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Legal Department

J. PHILLIP CARVER
General Attorney

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BellSouth Telecommunications, Inc.
150 South Monroe Street
Room 400
Tallahassee, Florida 32301
(404) 335-0710

RECORDS AND
REPORTING

September 2, 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

Dear Ms. Bayó:

Enclosed is an original and fifteen copies of BellSouth Telecommunications, Inc.'s Rebuttal Testimony of Dr. Randall S. Billingsley, Dr. Robert M. Bowman, D. Daonne Caldwell, G. David Cunningham, Dr. Kevin Duffy-Deno, Georgetown Consulting Group, Peter F. Martin and Dr. William E. Taylor, which we ask that you file in the captioned matter.

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,

J. Phillip Carver
J. Phillip Carver (ps)

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Enclosures

cc: All parties of record
A. M. Lombardo
R. G. Beatty
William J. Ellenberg II (w/o enclosures)

Broman Caldwell

Cunningham

Duffy-Deno

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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 2nd day of September, 1998 to the following:

Jack Shreve, Esquire
Charles Beck, Esquire
Office of Public Counsel
c/o The Florida Legislature
111 W. Madison Street, Rm. 812
Tallahassee, Florida 32399-1400
Tel. No. (850) 488-9330
Fax. No. (850) 488-4491

Michael Gross, Esquire (+)
Assistant Attorney General
Office of the Attorney General
PL-0 1 The Capitol
Tallahassee, Florida 32399-1050
Tel. No. (850) 414-3300
Fax. No. (850) 488-6589

Hand Deliveries:
The Collins Building
107 West Gaines Street
Tallahassee, FL 32301

Tracy Hatch, Esquire (+)
AT&T
101 N. Munroe Street, Suite 700
Tallahassee, Florida 32301
Tel. No. (850) 425-6364
Fax. No. (850) 425-6361

Richard D. Nelson, Esquire
Hopping, Green, Sams & Smith, P.A.
123 South Calhoun Street
Tallahassee, Florida 32314
Tel. No. (850) 425-2313
Fax. No. (850) 224-8551
Atty. for MCI

Thomas K. Bond
MCI Metro Access Transmission
Services, Inc.
780 Johnson Ferry Road
Suite 700
Atlanta, GA 30342
Tel. No. (404) 267-6315
Fax. No. (404) 267-5992

Robert M. Post, Jr.
ITS
16001 S.W. Market Street
Indiantown, FL 34956
Tel. No. (561) 597-3113
Fax. No. (561) 597-2115

Charles Rehwinkel
Sprint-Florida, Inc.
1313 Blair Stone Road,
MC FLTHOO 107
Tallahassee, Florida 32301
Tel. No. (850) 847-0244
Fax. No. (850) 878-0777

Carolyn Marek
VP-Regulatory Affairs
S.E. Region
Time Warner Comm.
2828 Old Hickory Boulevard
Apt. 713
Nashville, TN 37221
Tel. No. (615) 673-1191
Fax. No. (615) 673-1192

Norman H. Horton, Jr., Esquire (+)
Messer, Caparello & Self P. A.
215 South Monroe Street
Suite 701
Tallahassee, Florida 32301
Tel. No. (850) 222-0720
Fax. No. (850) 224-4359
Represents e.spire™

David B. Erwin, Esquire
Attorney-at-Law
127 Riversink Road
Crawfordville, Florida 32327
Tel. No. (850) 926-9331
Fax. No. (850) 926-8448
Represents GTC, Frontier,
ITS and TDS

Floyd R. Self, Esquire
Messer, Caparello & Self, P.A.
215 South Monroe Street
Suite 701
Tallahassee, FL 32301
Tel. No. (850) 222-0720
Fax. No. (850) 224-4359
Represents WorldCom

Patrick Wiggins, Esquire
Donna L. Canzano, Esquire (+)
Wiggins & Villacorta
2145 Delta Blvd.
Suite 200
Tallahassee, Florida 32302
Tel. No. (850) 385-6007
Fax. No. (850) 385-6008

Kimberly Caswell, Esquire
GTE Florida Incorporated
201 North Franklin Street
16th Floor
Tampa, Florida 33602
Tel. No. (813) 483-2617
Fax. No. (813) 204-8870

Jeffry J. Wahlen, Esquire
Ausley & McMullen
227 South Calhoun Street
Tallahassee, Florida 32301
Tel. No. (850) 425-5471 or 5487
Fax. No. (850) 222-7560
Represents ALLTEL, NEFTC,
and Vista-United

