

ORIGINAL

BELLSOUTH TELECOMMUNICATIONS, INC.

**REBUTTAL TESTIMONY OF
JOSEPH H. PAGE**

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

DOCKET NO. 990649-TP

(PHASE II)

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Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A. My name is Joseph H. Page. My business address is 675 W. Peachtree St., N.E., Atlanta, Georgia. I am a Manager in the Core Marketing Department of BellSouth Telecommunications, Inc. (hereinafter referred to as "BellSouth" or "the Company"). My current area of responsibility relates to pricing strategy.

Q. ARE YOU THE SAME JOSEPH H. PAGE WHO FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed direct testimony in this proceeding on behalf of BellSouth on May 1, 2000.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to respond to several issues raised by AT&T / MCI witness Ms. Pitts and Z-Tel witness Dr. Ford concerning the methodology and inputs used in the switching cost study. My testimony is organized as follows:

- Switching Cost Information System / Model Office (SCIS/MO) errors in Integrated Services Digital Network (ISDN) results.
- Assignment of switch processor Getting Started costs to features.

- 1 - Feature Usage Inputs.
- 2 - Feature Hardware Study.
- 3 - Switch discounts.
- 4 - Centrex Intercom usage costs.
- 5 - AT&T / MCI's proposed switching cost methodology.

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7 **SCIS/MO STUDY REVISIONS**

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9 **Q. DOES THE SCIS/MO 2.6.1B RELEASE USED FOR THE AUGUST 16,**
10 **2000, FILING CORRECT THE PROCESSING ERRORS**
11 **ASSOCIATED WITH ISDN THAT ARE ADDRESSED ON PAGES 7**
12 **AND 8 OF AT&T / MCI WITNESS MS. PITTS' TESTIMONY?**

13

14 A. Yes. The SCIS/MO now correctly computes investments for ISDN on DMS
15 RSC-S remotes. Although BellSouth did not encounter the error message
16 problems in SCIS/MO that Ms. Pitts describes, BellSouth did detect the
17 problem with the Minimum Investment per PRI. The Simplified Switching
18 Tool[®] (SST) model included in BellSouth's April 17, 2000 cost study filing
19 contained a formula adjustment that compensated for the Minimum
20 Investment per BRI problem. Since Telcordia has now corrected the
21 SCIS/MO model, the adjustment has been removed from the SST model
22 included in the August 16, 2000 cost filing. The corrected investments are
23 reflected in BellSouth's updated cost study. As a result, the restated ISDN
24 port investments in Mr. King's testimony are not relevant and should be

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1 disregarded.

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3 **SWITCH PROCESSOR COSTS FOR FEATURES**

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5 **Q. WHAT IS AT&T / MCI WITNESS MS. PITTS' POSITION**
6 **REGARDING THE ASSIGNMENT OF PROCESSOR COSTS TO**
7 **FEATURES?**

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9 A. On page 22, line 21 of her rebuttal testimony Ms. Pitts says "BellSouth's
10 presumption that features, because they use the processor, must pay for the
11 processor is misguided." On page 23, line 3 she claims that "feature usage
12 does not impact the level of getting started investment."

13

14 Ms. Pitts is wrong about this in at least two respects, both theoretical and
15 practical. She is incorrect in saying that "the processor, along with the rest
16 of the getting started cost of the switch is a fixed cost" (p. 23, line 2). One
17 fundamental principle of long-run costing is that the replacement of a large
18 "lumpy" investment, such as a switch processor, is advanced in time by
19 increased usage.

20

21 Aside from the theoretical flaws in Ms. Pitts' arguments, she ignores plentiful
22 evidence from the switch vendors themselves that features do affect the
23 useful capacity of a switch, and therefore will help determine the number and
24 type of switches that must be placed. Much of this documentation was
25 provided to AT&T by BellSouth in response to AT&T's First Production of
26 Documents, Request No. 14. For example, Exhibit JHP-01 to my testimony

1 has pages from Lucent Practice 235-900-133, Issue 3.00B, provided in
2 response to AT&T Request No. 14e, which show that the 5ESS switch has
3 capacity constraints in terms of the number of calls the switch can process in
4 the busy hour.
5
6

7 **Q. AT&T / MCI WITNESS MS. PITTS, ON PAGE 16 OF HER**
8 **TESTIMONY, CLAIMS "BELLSOUTH'S METHODOLOGY**
9 **ASSUMES THAT BOTH THE LUCENT AND NORTEL SWITCHES**
10 **PROCESS ALL FEATURE CALLS IN THE CENTRAL**
11 **PROCESSOR." DO YOU AGREE?**

