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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of

PETITION BY VERIZON FLORIDA INC.
TO REFORM INTRASTATE NETWORK ACCESS
AND BASIC LOCAL TELECOMMUNICATIONS
RATES IN ACCORDANCE WITH SECTION
364.164, FLORIDA STATUTES.

DOCKET NO. 030867-TL

PETITION BY SPRINT-FLORIDA,
INCORPORATED TO REDUCE INTRASTATE
SWITCHED NETWORK ACCESS RATES TO
INTERSTATE PARITY IN REVENUE-NEUTRAL
MANNER PURSUANT TO SECTION
364.164(1), FLORIDA STATUTES.

DOCKET NO. 030868-TL

PETITION FOR IMPLEMENTATION OF
SECTION 364.164, FLORIDA STATUTES,
BY REBALANCING RATES IN A
REVENUE-NEUTRAL MANNER THROUGH
DECREASES IN INTRASTATE SWITCHED
ACCESS CHARGES WITH OFFSETTING
RATE ADJUSTMENTS FOR BASIC SERVICES,
BY BELLSOUTH TELECOMMUNICATIONS, INC.

DOCKET NO. 030869-TL

FLOW-THROUGH OF LEC SWITCHED
ACCESS REDUCTIONS BY IXCs,
PURSUANT TO SECTION
364.163(2), FLORIDA STATUTES.

DOCKET NO. 030961-TI

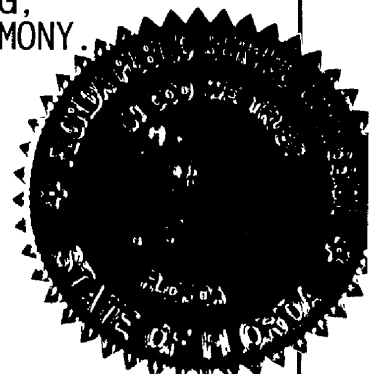
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VOLUME 4

PAGES 346 THROUGH 418

PROCEEDINGS: HEARING

FLORIDA PUBLIC SERVICE COMMISSION



DOCUMENT NUMBER 247

12873 DEC 11 2007

FPSC-0111-0001-001-001

1 BEFORE: CHAIRMAN LILA A. JABER
2 COMMISSIONER J. TERRY DEASON
3 COMMISSIONER BRAULIO L. BAEZ
4 COMMISSIONER RUDOLPH "RUDY" BRADLEY
5 COMMISSIONER CHARLES M. DAVIDSON

6 DATE: Wednesday, December 10, 2003

7 TIME: Commenced at 9:30 a.m.
8 Adjourned at 7:10 p.m.

9 PLACE: Betty Easley Conference Center
10 Room 148
11 4075 Esplanade Way
12 Tallahassee, Florida

13 REPORTED BY: JANE FAUROT, RPR
14 Official FPSC Reporter
15 (850) 413-6732

16 APPEARANCES: (As heretofore noted.)
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I N D E X

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NAME: PAGE NO.

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P R O C E E D I N G S

(Transcript continues in sequence from Volume 3.)

JOHN A. RUSCILLI

continues his testimony under oath from Volume 3.

CONTINUED CROSS EXAMINATION

BY MR. TWOMEY:

Q Okay. Given what we have just discussed, and the nature of your answers, would you agree with me or could you agree with me that if you elected to increase your rates on a percentage basis, residential, that you would likely make more of your existing customers subject to competition than you would under the methodology you have chosen here of applying the same dollar amount to each rate group irrespective of the population of that group?

A Again, I don't know that I can agree with you because I have not done the math to look at that, but I would still suggest that in taking that particular approach you are shifting the burden of subsidy to one class of residential customers versus another class of residential customers.

Q You do recognize, though, don't you, that the purpose of the -- a purpose of the statute is to -- I apologize, I don't have it in front of me -- but either to induce or enhance competition, right?

A Yes, it is induce/enhance market competition is what (b) says.

1 MR. TWOMEY: Okay. Thank you. That's all I have.

2 CHAIRMAN JABER: Staff.

3 CROSS EXAMINATION

4 BY MS. BANKS:

5 Q Good afternoon, Mr. Ruscilli.

6 A Good evening, Ms. Banks.

7 Q I guess I should say good evening. I am appearing in
8 this matter on behalf of the Commission. I have a document
9 that is being handed out now by staff, which is excerpts of
10 BellSouth's brief in the UNE docket.