Tom McCabe
TDS Telecom
107 West Franklin Street
Quincy, FL 32351
Tel. No. (850) 875-5207
Fax. No. (850) 875-5225

Peter M. Dunbar, Esquire
Barbara D. Auger, Esquire
Pennington, Moore, Wilkinson,
& Dunbar, P. A.
215 South Monroe Street
2nd Floor
Tallahassee, Florida 32301
Tel. No. (850) 222-3533
Fax. No. (850) 222-2126

Brian Sulmonetti
WorldCom, Inc.
1515 South Federal Highway
Suite 400
Boca Raton, FL 33432
Tel. No. (561) 750-2940
Fax. No. (561) 750-2629

Kelly Goodnight
Frontier Communications
180 South Clinton Avenue
Rochester, New York 14646
Tel. No. (716) 777-7793
Fax. No. (716) 325-1355

Laura Gallagher (+)
VP-Regulatory Affairs
Florida Cable Telecommunications
Association, Inc.
310 N. Monroe Street
Tallahassee, Florida 32301
Tel. No. (850) 681-1990
Fax. No. (850) 681-9676

Mark Ellmer
GTC Inc.
502 Fifth Street
Port St. Joe, Florida 32456
Tel. No. (850) 229-7235
Fax. No. (850) 229-8689

Steven Brown
Intermedia Communications, Inc.
3625 Queen Palm Drive
Tampa, Florida 33619-1309
Tel. No. (813) 829-0011
Fax. No. (813) 829-4923

Harriet Eudy
ALLTEL Florida, Inc.
206 White Avenue
Live Oak, Florida 32060
Tel. No. (904) 364-2517
Fax. No. (904) 364-2474

Lynne G. Brewer
Northeast Florida Telephone Co.
130 North 4th Street
Macclenny, Florida 32063
Tel. No. (904) 259-0639
Fax. No. (904) 259-7722

James C. Falvey, Esquire
e.spire™ Comm. Inc.
133 National Business Pkwy.
Suite 200
Annapolis Junction, MD 20701
Tel. No. (301) 361-4298
Fax. No. (301) 361-4277

Lynn B. Hall
Vista-United Telecomm.
3100 Bonnet Creek Road
Lake Buena Vista, FL 32830
Tel. No. (407) 827-2210
Fax. No. (407) 827-2424

William Cox
Staff Counsel
Florida Public Svc. Comm.
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
Tel. No. (850) 413-6204
Fax. No. (850) 413-6250

Suzanne F. Summerlin, Esq.
1311-B Paul Russell Road
Suite 201
Tallahassee, FL 32301
Tel. No. (850) 656-2288
Fax. No. (850) 656-5589

Kenneth A. Hoffman, Esq. (+)
John R. Ellis, Esq.
Rutledge, Eckenis, Underwood,
Purnell & Hoffman, P.A.
215 South Monroe Street
Suite 420
Tallahassee, FL 32301-1841
Tel. No. (850) 681-6788
Fax. No. (850) 681-6515

Paul Kouroupas
Michael McRae, Esq.
Teleport Comm. Group, Inc.
2 Lafayette Centre
1133 Twenty-First Street, N.W.
Suite 400
Washington, D.C. 20036
Tel. No. (202) 739-0032
Fax. No. (202) 739-0044

Joseph A. McGlothlin
Vicki Gordon Kaufman
McWhirter, Reeves, McGlothlin,
Davidson, Rief & Bakas, P.A.
117 South Gadsden Street
Tallahassee, FL 32301
Tel. No. (850) 222-2525



J. Phillip Carver

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1
2
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8
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BELLSOUTH TELECOMMUNICATIONS, INC.
REBUTTAL TESTIMONY OF D. DAONNE CALDWELL
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 980698-TP
SEPTEMBER 2, 1998

Q. Please state your name, occupation and address.

A. My name is D. Daonne Caldwell. I am a Director in the Finance Department of BellSouth Telecommunications, Inc. (hereinafter referred to as "BellSouth" or "the Company"). My area of responsibility relates to economic costs. My business address is 675 W. Peachtree St., N.E., Atlanta, Georgia, 30375.