12
13 A. No. In fact, the SST-U model algorithms recognize that the Lucent and
14 Nortel switches have different architectures and process calls differently.
15 Ms. Pitts has apparently misunderstood the SST-U model algorithms. The
16 SST uses a variable called "Processor Realtime (Milliseconds) per Call" that
17 represents the total realtime milliseconds available for call processing divided
18 by the vendor's stated call processing capacity for the switch. This variable is
19 reflected in the SST-U model, worksheet UNE Main, Column F, where it is
20 labeled an average number of milliseconds per call. Some calls may make
21 more use of the central processor, and some may make none, but this in no
22 way implies that every feature call must use the central processor.

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25 **Q. PLEASE EXPLAIN THE DIFFERENCES BETWEEN THE LUCENT**
26 **AND NORTEL SWITCHES IN TERMS OF PROCESSING FOR CALL**
27 **SETUP AND FEATURES.**

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A. The Lucent 5ESS[®] switch uses a distributive processing architecture, in which the Switch Modules (SMs) (the same modules that house line and trunk terminations) perform the bulk of call processing and vertical feature processing. The 5ESS[®] switch has two other processors, the Communications Module Processor (CMP) and the Administrative Module (AM), which perform call processing functions such as overall call routing, resource allocation, and billing¹.

The Nortel DMS-100[®] switch, by contrast, performs call and feature processing within a central switch processor.

Q. PLEASE EXPLAIN WHY BELLSOUTH AND SCIS/MO ARE JUSTIFIED IN ATTRIBUTING THE COSTS OF THE 5ESS[®] CMP AND AM TO FEATURE AND CALL PROCESSING.

A. The SCIS Model Office equations group the CMP and AM components together into the Getting Started cost category. As mentioned above, these components are responsible for maintaining the overall call processing flow and administrative functions of the switch. This is clear from Lucent's own documentation.

***** Begin Proprietary**

¹ Lucent Technologies Practice 235-900-113, Issue 3.00, Section 2.1.1.
² Lucent Technologies Practice 235-900-113, Product Specification 5E12 and Later Software Releases, Section 2.1.1.

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***** End Proprietary *****

Q. WHAT OTHER ERRORS DOES MS. PITTS MAKE REGARDING THE ASSIGNMENT OF PROCESSOR COST TO CALL PROCESSING AND FEATURES?

A. Ms. Pitts, on Page 17, footnote 18 of her rebuttal testimony, claims that "processors in digital switches do not limit the capacity of the switch, instead, switches are port limited..." There is abundant evidence that switches generally have three capacity limitations: ports, processor capacity, and minutes of use (MOU) capacity. The port is one of several limitations that may exist on a switch, but it is clearly not the only capacity limitation as Ms. Pitts claims. Lucent Practice 235-900-133, Issue 3.00B, clearly states that "The 5ESS[®] switch capacity is stated as rated call capacity" and that "the rated capacity of the 5ESS switch is ***** Begin Proprietary ***** ***** End Proprietary ***** equivalent plain old telephone service (POTS) calls per hour." The capacity constraint on these components is busy hour

1 calls, not lines as Ms. Pitts claims. Furthermore the vendor has separate
2 capacity statements for rural and metro offices, based on the fact that metro
3 offices have higher penetrations of vertical feature use (driven by business
4 customers). Note that the 5ESS, in the metro environment, has a rated
5 capacity of only *** Begin Proprietary *** *** End Proprietary
6 *** busy hour calls as a direct effect of feature use³. From the standpoint of
7 cost causality, it stands to reason that components whose purpose is to
8 manage call processing, and whose capacity constraints are stated by the
9 vendor in terms of call processing, should be assigned to calls, not line ports
10 as Ms. Pitts suggests.

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12

13 **Q. WHAT OTHER EVIDENCE DO YOU HAVE THAT CALL AND**
14 **VERTICAL FEATURE PROCESSING CAUSE ADDITIONAL COSTS**
15 **IN DIGITAL SWITCHES?**

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17 A. The FCC has considered this issue in the development of a forward-looking
18 cost model for use in the universal service high-cost support mechanism. In a
19 1997 Public Notice the FCC clearly specified that "the models' algorithms for
20 determining switch size should include switch capacity constraints based on
21 (1) number of lines; (2) number of busy-hour call attempts; and (3) busy-hour
22 traffic (measured in hundreds of call seconds)." ⁴ The FCC also notes that
23 the proponents of the Hatfield cost proxy model, AT&T and MCI, agree that

³ Lucent Technologies Practice 235-900-113, Section 2.1.1.