11 At issue in this proceeding, Mr. Ruscilli, is whether
12 BellSouth's petition and the other petitions filed in this
13 proceeding will create a more attractive competitive market for
14 the benefit of residential consumers. It is BellSouth's
15 position that its petition will bring the rates for basic local
16 exchange service to a level that encourages competitive entry,
17 is that correct?

18 A It is BellSouth's position that the rate changes that
19 it is proposing will move towards removing the support for
20 residential customers, that will then in turn increase the
21 competitive attractiveness to those customers.

22 Q Okay. Dr. Gordon earlier made reference in cross
23 examination that a UNE-P CLEC will consider the cost components
24 before making a decision to enter into the market. I would
25 just like to kind of follow up in that vein to ask you just a

1 few questions concerning or giving consideration to the cost to
2 a CLEC to serve customers using BellSouth's current UNE-P
3 rates. And I will be referencing that document that I just
4 handed out.

5 A Yes, ma'am.

6 Q I'm going to refer you to BellSouth's post-hearing
7 brief, which you, I think, have a copy of. And this is
8 excerpts of BellSouth's brief that was filed in the UNE docket
9 on April 12, 2002. I'm looking at Page 20.

10 A Yes, ma'am.

11 Q And 21, which is a table that shows a cost by zone
12 that a CLEC might pay if it chose to provide local service
13 using UNE-P, is that correct?

14 A Yes, ma'am, that is what that charts indicates.

15 Q Okay. And if we substituted the current Commission
16 approved UNE rates for BellSouth's proposed rates in the top
17 part of that table, would you agree that this would be an
18 accurate example of the amount a CLEC would pay BellSouth if it
19 wanted to provide local service using UNE-P?

20 A I would agree that this would be a representative
21 example of what a CLEC would pay if it were providing UNE-P.
22 You have a couple of items on there that are variable. One is
23 the second row called usage, and we just used an average for
24 that number. And also there is a line that is the fourth line
25 down there called ODUF, that is optional daily usage file, that

1 is also a function of the usage of an individual customer. So
2 what is accurately being presented here if you did make that
3 change to reflect the new UNE-P rates, would be an example of
4 what an average customer would cost a CLEC.

5 Q Then would you agree that this portion of the brief
6 appears to state that even at the rates for residential local
7 service that were in effect in 2002, CLECs could serve
8 residential customers profitably using UNE-P?

9 A They could do so based on this exhibit when they were
10 competing for the package product UNE -- excuse me, Complete
11 Choice, and that is the example that is being given here.

12 MS. BANKS: Thank you, Mr. Ruscilli. That is all
13 that staff has.

14 THE WITNESS: Yes, ma'am.

15 CHAIRMAN JABER: Mr. Ruscilli, let me ask you a quick
16 question off of JAR-1. I'm looking at Page 3 of 3, the
17 nonrecurring rate charges. Rate changes, excuse me.

18 THE WITNESS: One moment, ma'am, I'm sorry.

19 CHAIRMAN JABER: Go ahead.

20 THE WITNESS: Yes, ma'am.

21 CHAIRMAN JABER: I know that the statute says that
22 not all of the changes will be offset by recurring rates, and I
23 am assuming that is what has generated the part of your
24 proposal to increase some of the nonrecurring rates.

25 THE WITNESS: Yes.

1 CHAIRMAN JABER: And my question is how did you
2 decide how much of the increase to place on nonrecurring versus
3 recurring, is the first question, and would you clarify for me
4 nonrecurring, those are going to be your connection charges for
5 new customers, perhaps even reconnect charges?

6 THE WITNESS: Yes. Answering your second question
7 first, yes, you are correct. That is for new customers or
8 maybe making a change to an existing customer. And that is a
9 one time charge to recover the cost associated with doing that
10 activity. When we made the decision on how to distribute or
11 recover those monies, we looked for where the most level of
12 support was going and that is in the recurring charges of our
13 residential customers. And so we put a lot of the focus on
14 trying to get those rates up to their cost yet holding back
15 some on the recurring. Excuse me, for the nonrecurring. I
16 apologize.

17 CHAIRMAN JABER: Without taking you back specifically
18 to the confidential exhibit that Mr. Mann from Public Counsel
19 was referring to --

20 THE WITNESS: Yes, ma'am.

21 CHAIRMAN JABER: -- if you recall your testimony
22 about that exhibit, specifically the first line under the
23 double -- the first sentence after the double lines.

24 THE WITNESS: I have to look at it now.

25 CHAIRMAN JABER: See, I don't want to look at it

1 because I don't want to say anything I shouldn't say, but you
2 can look at it.

