

HOPPING GREEN SAMS & SMITH
PROFESSIONAL ASSOCIATION
ATTORNEYS AND COUNSELORS

123 SOUTH CALHOUN STREET
POST OFFICE BOX 6526
TALLAHASSEE, FLORIDA 32314

(904) 222-7500
FAX (904) 224-8551
FAX (904) 425-3415

Writer's Direct Dial No.
(904) 425-2313

November 27, 1996

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JAMES S. ALVES
BRIAN H. BIBEAU
KATHLEEN BLIZZARD
ELIZABETH C. BOWMAN
RICHARD S. BRIGHTMAN
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RALPH A. DeMEO
THOMAS M. DeROSE
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DAVID L. POWELL
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MICHAEL P. PETROVICH
R. SCOTT RUTH
W. STEVE SYKES
T. KENT WETHERELL, II
OF COUNSEL
W. ROBERT FOKES

Ms. Blanca S. Bayó
Director, Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket 961230-TP

Dear Ms. Bayó:

Enclosed for filing on behalf of MCI Telecommunications Corporation and MCImetro Access Transmission Services, Inc. (collectively, "MCI") are the original and 15 copies of the rebuttal testimony of Don Wood.

By copy of this letter, this document has been furnished to the parties on the attached service list.

Very truly yours,

Richard D. Melson

- ACK _____
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DOCUMENT NUMBER-DATE
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SUPPLEMENTAL REBUTTAL TESTIMONY OF
DON J. WOOD
ON BEHALF OF MCI
DOCKET NO. 961230-TP
NOVEMBER 27, 1996

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Don J. Wood. My business address is 914 Stream Valley Trail,
Alpharetta, Georgia 30202.

Q. ARE YOU THE SAME DON WOOD WHO PREVIOUSLY FILED DIRECT
AND REBUTTAL TESTIMONY IN THIS DOCKET?

A. Yes.

Q. WHAT IS THE PURPOSE OF THIS SUPPLEMENTAL REBUTTAL?

A. This rebuttal responds to the supplemental direct testimony filed by Mssrs.
Hunsucker, Dunbar and Farrar which contain the results of Sprint's cost studies.

Q. PLEASE COMMENT ON THE APPROACH USED BY VERSION 2 OF THE
BENCHMARK COST MODEL (BCM2) TO ESTIMATE LOOP COSTS.

A. There are several features of Version 2 of the Benchmark Cost Model (BCM2)
that result in high or inaccurate loop cost estimates.

First, BCM2 assumes that feeder cable generally ends at the edge of the Census
Block Groups (CBGs). This assumption arbitrarily inflates capital costs.

1 Substituting feeder cable for distribution cable within the CBG boundary would
2 be a more economical alternative.

3
4 Second, BCM2 assumes that all digital loop carrier facilities will use "non-
5 integrated" technology. This assumption ignores the fact that efficient, forward-
6 looking practices would dictate the use of next-generation integrated digital loop
7 carrier technology in many circumstances. The next-generation IDLC
8 technology reduces costs by avoiding the need for digital to analog conversions.

9
10 Third, BCM2 improperly lumps buried and underground cable investments
11 together, rather than modeling each type of investment separately.

12
13 Fourth, BCM2 uses multipliers to estimate structure costs as a function of cable
14 costs. The use of multipliers for this purpose incorrectly assumes that structure
15 costs vary directly with the price of cable.

16
17 Fifth, BCM2 assumes no sharing of the costs of structures with other utility
18 providers, thereby overstating the telephone company investment in these
19 facilities.

20

21 Q. PLEASE COMMENT ON THE APPROACH USED BY BCM2 TO
22 ESTIMATE INTEROFFICE INVESTMENTS.

23 A. This is an example of BCM2's use of crude multipliers to determine many
24 significant costs. BCM2 estimates interoffice investment by simply applying a

1 three percent factor to all other investments, rather than estimating those costs
2 based relevant cost factors, such as the amount of traffic between wire centers.

3

4 Q. IS THERE A PROBLEM WITH THE WAY THAT BCM2 DEVELOPS AND
5 USES ANNUAL COST FACTORS?

6 A. Yes. The investment-related cost factors used in BCM2 include: a) return on
7 investment, b) federal, state, and local taxes, c) plant-specific investments, d)
8 plant non-specific investments, and e) depreciation/amortization. However,
9 BCM2 does not provide separate user-adjustable inputs for each of these factors.
10 Instead, it simply collapses these distinct cost elements into three single-factor
11 multipliers for cable and wire investment, circuit equipment investment, and
12 switching equipment investment. This approach makes it impossible for the user
13 of the model to test the sensitivity of the model to changes in a specific factor,
14 such as the assumed rate of return on investment.

15

16 Q. WHAT OTHER PROBLEMS HAVE YOU NOTED WITH BCM2'S ANNUAL
17 COST FACTORS?

18 A. One major problem is that the annual cost factors are developed using
19 embedded, historical costs. This is not appropriate for a forward-looking cost
20 study.

21

22 Q. WHAT ABOUT BCM2'S ESTIMATE OF NON-INVESTMENT RELATED
23 PER-LINE EXPENSES?

24 A. As I noted in my rebuttal testimony, BCM2 uses a figure of \$133.39 per line to
25 reflect expenses which vary according to the number of lines served. There was

1 no documentation for this amount in Sprint's direct testimony, and none has
2 been provided in the supplemental direct testimony. It is thus impossible to
3 determine the validity of this estimate.

4

5 Q. CAN YOU COMMENT ON THE OVERALL LEVEL OF COSTS
6 INCLUDED IN SPRINT'S SO-CALLED TELRIC COST STUDIES?

7 A. Mr. Farrar's supplemental testimony states that the majority of expenses
8 identified as "shared" in his direct testimony have now been treated as "other
9 direct operating expenses" attributable to network elements, and have been
10 included as a component of the annual cost factors used in his so-called TELRIC
11 studies.

12

13 Sprint has not provided sufficient detail on the development of these factors, or
14 its common cost factor, to permit a definitive conclusion, but it appears that
15 Sprint's approach is designed to tie total costs back to its current revenue
16 requirement. This is inappropriate in what purports to be a forward looking
17 cost study.

18

19 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

20 A. Yes, it does.

21

22

23

24

25

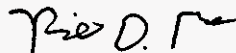
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing was furnished to the following parties by hand delivery or by UPS Overnight Delivery (*) this 26th day of November, 1996.

Jerry M. Johns (*)
United Telephone Co. of Fla.
Central Telephone Co. of Fla.
555 Lake Border Drive
Apopka, FL 32703

John P. Fons
J. Jeffry Wahlen
Ausley & McMullen
227 S. Calhoun Street
Tallahassee, FL 32301

Martha Carter Brown
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399



Attorney