⁴ Guidance to Proponents of Cost Models in Universal Service Proceeding: Switching, Interoffice Trunking, Signaling, and Local Tandem Investment, Public Notice, CC Docket Nos. 96-45, 97-160, DA 97-1912, Sept. 3, 1997, page 3.

1 switches have these three capacity limitations.

2

3 The Hatfield Model evolved into the HAI model, of which AT&T and MCI
4 are also sponsors. The HAI model contains capacity constraints for call
5 processing, ports, and minutes of use. The HAI model, Release 5.1, also
6 includes a "Feature Loading Multiplier" which reflects "the amount by which
7 the load on a processor exceeds the load associated with ordinary telephone
8 calls, due to the presence of vertical features, Centrex, etc."⁵ The HAI Model
9 Version 5.1 includes an input of 600,000 Busy Hour Call Attempts (BHCA)
10 as a capacity constraint for switches over 40,000 lines (HAI Model 5.1 Inputs
11 Portfolio, page 4). My exhibit JHP-02 provides the HAI Model Release 5.1
12 BHCA constraints. The HAI Model also recognizes that call processing and
13 features can and do cause additional switch costs:

14

15 If the model determines that the load on a processor, calculated as
16 the number of busy hour call attempts times the processor feature
17 load multiplier, exceeds the switch real time limit multiplied by
18 the switch maximum processor occupancy, it will add a switch to
19 the wire center⁶.

20

21 Finally, the FCC incorporated the AT&T / MCI recommended switch
22 capacity constraint inputs into its November, 1999 Report and Order on input
23 values for the HCPM/HAI hybrid cost proxy model chosen for the universal

⁵ HAI Model Release 5.1 Inputs Portfolio, page 88. Filed by AT&T in Georgia Docket No. 10692-U, *Generic Proceeding to Establish Long-Term Pricing for Policies for Unbundled Network Elements*, June 11, 1999. AT&T filed this HAI methodology in support of its supposed rates for UNE combinations in that docket.

⁶ HAI Model Release 5.1 Inputs Portfolio, page 84.

1 service support mechanism⁷.

2

3 Based upon the plentiful evidence that switches are call-processing limited,
4 and features present an incremental operating load (and cost) to the switch
5 processors, Ms. Pitts' testimony to the contrary is uninformed and should be
6 disregarded.

7

8

9 **Q. HAS THIS COMMISSION ADDRESSED THE TREATMENT OF**
10 **FEATURE COSTS FOR UNES?**

11

12 A. Yes. In Order No. PSC-98-0604-FOF-TP, Dockets Nos. 960757-TP,
13 960833-TP, and 960846-TP, pages 154 – 159 the Commission considered the
14 same arguments from Ms. Pitts (then Ms. Petzinger) surrounding the
15 assignment of Getting Started costs to call processing and features. The
16 Commission's conclusion was that processor usage is an appropriate
17 component of the costs of vertical features:

18

19 The local usage rates that we set in Order No. PSC-96-1579-FOF-TP
20 included processor usage for vertical features. We believe that this is
21 consistent with the FCC's definition that all features, functions, and
22 capabilities of the switch are included with the switching element.

23

24

⁷ In the Matter of Federal-State Joint Board on Universal Service, Forward-Looking Mechanism for High-Cost Support for Non-Rural LECS, CC Dockets Nos. 96-45 and 97-160, Tenth Report and Order, November 2, 1999, Appendix A, Page A-11.

1 **FEATURE USAGE INPUTS**

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3 **Q. MS. PITTS TAKES ISSUE WITH THE BUSY HOUR CALL USAGE**
4 **INPUTS TO THE SST-U STUDY. PLEASE COMMENT ON HER**
5 **CONCLUSIONS.**