3 THE WITNESS: I think I'm on the right one. I hope I
4 am remembering.

5 CHAIRMAN JABER: If you consider that sentence and
6 your testimony which was nonconfidential that you expect
7 packages to increase, therefore, revenues to increase, how much
8 more can the nonrecurring rates be increased and the recurring
9 rate be decreased? Does that make sense?

10 THE WITNESS: The question I think makes sense. I'm
11 not sure I can answer it right off the top of my head as it
12 would involve some mathematical work. But I think I understand
13 the question you are asking me, I just don't know what the
14 answer would be.

15 CHAIRMAN JABER: Okay. I would very much appreciate
16 as we go through the case if some BellSouth witness -- frankly,
17 all utility witnesses could be prepared to answer that for me.
18 I'm really just thinking through the allocations. And, again,
19 these are not trick questions. My question simply is in light
20 of an increased competitive environment, how much more can you
21 increase nonrecurring charges and, therefore, decrease some of
22 those recurring charges? In that regard, I take you to your
23 Page 1 of 3 and 2 of 3. And I know this seems basic, but I
24 just want to confirm that if this Commission were to agree with
25 your proposal, but accept the basic local service recurring

1 rate changes using the typical network composite methodology,
2 for the purposes of fleshing out the record, that methodology
3 results in a lower increase to consumers.

4 THE WITNESS: Yes, ma'am.

5 CHAIRMAN JABER: And that is because based on your
6 testimony, you wouldn't be seeking the total amount of 136.4
7 million, you would be seeking the amount 125.2 million?

8 THE WITNESS: Yes, ma'am, that is correct.

9 CHAIRMAN JABER: Other than the obvious, which is the
10 typical costing methodology results in the lower rate to
11 consumer, are there other administrative reasons or something
12 not described in your testimony to pick one methodology over
13 the other?

14 THE WITNESS: I really don't address it in my
15 testimony. Mr. Hendrix talks about it in his testimony. In
16 general, what we wanted to present the Commission with is this
17 is absolute mirroring. It's just taking each element in this
18 column that says interstate and each element in that column
19 that says intrastate -- and forgive me, Mr. Hendrix, I think
20 there is a ton of those elements -- and just lining them up and
21 making them equal versus what we have presented to the
22 Commission in the past, and you have seen in other reports we
23 have filed saying this is our composite switched access rate.
24 So we want to present both of them to you so that you would
25 understand that there is a difference and you could make that

1 decision.

2 CHAIRMAN JABER: Now, Ms. White, I don't think this
3 is appropriate for your witness in light of his response to me
4 that he is just not prepared to answer the question about
5 increasing nonrecurring rate changes and decreasing your rates
6 proposed under the recurring rate changes, but if you could
7 have someone address that question for me I would appreciate
8 it. And the fundamental question is how did you decide the
9 percentages associated with the increases. And in light of the
10 confidential exhibit referred to by OPC, this witness'
11 testimony, how much more could nonrecurring rates be increased
12 and basic local service recurring rates decreased?

13 MS. WHITE: Chairman Jaber, I understand your
14 question, and I will have to talk to my clients, but it may be
15 that Mr. Ruscilli has to get back on the stand one more time.

16 THE WITNESS: And I would certainly volunteer if we
17 can work this out. I will try to do it before this proceeding
18 concludes, but maybe we could do it as a late-filed exhibit if
19 we cannot get the math crunched.

20 CHAIRMAN JABER: Well, I would prefer before this
21 proceeding concludes.

22 MS. WHITE: I'm just not sure any of the remaining
23 witnesses are appropriate, but I will check that out when we
24 next break.

25 CHAIRMAN JABER: And please keep me posted. We will

1 try to stay flexible, because I really do want that.

2 THE WITNESS: Yes, ma'am. And we will do our best.

3 CHAIRMAN JABER: To be able to consider it. And, Mr.
4 Ruscilli, in your testimony, Page 11, and in your summary
5 initially you brought up the point that BellSouth has
6 voluntarily agreed to not apply the rate increases to Lifeline
7 customers for a period of four years beginning September 2003?

8 THE WITNESS: Yes, ma'am.

9 CHAIRMAN JABER: My question to all the parties, a
10 request of all the parties is to be able to represent for
11 Verizon and Sprint if that is also the case. If not, why not.