Q. Are you the same D. Daonne Caldwell who filed direct testimony in this docket?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to the direct testimonies of Joseph Gillan on behalf of the Florida Competitive Carriers Association,

1 Don Wood on behalf of AT&T and MCI, and James W. Wells, Jr. on
2 behalf of MCI Telecommunications Corporation.

3
4 Q. On page 18 of his testimony, Mr. Gillian states that the same cost
5 analysis should be used to determine universal service subsidy
6 and to establish network element prices. Do you agree?

7
8 A. No. While I agree that the relevant standard for both studies should be
9 forward-looking, least cost technology, I do not agree that one cost
10 analysis can accurately determine the cost of both universal service
11 and unbundled network elements (UNEs). While there is nothing
12 wrong with using one model for both UNE costing and universal service
13 costing if the model accurately identifies costs for each, I know of no
14 model that currently provides such flexibility. UNEs are wholesale
15 network elements while universal service is just that -- a retail service.
16 By their very nature, the costs of UNEs are very different than the costs
17 of a retail service. While BellSouth does not use one model to
18 calculate both UNE costs and universal service costs, consistent
19 methodology has been used in calculating the costs of both UNEs and
20 universal service. Both studies are forward-looking in nature and
21 employ consistent inputs. When two models using consistent inputs
22 produce costs for UNEs and universal service more accurately than
23 one model, there is no incentive to abandon accuracy provided by the
24 two just to have one inaccurate cost model.

25

1 Q. On page 5 of Don Wood's testimony, he states that Kentucky and
2 Louisiana have selected the HAI Model for universal service
3 funding. Please comment.
4

5 A. It is true that the Kentucky and Louisiana Commissions chose the HAI
6 Model for universal service funding. However, Mr. Wood fails to
7 mention that while selecting the HAI Model, both Commissions rejected
8 the values proposed by the HAI sponsors for the significant cost drivers
9 in the model. For example, the Kentucky Commission Order in
10 Administrative Case No. 360 found that "some of the inputs that are
11 used in the default version of the HAI Model are reasonable and
12 accurate. Others will be changed to reflect the conditions in
13 Kentucky..." (emphasis added). While choosing the HAI Model as the
14 platform, the Kentucky Commission chose HAI Model input values filed
15 by the Georgetown Consulting Group on behalf of BellSouth as the
16 most appropriate values for the significant cost drivers. This, of course
17 radically changed the outputs from those that were yielded by the use
18 of the Hatfield default inputs. The Georgetown Consulting Group has
19 also filed rebuttal testimony in this docket which discusses why the HAI
20 Model's national default inputs as proposed by AT&T and MCI are
21 inappropriate. Examples of Georgetown Consulting Group's input
22
23
24
25

1 values selected by the Kentucky Commission in lieu of the HAI default
2 values are:

3 Distribution Cable Investments, Fiber Feeder Investments,
4 Copper Feeder Investments, Underground and Buried
5 Excavation Costs, Aerial and Buried Drop Placement Costs,
6 Outdoor Serving Area Interfaces Investments, Copper and Fiber
7 Feeder Fill Factors, Buried Cable Jacket Multiplier, Network
8 Interface Device Costs, Digital Loop Carrier Costs.
9

10
11 Furthermore, the Kentucky Commission adopted the HAI Model with
12 the following footnote,

13 "The Commission acknowledges that universal service models
14 will continue to evolve while the FCC continues to investigate
15 crucial aspects of model design and the model developers
16 continue their work. Therefore, the Commission may, in the
17 future, reconsider its decision of the model to be used."
18

19 This is certainly less than the ringing endorsement implied by Mr.
20 Wood.

21
22 The Louisiana Commission, in Docket U-20883 (Subdocket A) also
23 selected the HAI Model as its platform for determining universal service
24 costs. However, the Commission not only rejected the HAI default
25

1 input values for all of the significant cost drivers, but then made
2 "adjustments" to the output of the HAI Model even when used with the
3 Commission's input values. In other words, while on the surface
4 "selecting" the HAI Model, the Louisiana Commission in reality did not
5 accept the model's output even when used with their own input values!
6 Again, the "bottom line" result was drastically different than what was
7 advocated by the Hatfield proponents in the case.
8

9
10 Not surprisingly, Mr. Wood does not mention that the BCPM 3.1 was
11 selected over the HAI Model in two other states in BellSouth's region.
12 North Carolina, in its 4/20/98 Order, concluded that "the BCPM 3.1 is
13 more reasonable, more accessible, and more appropriate than the
14 Hatfield [HAI] Model for determining the forward-looking economic cost
15 of providing universal service in North Carolina." In its May 6, 1998
16 Order, the South Carolina Public Service Commission stated: "after
17 careful consideration of the evidence presented on this subject, the
18 Commission concludes that BCPM 3.1's network design is superior to
19 HM 5.0a's" and adopted the BCPM 3.1 as the universal service model
20 for that state.
21