6
7 A. Ms. Pitts, in her admittedly "casual review" of the inputs (p. 18) apparently
8 misunderstands the methodology BellSouth used in developing busy hour call
9 usage. As explained in my May 1, 2000, direct testimony, BellSouth
10 compiled the busy hour calling rates for 56 features. The calling rates ranged
11 from *****Begin Proprietary*** ***End Proprietary***** busy hour
12 calls to *****Begin Proprietary*** ***End Proprietary***** busy hour
13 calls⁸. The simple sum of the calling rates is *****Begin Proprietary*****
14 *****End Proprietary***** calls. Dividing the *****Begin Proprietary*****
15 *****End Proprietary***** calls by features produced an average of
16 *****Begin Proprietary*** ***End Proprietary***** busy hour calls
17 per feature. BellSouth's research shows that the typical subscriber uses about
18 *****Begin Proprietary*** ***End Proprietary***** features on a regular
19 basis. Multiplying the *****Begin Proprietary*** ***End**
20 **Proprietary***** calls per feature by the *****Begin Proprietary*****
21 *****End Proprietary***** features produces *****Begin Proprietary*****
22 *****End Proprietary***** average feature calls in the busy hour. BellSouth
23 believes this number is reasonable because it reflects both originating
24 features, such as 3-Way Calling and Speed Dialing, as well as terminating
25 features, such as Call Waiting or Hunting, as well as CLASS features such as

⁸ A table listing the 56 features and the busy hour call rate for each was provided by BellSouth in response to AT&T's First Request for Production of Documents, Item No. 141, May 2, 2000.

1 Caller ID. Given the variety of features in common use it is not hard to see
2 how a single phone call can invoke two or more features.

3
4 With the above framework in mind, it is clear that Ms. Pitts' concerns about
5 the correctness of BellSouth's call usage inputs are misguided.

6 For example, the feature 3-way calling has an input of *****Begin**
7 **Proprietary***** *****End Proprietary***** calls in the busy hour. When
8 ~~comparing this to the overall *****Begin Proprietary***** *****End**~~
9 **Proprietary***** calls per line average in the busy hour she concludes that
10 this makes for an "inordinately high" number of three-way calls. What Ms.
11 Pitts apparently fails to understand is that the *****Begin Proprietary*****
12 *****End Proprietary***** calls applies only for those subscribers who *use* 3-
13 way calling, which is a relatively small number. The SST feature cost result
14 does not, therefore, reflect *****Begin Proprietary***** 0.5 *****End**
15 **Proprietary***** 3-way calls in the busy hour, as Ms. Pitts' testimony would
16 lead us to believe.

17
18 To clarify, the input set assumes that *****Begin Proprietary***** 56 *****End**
19 **Proprietary***** features will be generally used. The average number of
20 features per line using the processor is *****Begin Proprietary***** *****End**
21 **Proprietary*****. The portion of the total *****Begin Proprietary*****
22 *****End Proprietary***** calls per line attributable to 3-way calling is,
23 therefore, *****Begin Proprietary***** *****End**
24 **Proprietary***** calls in the busy hour. This is the number of 3-way calls
25 reflected in the Features UNE cost, not *****Begin Proprietary*****
26 *****End Proprietary***** calls. Ms. Pitts' analysis of the calling frequency of

1 Night Service is equally misguided.

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3 **Q. AT&T WITNESS MS. PITTS CLAIMS THAT "BELLSOUTH'S**
4 **EXAMPLE FOR CHARGING A LINE PATH TO A FEATURE IS**
5 **INCORRECT." DOES THIS MEAN THE SST FEATURE COST**
6 **FORMULAS ARE INCORRECT?**

7

8 A. No, the SST formulas and inputs are correct. Ms. Pitts quotes a statement
9 from the SST Methodology document that was intended to describe in
10 general how a feature such as 3-Way Calling may use additional line path
11 resources in the switch. Ms. Pitts then provides a lengthy discussion of how
12 the local switching MOU charges will, in the case of 3-Way Calling, recover
13 the cost of that additional line path. Ms. Pitts' discussion may lead the reader
14 to believe that the SST is double-counting the line path costs of 3-Way
15 Calling, but this is not the case. The feature usage data set developed for the
16 SST does not include any additional line path usage for 3-Way Calling. As a
17 result the SST feature cost results are correct, and do not include any
18 additional line path costs for 3-Way Calling.

19

20

21 **Q. HOW DO YOU RESPOND TO OTHER CRITICISMS OF MS. PITTS**
22 **CONCERNING BELLSOUTH'S DEVELOPMENT OF FEATURE**
23 **COSTS?**

24

25 A. Ms. Pitts makes numerous criticisms of BellSouth's feature cost inputs, and
26 expounds many opinions regarding the correct values and application of

1 those inputs, despite admitting on page 22 that she does "not have accurate
2 call usage data." In other words, Ms. Pitts confirms that she has no basis for
3 judging whether the inputs are reasonable or not, which is reason alone for
4 disregarding her testimony about feature usage.