12 Commissioners, do you have questions of this witness?

13 Redirect.

14 MS. WHITE: No, ma'am, no redirect.

15 CHAIRMAN JABER: Mr. Ruscilli, thank you for your
16 testimony. Apparently you can't be excused from the hearing.

17 THE WITNESS: That's quite alright.

18 MS. WHITE: I would ask that Exhibit 47 be moved into
19 the record.

20 CHAIRMAN JABER: Exhibit 47, without objection, will
21 be admitted into the record. Public Counsel, Exhibit 48?

22 MR. MANN: Correct.

23 CHAIRMAN JABER: Will be admitted into the record.

24 MR. MANN: Thank you, Chairman.

25 (Exhibit 47 and 48 admitted into the record.)

1 CHAIRMAN JABER: Exhibit 49, Mr. Mann, the witness
2 testified he was not familiar with it, so we will not admit
3 that.

4 MR. MANN: Correct. I will withdraw that.

5 CHAIRMAN JABER: Thank you. BellSouth.

6 MS. BANKS: Chairman Jaber, can we have staff's
7 handout marked and entered into the record, as well?

8 CHAIRMAN JABER: Yes. The excerpts from BellSouth's
9 post-hearing brief in Docket 990649A will be identified as
10 Exhibit 50. And without objection will be admitted into the
11 record.

12 (Exhibit 50 marked for identification and admitted
13 into the record.)

14 MR. FONS: Madam Chairman, before we go on, and I
15 forgot to do this, but may Dr. Gordon be excused?

16 CHAIRMAN JABER: Yes.

17 MR. FONS: Thank you.

18 CHAIRMAN JABER: Thank you. Ms. White.

19 MS. WHITE: Yes. BellSouth calls Mr. Bernard Shell.

20 BERNARD SHELL

21 was called as a witness on behalf of BellSouth
22 Telecommunications, Inc., and having been duly sworn, testified
23 as follows:

24 DIRECT EXAMINATION

25 BY MS. WHITE:

1 Q Mr. Shell, would you please state your name and
2 address for the record?

3 A Yes. My name is William Bernard Shell. My address
4 is 675 West Peachtree Street, Atlanta, Georgia 30375.

5 Q By whom are you employed and in what capacity?

6 A I am employed by BellSouth Telecommunications as a
7 manager in the finance department.

8 Q Did you cause to adopt the testimony, direct
9 testimony of Daonne Caldwell filed in this docket?

10 A Yes, I did.

11 Q And did that testimony consist of 11 pages?

12 A Yes.

13 Q Do you have any changes to that direct testimony at
14 this time?

15 A No, I do not.

16 Q If I were to ask you the answers (sic) contained in
17 that direct testimony, with the exception of the biographical
18 information, would your answers be the same?

19 A Yes.

20 MS. WHITE: I would ask that the testimony of Daonne
21 Caldwell adopted by Mr. Shell be moved into the record as
22 though read from the stand.

23 CHAIRMAN JABER: The prefiled direct testimony of
24 Daonne Caldwell as adopted by W. Bernard Shell shall be
25 inserted into the record as though read.

1 BY MS. WHITE:

2 Q And attached to that direct testimony there were four
3 exhibits labeled DDC-1, DDC-2, DDC-3, and DDC-4, is that
4 correct?

5 A That is correct.

6 Q And all of those exhibits are confidential exhibits,
7 are they not?

8 A They all are except for Exhibit DDC-3, which is a
9 diagram. That is not proprietary.

10 Q Okay. If I were to ask you the questions contained
11 in -- or, excuse me, did you have any changes to those
12 exhibits?

13 A No, I do not.

14 Q Thank you.

15 MS. WHITE: I would like to ask that the exhibits
16 attached to Ms. Caldwell's testimony as adopted by Mr. Shell be
17 labeled as the next exhibit number as a composite exhibit.

18 CHAIRMAN JABER: Ms. White, what I would like to do
19 is we will identify DDC-3 as Exhibit 51, and DDC-1, 2, and 4 as
20 Confidential Exhibit 52.

21 MS. WHITE: Thank you.

22 (Exhibit 51 and 52 marked for identification.)

23 BY MS. WHITE:

24 Q Mr. Shell, did you cause to be prefiled in this case
25 rebuttal testimony consisting of 21 pages?

1 A Yes.

2 Q Do you have any changes to that testimony?

3 A No, I do not.

4 Q If I were to ask you the questions contained in that
5 testimony today, would your answers be the same?

6 A Yes.

7 MS. WHITE: I would ask that the rebuttal testimony
8 of Mr. Shell be inserted into the record.

9 CHAIRMAN JABER: The prefiled rebuttal testimony of
10 W. Bernard Shell shall be inserted into the record as though
11 read.