22
23
24 **Q. Mr. Wells spends a great deal of time in his testimony discussing**
25 **the HAI OSP Engineering Team. How does the process utilized by**

1 **this team differ from the process BellSouth utilized in establishing**
2 **input values?**

3
4 **A.** BellSouth's BCPM 3.1 cost inputs are based on actual experience in
5 terms of material prices paid and actual labor costs incurred by
6 BellSouth. These actual costs have been projected forward, to include
7 adjustments for inflation/deflation as well as productivity improvements,
8 to reflect the forward-looking economic costs, of providing service to
9 customers in BellSouth's Florida territory. While the HAI Model OSP
10 Engineering Team certainly has a number of years of experience, no
11 one, regardless of experience, can better estimate the costs of
12 providing service in BellSouth's territory in Florida than BellSouth's own
13 engineers and BellSouth's own actual cost records. As Mr. Wells
14 admits on page 12 of his testimony, "The input values to the HAI Model
15 were derived directly from the judgment of the OSP Engineering
16 Team." (emphasis added). In other words, the HAI input values are
17 based on their team's opinions as to what costs should be on a
18 nationwide basis in contrast to BellSouth's BCPM input values that
19 reflect real-world costs in Florida.

20
21
22 **Q.** On page 19 of his testimony, Mr. Wells states that HAI national
23 default OSP input values produce results appropriate for Florida.
24 Do you agree?

25

1 A. No. The Florida Public Service Commission, along with other
2 regulatory authorities in BellSouth territory, are well aware that costs
3 vary by state. For that reason, BellSouth typically files state-specific
4 costs in support of tariff filings. A prime example of this is the Florida-
5 specific UNE costs filed by BellSouth. Varying only a few categories of
6 the one thousand plus HAI Model national default user adjustable
7 input values will not produce Florida-specific results as Mr. Wells
8 implies. Specifically, AT&T has only modified national default HAI 5.0a
9 values in these input categories: depreciation lives and salvage, cost of
10 money parameters, an End Office Traffic Sensitive fraction input, and a
11 regional labor adjustment factor. On the other hand, BellSouth has
12 input over 10,000 BellSouth-specific input values into WCPM 3.1 which
13 result in a cost that is specific to BellSouth's territory in Florida.

14
15 Q. Mr. Wells recommends the use of a "best in class" approach to
16 selecting input values in which a company would determine the
17 "benchmark", or lowest cost provider of a particular item, and
18 then emulate that company's costs. Is this a realistic approach to
19 developing cost inputs?

20
21 A. Absolutely not. In reality, BellSouth awards master outside plant
22 contracts for a particular geographic area by evaluating the overall bids
23 submitted by outside plant engineering contractors for that area. The
24 contractor selected by BellSouth will be the one providing the best
25 overall contract proposal considering price, quality and ability to

1 provide the quantity needed by BellSouth in a timely manner. On any
2 given master contract, the selected contractor may not offer the lowest
3 price for each and every item in the contract, but does provide the best
4 overall value to BellSouth.

5
6 Mr. Wells' proposal can be looked at in two ways, neither of which is
7 realistic. One way of looking at Mr. Wells' proposal would result in
8 BellSouth working with many, many different contractors on a single
9 job. For example, BellSouth would buy poles from one contractor who
10 offers the best material price for a pole, and purchase installation of the
11 poles from another vendor who offers a better price on the labor to
12 install the pole. Every job would require coordination with multiple
13 outside plant contractors providing various parts of the job. The
14 second way to interpret Mr. Well's proposal is to erroneously assume
15 that the one contractor who wins the bid to provide services to
16 BellSouth in a given area will offer the lowest price on every item of
17 plant.

18
19 Neither option is achievable. It is not realistic to expect to be able to
20 pick and choose the cheapest plant items among multiple contractors
21 within a given geographic area. Neither is it realistic to expect to ever
22 get one contractor to be the low cost provider on every item offered in a
23 contract. Therefore, Mr. Wells' proposal of a "best in class" approach
24 to establishing input values is not a realistic method for determining
25 cost study inputs that reflect real world, forward-looking costs.

1

2

3 **Q. Does this conclude your testimony?**

4

5 **A. Yes.**

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