5
6 In regard to Ms. Pitts' criticism that BellSouth should use weighted average
7 take rates for the features instead of mathematical averages, BellSouth
8 agrees, in principle. However, the issue is that BellSouth's UNE features will
9 be used by the ALECs' customers, not BellSouth's customers. BellSouth
10 obviously has no way of knowing which features the ALECs will offer their
11 customers, or the expected take rate for each feature. In the absence of that
12 information, the most reasonable approach is to use the arithmetic average
13 until such time as the ALECs can provide the necessary market forecasts.

14
15 BellSouth's goal with feature costing, as with all cost studies, is to produce
16 the most accurate study possible with the data available. If AT&T, MCI or
17 any other intervenors have suggested input values for feature usage, that are
18 based valid estimation techniques and market forecasts, then BellSouth
19 would consider their use. AT&T and MCI, however, do not bring any
20 constructive alternatives for feature usage data to the table.

21

22 **FEATURE HARDWARE STUDY**

23

24 **Q. AT&T / MCI WITNESS MS. PITTS CLAIMS, ON PAGE 11, THAT**
25 **BELLSOUTH'S FEATURE HARDWARE STUDY HAS**
26 **"INVESTMENT, CAPACITY, AND UTILIZATION ERRORS."**

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PLEASE COMMENT ON THE CLAIMED INVESTMENT ERRORS.

A. Ms. Pitts notes on page 13, lines 2 – 4 that BellSouth’s Class Modem Resource Card investment should have discounted instead of being included at list price. Ms. Pitts is correct that a discount should have been applied.⁹ On page 13, lines 11 – 14 Ms. Pitts claims that “it appears that at least one technology’s investments included ‘loadings’ and costs for ‘associated resources’. It is probable that some of these associated resources are double counted here and again in the telco installation factor, and/or other factors.” The conjecture that these “associated resources” are double counted is without basis and is not true. Based on information provided by Lucent, these “associated resources” are switch cabinets, which are not included in any other BellSouth factors.

Q. PLEASE COMMENT ON THE CLAIMED CAPACITY ERRORS.

A. Ms. Pitts claims on page 14, lines 7 – 11 that BellSouth’s use of two Call Waiting tone circuits is incorrect, but an examination of the SCIS/IN formulas shows that the two circuits is correct.

Ms. Pitts claims on page 14, lines 12 - 16 that BellSouth's estimate for the number of lines sharing a CLASS modem card is too low. Upon further evaluation, the number of lines sharing a CLASS modem card from should be changed from 76.8 to 435.75. The revised number of lines reflects

⁹ The correct blended discount should be applied to all hardware items, not Ms. Pitts’ hypothetical replacement only discount.

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utilization, so the utilization input for the CLASS modem should be 100%

The capacities for the SAS announcement circuit should be modified based on new information from the switch vendor as reflected in my exhibit JHP-03.

The following summarizes the proposed CCS capacity modifications:

***** Begin Proprietary *****

***** End Proprietary *****

Q. PLEASE COMMENT ON THE CLAIMED UTILIZATION ERRORS.

A. Ms. Pitts notes, on p. 15 lines 5 - 6, that the values for CCS capacity taken from the SCIS hardware tables already reflect utilization, and that it would not be appropriate to apply a utilization factor in cases where these values are used. Upon further examination of the hardware study inputs, BellSouth agrees that the utilization inputs should be changed from 85% to 100% on the following items of equipment:

6-port Conference Circuit	Nortel	100%
3-port Conference Circuit	Nortel	100%
Call Waiting Tone	Nortel	100%
6-port Conference Circuit	Lucent	100%
3-port Conference Circuit	Lucent	100%
Class Modem Card	Nortel	100%

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Q. PLEASE COMMENT ON MS. PITTS' "RESTATED HARDWARE STUDY USING NEW SWITCH DISCOUNTS" ATTACHMENT CEP-4 TO HER REBUTTAL TESTIMONY.

A. While Ms. Pitts' study does include a number of corrected inputs, it cannot be used for the Feature UNE study because it has several flaws. The first flaw is Ms. Pitts' use of a hypothetical replacement discount instead of the correct blended discount. The second flaw is the use of the DSU2/RAF/BRCS service circuit instead of the more forward-looking SAS service circuit used in BellSouth's study. Third, the study includes only one Call Waiting tone circuit instead of the required two. For these reasons, AT&T / MCI's Hardware study as presented here and in Mr. King's testimony should be rejected.