12 BY MS. WHITE:

13 Q And, Mr. Shell, you had one exhibit labeled WBS-1
14 attached to your rebuttal testimony, is that correct?

15 A That is correct.

16 Q And do you have any changes to that exhibit?

17 A No, I do not.

18 MS. WHITE: I would ask that Exhibit WBS-1 be labeled
19 as the next exhibit.

20 CHAIRMAN JABER: WBS-1 will be identified as Exhibit
21 53.

22 (Exhibit 53 marked for identification.)
23
24
25

1 **BELLSOUTH TELECOMMUNICATIONS, INC.**
2 **DIRECT TESTIMONY OF D. DAONNE CALDWELL**
3 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
4 **AUGUST 27, 2003**

5
6 **Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

7
8 A. My name is D. Daonne Caldwell. My business address is 675 W. Peachtree St.,
9 N.E., Atlanta, Georgia. I am a Director in the Finance Department of BellSouth
10 Telecommunications, Inc. (hereinafter referred to as "BellSouth"). My area of
11 responsibility relates to the development of economic costs.

12
13 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL**
14 **BACKGROUND AND WORK EXPERIENCE.**

15
16 A. I attended the University of Mississippi, graduating with a Master of Science
17 Degree in mathematics. I have attended numerous Bell Communications
18 Research, Inc. ("Bellcore") courses and outside seminars relating to service cost
19 studies and economic principles.

20
21 My initial employment was with South Central Bell in 1976 in the Tupelo,
22 Mississippi, Engineering Department where I was responsible for Outside Plant
23 Planning. In 1983, I transferred to BellSouth Services, Inc. in Birmingham,
24 Alabama, and was responsible for the Centralized Results System Database. I
25 moved to the Pricing and Economics Department in 1984 where I developed

1 methodology for service cost studies until 1986 when I accepted a rotational
2 assignment with Bellcore. While at Bellcore, I was responsible for development
3 and instruction of the Service Cost Studies Curriculum including courses, such as,
4 “Concepts of Service Cost Studies”, “Network Service Costs”, “Nonrecurring
5 Costs”, and “Cost Studies for New Technologies”. In 1990, I returned to
6 BellSouth and was appointed to a position in the cost organization, now a part of
7 the Finance Department, with the responsibility of managing the development of
8 cost studies for transport facilities, both loop and interoffice. My current
9 responsibilities encompass testifying in cost-related dockets, cost methodology
10 development, and the coordination of cost study filings.

11

12 **Q. HAVE YOU HAD ANY PREVIOUS EXPERIENCE IN TESTIFYING?**

13

14 A. Yes. I have testified in arbitration hearings, generic cost dockets, and Universal
15 Service Fund proceedings, providing evidence on cost-related issues before the
16 state public service commissions in Alabama, Florida, Georgia, Kentucky,
17 Louisiana, Mississippi, and South Carolina, the Tennessee Regulatory Authority,
18 and the Utilities Commission in North Carolina.

19

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21

22 A. My testimony presents the costs associated with providing access to basic local
23 service, whose current rates may be impacted by this filing. Exhibit DDC-1
24 attached to this testimony is the cost study in electronic (CD-ROM) and paper

25

1 format¹. The recurring costs, by rate group, resulting from this study are also
2 outlined in proprietary Exhibit DDC-2. Furthermore, Exhibit DDC-2 also
3 compares the existing monthly rates found in the General Subscriber Service Tariff
4 (“GSST”)² and their costs. A review of this exhibit confirms that implicit
5 subsidization exists for basic local exchange service based on the existing rates and
6 rate structure. The testimony of BellSouth witness John Ruscilli discusses rate
7 increases that will move the existing basic local exchange rates closer to cost.

8

9 **Q. DESCRIBE THE UNDERLYING NETWORK COMPONENTS OF BASIC**
10 **LOCAL SERVICE.**

11

12 A. One of the first steps in cost development is to determine the network components
13 required to fulfill the technical service description of the offering, in this case
14 access to basic local service. The description of the service and the tariff structure
15 (including the rate group rate structure) determine what needs to be considered in a
16 cost study. In order to attain access to the network (which is equivalent to basic
17 local telephone service), a customer requires all of the following network
18 components: a loop, a physical point of presence in the switch (termination), and
19 interoffice connections. In order to make and complete calls, the customer also
20 utilizes components of BellSouth’s signaling system 7 (“SS7”) network, tandem
21 switches, and end-office switch functionality. Costs associated with these pieces
22 of equipment are directly caused by the customer’s request for this service and

23

24 _____
25 ¹ The entire cost study has not been printed, however, all input and
output files are contained on the CD.

