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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**  
**SUPPLEMENTAL REBUTTAL TESTIMONY OF**  
**GREG DARNELL**  
**ON BEHALF OF WORLDCOM**  
**DOCKET NO. 960786-TL**  
**October 5, 2001**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Greg Darnell, and my business address is 6 Concourse Parkway, Suite 3200, Atlanta, Georgia, 30328.

**Q. ARE YOU THE SAME GREG DARNELL THAT CAUSED TO BE FILED REBUTTAL TESTIMONY IN THIS PROCEEDING ON JULY 20, 2001?**

A. Yes.

**Q. WHY ARE YOU NOW FILING SUPPLEMENTAL REBUTTAL TESTIMONY?**

A. I am filing supplemental rebuttal testimony due to material changes that have occurred since the time I filed my rebuttal testimony on July 20, 2001.

**Q. WHAT MATERIAL CHANGES HAVE OCCURRED SINCE THE TIME OF YOUR REBUTTAL TESTIMONY?**

A. A decision made by the Commission on October 2, 2001, in docket number 990649-TP that has caused the magnitude of BellSouth's non-compliance with Section 271 checklist item (ii) (Issue 3 in this proceeding) to increase. In

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1 addition, on October 1, 2001 BellSouth made a UNE cost case filing in Georgia  
2 that further illustrates how excessive BellSouth's Daily Usage File charges are in  
3 Florida.

4  
5 **I. INFLATION FACTORS**

6  
7 **Q. WHAT OCCURRED ON OCTOBER 2, 2001 IN FLORIDA PSC DOCKET  
8 NUMBER 990649-TP?**

9 A. The Commission adopted a staff recommendation that re-instates previously  
10 disallowed inflation factors from BellSouth's UNE rate development.

11  
12 **Q. WHAT IS THE BOTTOM LINE IMPACT OF THE COMMISSION'S  
13 DECISION TO REINSTATE BELLSOUTH'S INFLATION FACTORS?**

14 A. It increased the rates that BellSouth will charge for UNEs by approximately  
15 8.5%. For, example the average UNE-P loop cost was increased \$1.23 per  
16 month, from \$13.91 to \$15.14.

17  
18 **Q. HOW DOES THIS NEW BELLSOUTH FLORIDA AVERAGE UNE-P  
19 LOOP COST COMPARE TO THE AVERAGE UNE-P LOOP COST  
20 DETERMINED BY THE GEORGIA PSC FOR BELLSOUTH?**

21 A. It is approximately 21% higher than the average UNE-P loop cost determined by  
22 the Georgia PSC. On March 13, 2000 in Docket Number 10692-U the Georgia  
23 PSC established an average UNE-P loop cost of \$12.55 for BellSouth.

1 **Q. IS IT REASONABLE FOR THE AVERAGE BELLSOUTH UNE-P LOOP**  
2 **COST IN FLORIDA TO BE 21% HIGHER THAN THE AVERAGE**  
3 **BELLSOUTH UNE-P LOOP COST IN GEORGIA?**

4 A. No. The average UNE-P loop cost in Florida should be less than the average  
5 UNE-P loop cost in Georgia.

6

7 **Q. WHY SHOULD THE AVERAGE BELLSOUTH UNE-P LOOP COST IN**  
8 **FLORIDA BE LESS THAN THE AVERAGE UNE-P LOOP COST IN**  
9 **GEORGIA?**

10 A. Population density is a primary driver of loop cost. BellSouth Florida territory is  
11 significantly more densely populated than BellSouth Georgia territory. In  
12 BellSouth Florida territory there is a population density of 176 households per  
13 square mile. In BellSouth Georgia territory there is a population density of 85  
14 households per square mile.

15

16 **Q. IS THE AVERAGE LOOP COST IN GEORGIA COMPLIANT WITH**  
17 **FCC UNE PRICING RULES?**

18 A. No. The average loop cost in Georgia also exceeds TELRIC and therefore is not  
19 compliant with FCC UNE pricing rules. The BellSouth Florida UNE-P loop rate  
20 just exceeds TELRIC by a larger amount than the BellSouth Georgia UNE-P  
21 loop rate. Further, the Georgia PSC has just initiated a proceeding to evaluate  
22 BellSouth's UNE rates that should result in a reduction to the currently effective  
23 UNE-P loop rates.