SWITCH DISCOUNTS

Q. AT&T / MCI WITNESS MS. PITTS CLAIMS THAT YOUR EXAMPLE OF REPLACEMENT COSTS EXCEEDING MELDED REPLACEMENT AND GROWTH COSTS IS NOT REALISTIC. DO YOU AGREE?

A. No. To begin, let me emphasize that Ms. Pitts never disputes the core principle at issue, which is that switches are purchased with the number of

1 lines needed to serve two or three years' worth of demand. The switch is then
2 grown as necessary, at regular intervals, to accommodate expected increases
3 in demand. Furthermore, the growth equipment is purchased at a lower
4 discount rate than the initial switch purchase. My Exhibit JHP-1 attached to
5 my direct testimony used a 10% growth rate to illustrate the principle that a
6 higher initial discount coupled with a lower replacement discount is
7 economically sound. As my exhibit JHP-04 to this testimony illustrates,
8 reducing the growth rate to 5% does not alter this principle. In that example,
9 the replacement-only discount yields a capital expenditure \$164,633 higher
10 than the blended discount which is advocated by BellSouth.

11
12 Ms. Pitts inexplicably takes issue with the use of a 10-year switch life in the
13 example, despite the fact that BellSouth's economic life for switching is 10
14 years, as provided by Mr. Cunningham's testimony. In her apparent
15 confusion, she states that "it is doubtful that the switch contracts currently in
16 place would be effective through the year 2010, making the prices pure
17 speculation." While that may be true, it is not relevant to the principle being
18 illustrated. Any changes in the future switch contracts will affect the
19 replacement discounts as certainly as the blended discounts.

20

21

22 **Q. Z-TEL WITNESS FORD BELIEVES THE COMPUTATION OF**
23 **BELLSOUTH'S REPLACEMENT DISCOUNT IS "FLAWED." DO**
24 **YOU AGREE?**

25

26 A. Absolutely not. Dr. Ford, in his July, 31, 2000 direct testimony, says that

1 BellSouth's approach is flawed because BellSouth used a contractual
2 discount rate for growth discounts, while using a computed replacement
3 discount. Dr. Ford then concludes (without any basis in fact) that
4 BellSouth's replacement discount is potentially understated.

5

6

7 **Q. WHY DID BELLSOUTH NOT USE A CONTRACTUAL**
8 **REPLACEMENT DISCOUNT, AS DR. FORD RECOMMENDS,**
9 **RATHER THAN THE COMPUTED DISCOUNT?**

10

11 A. Dr. Ford, by his own admission, has not "personally reviewed any switch
12 contracts between BS-FL and its switch vendors (p. 8, line 10)." If he had
13 reviewed the contracts¹⁰, he would have learned that switch replacement jobs
14 are priced under a structure completely different from that used for growth
15 jobs. There is no stated discount for replacement switches in BellSouth's
16 contracts. *****Begin Proprietary*****

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*****End Proprietary*****

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24 Given that there are no stated discount percentages for replacement switches,

¹⁰ BellSouth's switch vendor contracts and the studies used to develop the replacement discounts were made available for inspection at BellSouth's premises in response to discovery requests by various parties in this proceeding.

1 BellSouth computed the replacement discount based on vendor billing for
2 actual switch orders. As described in detail in my direct testimony, this
3 derived replacement discount, when input into SCIS/MO, produces a result
4 that accurately reflects vendor billing.

5
6

7 **Q. DR. FORD CLAIMS THAT BELLSOUTH'S REPLACEMENT**
8 **DISCOUNT COMPUTATION POTENTIALLY UNDERSTATES THE**
9 **DISCOUNT. IS THIS TRUE?**

10

11 A. No. Dr. Ford is somehow under the impression that the SCIS/MO model
12 reflects switch prices from a different (later) time frame than the switch
13 orders used to compute the discount. This, according to Dr. Ford, could
14 result in "discount deflation" because switch prices decline over time. This
15 hypothetical problem does not exist in the BellSouth study because the switch
16 orders examined covered the years 1997, 1998, and 1999. The SCIS 2.6.1
17 database, used for the study, uses list prices effective 12/1/1998. The time
18 frames are consistent, resulting in a consistent discount computation.