² The current Subscriber Carrier Line (“SLC”) charge of \$6.50 is also
considered in this comparison.

1 thus, are appropriately included in the cost analyses conducted by BellSouth.
2 Exhibit DDC-3 illustrates the basic network components considered in the cost
3 study.

4
5 The local loop is the facility that extends from the main distributing frame
6 (“MDF”) in the BellSouth central office to the customer’s premises. The loop
7 costs reflect the MDF, all the outside plant components required for transmission,
8 such as copper cable, fiber cable, electronic equipment, poles, conduit, etc., as well
9 as all cable up to and including the connection at the customer’s premises, the
10 network interface device (“NID”).

11
12 The line termination is the facility used to connect the local loop to a BellSouth
13 end office switch. The line termination costs include the jumper to the switch and
14 the non-traffic sensitive termination in the switch, for example the line card in the
15 DMS100 switch.

16
17 Local usage costs include the traffic sensitive switching cost of the end office for
18 both intra-office and inter-office calls within the local calling area of that end
19 office. Additionally, local tandem switching, interoffice transport, and signaling
20 costs are considered in the flat-rate usage costs considered in Exhibits DDC-1 and
21 DDC-2. Customer usage characteristics (e.g., calls per month and minutes per
22 call) were used to convert “per minute of use” elements to a flat-rate monthly cost.

23

24 **Q. WHAT TYPES OF COSTS ARE REFLECTED IN THE COST STUDIES?**

25

1 A. Cost studies normally reflect both recurring and nonrecurring costs. Recurring
2 costs include both capital and non-capital costs. Capital costs are associated with
3 the purchase of an item of plant, i.e., an investment. In addition to the material
4 price of the equipment, capitalized labor is also considered part of the investment
5 in accordance with Part 32 of the FCC's Code of Federal Regulations which states:
6 "In accounting for construction costs, the utility shall charge to the telephone plant
7 accounts, all direct and indirect costs." Included in the direct and indirect costs are
8 the "wages and expenses of employees directly engaged in or in direct charge of
9 construction work." Thus, BellSouth has appropriately included these labor-
10 related costs (construction costs) in the calculation of the investment; i.e., as part
11 of the capitalized plant account. BellSouth considers these labor-related costs in
12 its study through the use of in-plant factors that augment the material price to
13 recognize the associated labor and incidental material required to install the piece
14 of equipment. By including these costs as part of the investment, they are
15 recovered over the useful life of the plant. The costs associated with the
16 investment (material plus installation costs) are expressed on a recurring (monthly)
17 basis and are comprised of capital costs (depreciation, cost of money, and income
18 tax) and operating expenses (plant-specific expenses, such as maintenance, ad
19 valorem taxes and gross receipts taxes).

20

21 Nonrecurring costs, on the other hand, reflect activities associated with
22 provisioning the service after the equipment has been installed. In other words,
23 these are costs BellSouth incurs as a result of a service request. Included in the
24 basic basket are those rate elements contained in the A4 Section of the General
25 Subscriber Service Tariff ("GSST") – Service Charges. All of these costs are

1 nonrecurring in nature and are associated with connecting or changing service:
2 Line Connection Charge, Line Change Charge, Secondary Service Charge, and
3 Premises Work Charge. Updated costs have not been developed for these rate
4 elements. The last time these elements were filed was in conjunction with Florida
5 Special Docket 980000-A (Fair & Reasonable). The costs produced at that time
6 are contained in proprietary Exhibit DDC-4.

7

8 **Q. WHAT COST METHODOLOGY IS USED IN THE COST STUDIES?**

9

10 A. The Florida Public Service Commission (“Commission”) has previously defined
11 the cost standard to be used in preparing cost support for retail services as Total
12 Service Long Run Incremental Cost (“TSLRIC”) based Section 364.3381 (2),
13 Florida Statutes. Specifically, the Commission has defined TSLRIC as “the costs
14 to the firm, both volume sensitive and volume insensitive, that will be avoided by
15 discontinuing, or incurred by offering an entire product or service, holding all other
16 products or services offered by the firm constant.” (Commission Order PSC-96-
17 1579-FOF-TP, page 25) This was the methodology adhered to by BellSouth. In
18 fact, these are the same types of incremental cost studies that BellSouth has filed in
19 tariff filings and other proceedings before the Commission.