1 **Q. WHAT IS A REASONABLE APPROXIMATION OF TELRIC**  
2 **COMPLIANT UNE-P LOOP RATE FOR BELLSOUTH FLORIDA?**

3 A. A TELRIC compliant statewide average UNE-P loop cost for BellSouth Florida  
4 should be less than \$7.00.

5

6 **Q. PLEASE EXPLAIN HOW THE REINSTATED INFLATION FACTORS**  
7 **ARE USED IN BELLSOUTH'S COST MODELS?**

8 A. The inflation factors are applied by BellSouth's cost calculator to the investment  
9 amounts determined by BellSouth's loop model (BSTLM), switching model  
10 (SCIS), and ancillary worksheets used to develop investment for other UNES  
11 such as high capacity loops.

12

13 **Q. WAS THE COMMISSION CORRECT IN REINSTATING THESE**  
14 **INFLATION FACTORS?**

15 A. No. These inflation factors cause the effects of inflation on investment to be  
16 double counted.

17

18 BellSouth's approach to inflation adjustments relies on the fundamentally flawed  
19 premise of applying Telephone Plant Indices (TPI) inflation factors to investment  
20 amounts that already include the effects of industry inflation.

21

22 **Q. PLEASE EXPLAIN.**

1 A. The cost of capital that was applied to investment and used to develop UNE rates  
2 was a nominal cost of capital, that is, the cost of capital took into account the  
3 effects of national and industry wide inflation on BellSouth's cost of debt and  
4 equity. BellSouth's application of TPIS to investment amounts that already  
5 include the effects of inflation, double counts the effects of inflation on costs.  
6 BellSouth's position on this issue is nonsense. BellSouth claims there are two  
7 types of inflation, first there is the type of inflation that debt and equity holders  
8 take into consideration and second, there is specific inflation related to specific  
9 equipment. The fundamental flaw in BellSouth's position is that debt and equity  
10 holders take into account ALL inflation (i.e. direct and indirect) that may effect  
11 BellSouth. As such, the specific inflation that BellSouth assigns to specific  
12 equipment is a subset of the first type of inflation that is taken into account  
13 through the nominal cost of capital. The application of a nominal cost of capital  
14 to all investment and the application of specific TPIS on specific equipment  
15 double counts of the effects of the specific inflation.

16  
17 **II. DAILY USAGE FILE CHARGES**

18  
19 **Q. IN YOUR REBUTTAL TESTIMONY YOU STATED THAT THIS**  
20 **COMMISSION SHOULD NOT PERMIT BELLSOUTH TO "SHOEHORN**  
21 **A UNE COST CASE INTO THIS 271 COMPLIANCE REVIEW". DOES**  
22 **WHAT WAS FILED BY BELLSOUTH IN THE GEORGIA UNE COST**  
23 **CASE ON OCTOBER 1, 2001 ILLUSTRATE WHY THIS IS SO**  
24 **IMPORTANT?**

1 A. Yes.

2

3 **Q. PLEASE COMPARE THE DAILY USAGE FILE CHARGES IN**  
4 **FLORIDA TO THE RATES RECENTLY FILED BY BELL SOUTH IN**  
5 **GEORGIA.**

<b>ELEMENT</b>	<b>FLORIDA CURRENT</b>	<b>FLORIDA PROPOSED</b>	<b>GEORGIA PROPOSED</b>
ADUF PROCESSING	.01439100	.00808700	.00184900
ADUF TRANSMISSION	.00012973	.00000000	.00013189
<b>TOTAL ADUF</b>	<b>.01452073</b>	<b>.00808700</b>	<b>.00198089</b>
ODUF RECORDING	.00000710	.00000000	.00000880
ODUF PROCESSING	.00683500	.00456700	.00249600
ODUF TRANSMISSION	.00010811	.00000000	.00010991
<b>TOTAL ODUF</b>	<b>.00695021</b>	<b>.00456700</b>	<b>.00261471</b>

6

7 **Q. SHOULD BELL SOUTH'S COST TO PRODUCE DAILY USAGE FILE**  
8 **INFORMATION BE SIMILAR STATE TO STATE?**

9 A. Yes. According to BellSouth, the systems they use to extract this data and  
10 provide the data are regional. As such, the only cost difference between states  
11 should be that generated by differences in labor rates.

12

13 **Q. SHOULD THERE BE ANY SEPARATELY DELINEATED CHARGE**  
14 **FOR DAILY USAGE FILE INFORMATION?**

15 A. No. BellSouth establishes its shared and common cost factors using its  
16 embedded systems costs and embedded expense to investment ratios. BellSouth  
17 then develops its Daily Usage File charges files by contending that it has and will  
18 incur additional incremental costs (i.e. above embedded cost) due to the creation  
19 of "systems" to provide daily usage file information to ALECs. As such,  
20 BellSouth's cost study development for Daily Usage File information is founded

1 on the flawed premise that TELRIC equals embedded cost – nothing +  
2 incremental cost. The foundation of this argument assumes that nothing in  
3 BellSouth’s embedded systems cost is inefficient and that future system  
4 development will not bring any reduction to cost.