19

20 **CENTREX INTERCOM USAGE COSTS**

21

22 **Q. HOW DO YOU RESPOND TO MS. PITTS' POSITION, ON PAGE 24**
23 **OF HER REBUTTAL TESTIMONY, CONCERNING THE CENTREX**
24 **INTERCOM USAGE RATE ELEMENT?**

25

26 A. Ms. Pitts claims that the Centrex intercom usage should not be flat-rated

1 because AT&T / MCI understood that ALEC UNE-P lines generate usage
2 charges for the intercom calls. At the time of BellSouth's April 17, 2000 cost
3 study filing, it appeared that BellSouth would not have the ability to generate
4 UNE switch charges for these calls. More recent research indicates that
5 BellSouth will be able to bill for these calls. This means that the Centrex
6 Intercom Usage feature should be set to zero, as Ms. Pitts recommends.
7

8 **AT&T / MCI'S PROPOSED METHODOLOGY**

9 10 **Q. WHAT IS YOUR ASSESSMENT OF AT&T / MCI'S "SIMPLIFIED** 11 **METHODOLOGY?"**

12
13 A. Ms. Pitts' "methodology" is too vague and sketchy to support a cost study.
14 It is based upon a contradictory design philosophy from the beginning. Note
15 that when beginning her discussion of this "methodology," Ms. Pitts
16 complains that the SST has too many "generalizations." Ms. Pitts'
17 methodology, however, is many times more generalized than the SST.
18 Instead of determining, for example, the switch usage due to the various
19 features and services available on a switch, Ms. Pitts' methodology would
20 assume that each and every subscriber uses the same set of services! There is
21 no demonstration that this methodology is grounded in any underlying
22 economic principles or actual switch architecture.
23
24

25 **Q. WHAT SPECIFICALLY ARE THE PROBLEMS WITH MS. PITTS'**

1 **METHODOLOGY?**

- 2
- 3 A. The methodology is too simplistic to produce meaningful UNE investments:
- 4
- 5 - It ignores long established rate structures for UNEs, toll and access because
 - 6 it does not distinguish between the very real costs of setting up a call, as
 - 7 opposed to per-minute costs.
 - 8
 - 9 - Feature costs are lumped in with other traffic-sensitive costs in the switch,
 - 10 forcing all subscribers to pay for features whether they use them or not. As a
 - 11 matter of fact, this methodology would result in ALECs paying for features
 - 12 as part of the Call Transport and Termination rates paid to BellSouth.
 - 13
 - 14 - By assigning Getting Started costs to line ports, this methodology violates
 - 15 cost causation principles. Ms. Pitts admits that “the processor must be
 - 16 purchased for basic call processing” (p. 22, line 23). It would be clearly
 - 17 illogical to allocate these traffic-sensitive call processing costs to the non-
 - 18 traffic sensitive line port, which does not perform call processing.
 - 19
 - 20 - The methodology would produce unusable results because it does not
 - 21 account for remote switches. The Getting Started Cost (processor) of the
 - 22 host switch supports subscribers on the subtending remotes as well. This
 - 23 methodology, by simply allocating each switch’s Getting Started cost to its
 - 24 ports, would overstate the cost of each host switch and drastically understate
 - 25 the cost of each remote.
 - 26

1 Ms. Pitts' recommendations are thoroughly contradictory and self-serving,
2 and on that basis alone should be disregarded. For example, she complains
3 that BellSouth's method for averaging feature usage inputs (used to assign
4 "getting started" call processing costs) is "simplistic" (p. 27) and that
5 BellSouth's simplifying assumptions are "incorrect." However, Ms. Pitts'
6 own proposal for assigning the "getting started" costs of processor capacity is
7 to simply divide those costs by the number of lines on the switch and assign
8 them all ports (p. 28). Talk about simplistic! Ms. Pitts' proposal would
9 completely ignore cost causation and crudely assign the same call processing
10 cost to each subscriber, regardless of the number of calls that subscriber
11 makes.

12

13 This proposed methodology is nothing more than a transparent attempt by
14 AT&T and MCI to lower the results of Switched Access and Local
15 Interconnection cost studies. The getting started call processing costs at issue
16 are an important component of call setup costs for access and local service.
17 Assigning that cost to ports would make the results of the Switched Access
18 and Local Interconnection cost studies significantly lower and potentially
19 reduce the rates AT&T and MCI would pay for those services.

20

21

22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

23

24 A. Yes, it does.

25

PROPRIETARY

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PROPRIETARY

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4. SWITCHING AND INTEROFFICE TRANSMISSION PARAMETERS

4.1. END OFFICE SWITCHING

4.1.1. Switch Real-Time Limit, BHCA

Definition: The maximum number of busy hour call attempts (BHCA) a switch can handle. If the model determines that the load on a processor, calculated as the number of busy hour call attempts times the processor feature load multiplier, exceeds the switch real time limit multiplied by the switch maximum processor occupancy, it will add a switch to the wire center.

