

Prior to the Prehearing Conference, Z-Tel intends to file a Motion to Compel related to its Second Set of Interrogatories.

H. OTHER MATTERS:

None at this time.


Joseph A. McGlothlin
McWhirter, Reeves, McGlothlin, Davidson,
Decker, Kaufman, Arnold & Steen, P.A.
117 South Gadsden Street
Tallahassee, Florida 32301
(850) 222-2525 Telephone
(850) 222-5606 Telefax
jmcglothlin@mac-law.com

Attorney for Z-Tel Communications, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of Prehearing Statement of Z-Tel Communications, Inc. has on this 12th day of April 2002 been served (*) Hand Delivery, Email and U.S. Mail to the following:

(*)Jason K. Fudge
Florida Public Service Commission
Gerald L. Gunter Building
2540 Shumard Oak Blvd
Tallahassee, FL 32399-0850
jfudge@psc.state.fl.us

Nancy B. White
c/o Nancy H. Sims
BellSouth Telecommunications, Inc.
150 S. Monroe Street
Tallahassee, FL 32301

Claudia Davant
AT&T
101 S. Monroe Street, Suite 700
Tallahassee, FL 32301
cdavant@att.com

Kimberly Caswell
Verizon Select Services, Inc.
P.O. Box 110, FLTC0007
Tampa, FL 33601-0110
kimberly.caswell@verizon.com

Richard D. Melson
Gabriel E. Nieto
Hopping Green Sams & Smith, PA
Post Office 6526
123 S. Calhoun Street
Tallahassee, FL 32314
rickm@hgss.com

Floyd Self
Messer Caparello & Self
215 S. Monroe Street, Suite 701
Tallahassee, FL 32302-1876
fself@lawfla.com
thatch@lawfla.com

Marc Dunbar
Karem M. Camechic
Pennington Moore Wilkinson & Dunar, PA
215 S. Monroe Street, 2nd Floor
Tallahassee, FL 32301
Karen@penningtonlawfirm.com

Carolyn Marek
Vice President of Regulatory Affairs
Southeast Region
Time Warner Communications
233 Bramerton Court
Franklin, Tennessee 37069
Carolyn.Marek@twtelecom.com

Ann Shefler
1311 Executive Center Drive
Koger Center, Ellis Bldg, Suite 200
Tallahassee, FL 32301.5027
ashefler@supra.com

Donna Canzano McNulty
325 John Knox Road
The Atrium Bldg., Suite 105
Tallahassee, FL 32303
donna.mcnulty@wcom.com

Michael A. Gross
VP Reg. Affairs & Reg. Counsel
Florida Cable Telecomm. Assoc.
246 E. 6th Avenue
Tallahassee, FL 32303
mgross@fcta.com

Charles J. Rehwinkel
1313 Blair Stone Road
Tallahassee, FL 32301
charles.j.rehwinkel@mail.sprint.com

Brian Sulmonetti
6 Concourse Parkway, Suite 3200
Atlanta, GA 30328
Brian.Sulmonetti@wcom.com

William Weber
Covad Communications Company
10 Glenlak Parkway, Suite 650
Atlanta, GA 30328-3495
wweber@covad.com

Michael Sloan
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W., Suite 300
Washington, D.C. 20007-5116
mcsloan@swidlaw.com

Matthew Feil
Florida Digital Network, Inc.
390 N. Orange Avenue, Suite 2000
Orlando, FL 32801
mfeil@floridadigital.net

Rodney L. Joyce
Shook Hardy & Bacon, LLP
600 14th Street, N.W., Suite 800
Washington, DC 20005-2004
rjoyce@shb.com

Genevieve Morelli
Eric Johnson
Jonathan Canis
Michael Hazzard
Kelley Drye and Warren, LLP
1200 19th St, N.W., Fifth Floor
Washington, DC 20036
gmorelli@kelleydrye.com

George S. Ford
Z-Tel Communications, Inc.
601 South Harbour Island Blvd
Tampa, FL 33602
gford@z-tel.com

Virginia Tate
1200 Peachtree Street, Suite 8068
Atlanta, GA 30309
vctate@att.com

Charles Pellegrini
Patrick Wiggins
Katz, Kutter Law Firm
106 East College Avenue, 12th Floor
Tallahassee, FL 32301
cjpellegrini@katzlaw.com
pkwiggins@katzlaw.com

Don Sussman
Three Dulles Tech Center
13650 Dulles Technology Drive
Herndon, VA 20171-4602
dsussman@nas-corp.com

John P. Fons
Jeffrey Wahlen
Ausley Law Firm
P.O. Box 391
Tallahassee, FL 32302
jfons@ausley.com
jwahlen@ausley.com


Joseph A. McGlothlin