5

6 BellSouth’s future systems cost will bring certain reductions in costs and  
7 BellSouth is not the least-cost, most efficient carrier (i.e. some inefficiencies do  
8 exist and as such, embedded cost exceeds TELRIC). As such, BellSouth’s cost  
9 development for its Daily Usage File charges violates FCC TELRIC principles.

10

11 **Q. ARE BELLSOUTH’S UNE RATES AN UNREASONABLE AND**  
12 **UNNECESSARY BARRIER TO COMPETITIVE RESIDENTIAL LOCAL**  
13 **MARKET ENTRY?**

14 A. Yes.

15

16 **Q. WHY DO YOU SAY THAT BELLSOUTH'S CURRENT UNE RATES**  
17 **ARE AN UNREASONABLE BARRIER TO COMPETITIVE LOCAL**  
18 **ENTRY?**

19 A. In the near term, the use of the UNE platform (UNE-P) is the method of service  
20 provisioning that presents the most opportunity for significant competitive  
21 residential local entry. BellSouth’s current UNE-P rates significantly exceed  
22 “cost based” levels as this term has been defined by the Telecommunications Act  
23 of 1996 and the FCC UNE pricing rules. UNE rates that exceed cost based  
24 levels are unreasonable. In addition, BellSouth has even proposed higher UNE

1 rates in this Commission's "120 day docket".<sup>1</sup> For UNE-P, BellSouth's proposed  
2 rate is \$18.13, absent the increase caused by the reinstatement of the inflation  
3 factor. This provides further evidence that BellSouth has no intention of  
4 complying with 271 checklist item (ii).

5

6 **Q. WHY DO YOU SAY THAT BELLSOUTH'S CURRENT UNE RATES**  
7 **ARE AN UNNECESSARY BARRIER TO COMPETITIVE LOCAL**  
8 **ENTRY?**

9 A. It is unnecessary because for the year 2000 BellSouth's intrastate rate of return in  
10 Florida was approximately 19.46%. As such, there is currently no reason for this  
11 Commission to be concerned with protecting BellSouth from the effects of local  
12 competition.

13

14 **Q. WHAT SHOULD BELLSOUTH'S ABILITY TO EARN A 19.46%**  
15 **INTRASTATE RATE OF RETURN TELL THIS COMMISSION?**

16 A. The fact that BellSouth was able to earn a 19.46% rate of return suggests that the  
17 current intrastate telecommunications market is not as competitive as it needs to be.  
18 It would be a contradiction to have both BellSouth earning monopoly profits and  
19 conclude the local telecommunications market is competitive.<sup>2</sup>

20

21 **Q. IN COMPARISON, WHAT BARRIERS TO ENTRY WILL BELLSOUTH**  
22 **FACE IN ENTERING THE INTERLATA LONG DISTANCE MARKET?**

23 A. Relatively little. As stated by, Jeff Battcher, BellSouth Director of Corporate

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<sup>1</sup> Florida Public Service Commission, Docket No. 990649-TP.

<sup>2</sup> The existence of BellSouth supranormal profits over an extended period of time is strong evidence in and of itself of abuse of Market Power. David L. Kaserman and John W. Mayo, Government and Business: The Economics of Antitrust and Regulation, The Dryden Press: Orlando, FL (1995), at pages 98-99.



1           Communications, "It's [271 relief] obviously important, Georgia and Florida, once  
2           we get in we think we'll get \$5.2 billion in revenue just in the first year. It doesn't  
3           cost us anything extra."<sup>3</sup> In addition, as stated by Verizon's CEO Ivan Seidenberg,  
4           when asked if Verizon were interested in buying AT&T, the No. 1 long-distance  
5           firm, Seidenberg said there was no need, Verizon would end up with AT&T's  
6           customers without paying for them.<sup>4</sup> This, combined with the fact the BellSouth  
7           currently has enough market power to generate supranormal profits, should provide  
8           the Commission with some concern about the remonopolization of residential  
9           telecommunications service (local and long distance combined) in Florida if  
10          BellSouth is granted 271 relief at this time.

11  
12   **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

13   **A.    Yes.**

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<sup>3</sup> Memphis Business Journal, October 1, 2001.

<sup>4</sup> Krause, R, (2001, October 1), *Telecommunications carrier rumors swirl, but would a Bell even want AT&T?*, Investor's Daily, p. 5.