Default Values:

Switch Real-time limit, BHCA	
Lines Served	BHCA
1-1,000	10,000
1,000-10,000	50,000
10,000-40,000	200,000
40,000+	600,000

Support: Industry experience and expertise of HAI. These numbers are well within the range of the BHCA limitations NORTEL supplies in its Web site.³⁶

Busy Hour Call Attempt Limits from Northern Telecom Internet Site	
Processor Series	BHCA
SuperNode Series 10	200,000
SuperNode Series 20	440,000
SuperNode Series 30	660,000
SuperNode Series 40	800,000
SuperNode Series 50 (RISC)	1,200,000
SuperNode Series 60 (RISC)	1,400,000 (burst mode)

4.1.2. Switch Traffic Limit, BHCCS

Definition: The maximum amount of traffic, measured in hundreds of call seconds (CCS), the switch can carry in the busy hour (BH). If the model determines that the offered traffic load on an end office switching network exceeds the traffic limit, it will add a switch.

³⁶ See Northern Telecom's Web site at <http://www.nortel.com>

	A	B	C	D	E	F	G	H	I	J
1		DMS								
2	Equipment	Material \$	Discount Rate	E&I	Total	Capacity (CCS)	\$/Unit	Utilization	Utilized Investment (per CCS)	Source
3	Variable Announcement							85%		Nortel
4	6-port Conference Circuit							100%		Nortel
5	3-port Conference Circuit							100%		Nortel
6	Call Waiting Tone							100%		SCIS/IN
7	Average									
8		5ESS								
9		Material \$	Discount Rate	E&I	Total	Capacity (CCS)	\$/Unit	Utilization	Utilized Investment (per CCS)	
10	Equipment							85%		Lucent
11	30-Second Announcement							85%		Lucent
12	60-Second Announcement							85%		Lucent
13	DSU2/SAS/BRCS							100%		Lucent
14	6-port Conference Circuit							100%		Lucent
15	3-port Conference Circuit							100%		Lucent
16	Average									
17										
18										
19	Equipment	Material \$	Discount Rate	E&I	Total	Capacity (Lines)	\$/Unit	Utilization	Utilized Investment (per Lines)	
20	DMS									
21	Class Modem Card							100%		SCIS/IN

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**Central Office Switching
 Comparison of Replacement Discount and Growth Discount Assumptions**

Assume:

Life of Switch: 10 Years
 Replacement Discount: 40%
 Growth Discount: 25%
 Growth Interval: 2 Years
 Cost of Money: 11.25%

"Getting Started" Investment \$2,000,000 List Price
 Investment per Line \$200 List Price

Initial Demand 10,000 Lines
 Annual Growth Rate 5% percent

Calculations:

Year	Total	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Beginning of Year Demand		10,000	10,500	11,025	11,576	12,155	12,763	13,401	14,071	14,775	15,514	16,290

Replacement + Growth Discount Assumption:

The switch is grown at 2-year intervals to meet demand. Growth lines have a lower vendor discount than lines purchased with switch replacement.

Lines Purchased	16,300	11,100	1,100	1,300	1,300	1,300	1,300	1,300	1,300	1,500		
Total Lines Available		11,100	11,100	12,200	12,200	13,500	13,500	14,800	14,800	16,300	16,300	16,300
CAPEX	\$3,312,000	\$2,532,000		\$165,000		\$195,000		\$195,000		\$225,000		
Present Value of CAPEX	\$2,991,367	\$2,532,000		\$133,317		\$127,302		\$102,857		\$95,892		

"All Replacement" Discount Assumption:

The initial purchase includes enough lines to support growth over the life of the switch. This is done to obtain the higher "replacement" discount on all lines.

Lines Purchased	16,300	16,300										
Total Lines in Service		16,300	16,300	16,300	16,300	16,300	16,300	16,300	16,300	16,300	16,300	16,300
CAPEX	\$3,156,000	\$3,156,000										
Present Value of CAPEX	\$3,156,000	\$3,156,000										

Difference:

Replacement & Growth Discounts	\$2,991,367
"All Replacement" Discount	\$3,156,000
Difference	-\$164,633

CAPEX - capital expenditures

Note: For simplicity, this analysis ignores administrative fill factors and ordering intervals and assumes that lines can be purchased in blocks of 100.

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