20

21 Additionally, the models that were used to develop the recurring costs for basic
22 local service are the same as those that the Commission reviewed in the generic
23 cost docket, Docket No. 990649-TP, conducted to establish cost-based rates for
24 unbundled network elements (“UNEs”) and interconnection. Specifically the

25

1 BSTLM[®] was used to develop the loop costs; the SST[®] was used for switch-
2 related costs; and the BellSouth Cost Calculator[®] converted investments into
3 recurring costs. Furthermore, the factors that were used are consistent with those
4 currently under review in the Collocation Docket Nos. 981834-TP and 990321-TP.

5
6 As this Commission is aware, the BSTLM is a proxy model that reflects the least
7 cost, most efficient network configuration in accordance with the Federal
8 Communications Commission's ("FCC's") pricing rules for UNEs. Thus, costs
9 based upon the hypothetical network produced by the BSTLM, a network in which
10 only the minimum cable route is considered and most-technically advanced
11 equipment is placed, result in an understatement of the real-world loop-related
12 costs. In other words, the costs BellSouth actually incurs, even from a forward-
13 looking perspective, exceed those produced by the BSTLM.

14

15 **Q. PLEASE EXPLAIN THE TSLRIC METHODOLOGY IN MORE DETAIL.**

16

17 A. TSLRIC methodology uses incremental costing techniques to identify the
18 additional costs associated with providing a service. Incremental costs are based
19 on cost causation and include all of the costs directly generated by expanding
20 production, or alternatively, costs that would be saved if the production levels were
21 reduced. The production unit could be an entire service, or a unit of a service. For
22 basic telephone service, if the level of production increased, additional costs would

23

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1 be incurred for loops, switch terminations, and interoffice connections, i.e. the
2 physical network components of the service. Conversely, if the telecommunication
3 providers discontinue the basic service, these costs would be saved (avoided).

4

5 Direct costs may be volume sensitive and/or volume insensitive. Volume sensitive
6 costs are considered to be Long Run Incremental Costs (“LRIC”). LRIC identifies
7 the price floor, i.e. the level below which rates cannot be set and still cover their
8 direct costs. TSLRIC includes both volume sensitive and volume insensitive costs.
9 TSLRIC studies are the basis for testing for cross-subsidization. Additionally,
10 long run incremental cost studies ensure that the time period studied is sufficient to
11 capture all forward-looking costs affected by the business decision being studied.
12 Another corollary to the long-run principle is that all costs are variable in the long
13 run. The implication here is that all resources will exhaust and new purchases
14 must be made to meet demand for the service or product.

15

16 **Q. DO STUDIES BASED ON TSLRIC METHODOLOGY INCLUDE SHARED**
17 **AND COMMON COSTS? IF NOT, WHY NOT?**

18

19 A. No. A definition of shared and common costs will explain why they are not
20 included. A shared cost is incurred when producing two or more services but is
21 not a direct cost caused uniquely by any one of those services. An example of a
22 shared cost is a licensing fee paid to a vendor that supports two or more services.

23

24 Common costs are costs that are incurred by a firm to produce all of its services,
25 but cannot be directly attributed to (i.e., are not caused uniquely by) any single

1 service or service combination that includes fewer than all of the services
2 provided. Such costs do not change with changes in the firm's service mix or
3 volume of output. Examples of common costs are executive, accounting and legal
4 costs. Thus, both shared and common costs are not included at the individual
5 service level since only direct costs are considered in a TSLRIC analysis.

6

7 **Q. IN PAST PROCEEDINGS IN FLORIDA, PARTIES HAVE CLAIMED**
8 **THAT THE LOOP COSTS SHOULD BE TREATED AS A COMMON**
9 **COST. IS THIS APPROPRIATE?**

10

11 A. No. This is incorrect for a number of reasons. First, common costs do not vary
12 with the demand. However, an increase in demand for basic service requires
13 additional loop investment and thus, increases loop costs since the loop is the main
14 vehicle required for access to the telephone network. Secondly, the customer's
15 request for service triggers loop costs. The loop cost is directly caused because of
16 the request for the service, thus it is appropriately included in a TSLRIC study.
17 Furthermore, the loop provides a dedicated means of access, since no one else can
18 use the customer's loop even if the subscriber never uses the loop to place a call.

19

20 Treatment of loop costs as shared or common costs also violates the cost-causation
21 principle inherent in TSLRIC methodology. A cost is caused when an activity
22 takes place; if BellSouth provisions a loop, the cost is incurred. That is the cost
23 causation standard. That standard does not depend at all on how the loop is used,
24 or how the product or service is used, or the benefit or value that is created from
25 that use.

1
2 In fact, in a 1999 report to the Florida Legislature, the Commission rejected the
3 claim that the cost of the loop should be recovered from non-basic local
4 telecommunications service.³ In that report, the Commission stated:

5 Is the cost of local loop facilities properly attributable to the provision
6 of basic local telecommunications service? By definition, yes. Section
7 364.02(2), Florida Statutes, defines "basic local telecommunications
service as"

8 Voice grade, flat-rate residential and flat-rate single-line
9 business local exchange services which provide dial tone, local
10 usage necessary to place unlimited calls within a local exchange
11 area, dual tone multi-frequency dialing, and access to the
12 following emergency services such as "911," all locally
available interexchange companies, directory assistance,
operator services, relay services, and an alphabetical directory
listing.

13

14 **Q. SHOULD RATES BE SET EQUAL TO THE TSLRIC RESULTS?**

15

16 A. No. TSLRIC methodology recognizes only the direct, forward-looking, long-run
17 incremental cost of providing a service. As mentioned previously, shared and
18 common costs are not addressed by TSLRIC methodology. Yet, shared and
19 common costs are true costs to the company and should not be ignored. In fact, if
20 a company were to consistently set their rates at TSLRIC, the company would soon
21 fail. Thus, in setting rates, consideration must be given to a reasonable level of
22

22

23 _____
24 ³ See, "Report of the Florida Public Service Commission on the
25 Relationship Among the Costs and Charges Associated with Providing
Basic Local Service, Intrastate Access, and Other Services Provided
by Local Exchange Companies, in Compliance with Chapter 98-277,
Section 2(1), Laws of Florida," Florida Public Service Commission
Tallahassee, Florida February 15, 1999.

1 contribution toward the joint and common costs of the corporation. In fact, the
2 FCC in establishing the pricing standards associated with UNEs recognized that it
3 is appropriate to recover shared and common costs.

4

5 **Q. ARE THERE ANY DIRECT COSTS NOT REFLECTED IN**
6 **BELLSOUTH'S COST STUDY FILED AS EXHIBIT DDC-1?**

7

8 A. Yes. None of the direct costs required to promote and support retail services, e.g.
9 billing, collections, marketing, sales, advertising, and product management have
10 been considered in the costs displayed in Exhibit DDC-1. These additional costs
11 are a direct result of having customers, including those subscribing to basic local
12 service. However, direct assignment of these costs is very difficult and complex.
13 Based on a cost allocation process similar to that used to develop the shared and
14 common cost factors in the generic cost docket, it is estimated that an additional
15 9.59% is required to account for these costs. Exhibit DDC-2 considers the
16 application of the estimated 9.59% factor. Additionally, the calculations used to
17 develop this factor (Customer Operations Cost Factor) are contained in Exhibit
18 DDC-1 in Appendix J.

19

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

21

22 A. Yes.

23

24

25

1 **BELLSOUTH TELECOMMUNICATIONS, INC.**
2 **REBUTTAL TESTIMONY OF W. BERNARD SHELL**
3 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
4 **DOCKET NO. 030867-TL, 030868-TL, 030869-TL & 030961-TI**
5 **NOVEMBER 19, 2003**

6
7 **Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

8
9 A. My name is W. Bernard Shell. My business address is 675 W. Peachtree St., N.E.,
10 Atlanta, Georgia. I am a Manager in the Finance Department of BellSouth
11 Telecommunications, Inc. (hereinafter referred to as "BellSouth"). My area of
12 responsibility relates to the development of economic costs.

13
14 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?**

15
16 A. No, I am adopting the direct testimony of D. Daonne Caldwell filed in this
17 proceeding on August 27, 2003.

18
19 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL**
20 **BACKGROUND AND WORK EXPERIENCE.**

21
22 A. I attended Clemson University, graduating with a Bachelor of Science Degree in
23 Electrical Engineering in 1981. I received a Masters Degree in Business
24 Administration from Georgia State University in 1997.

25

1 My career with BellSouth spans over twenty years. My initial employment was
2 with Southern Bell in 1981, in Columbia, South Carolina in the Network
3 Department as an Equipment Engineer. In that capacity, I was responsible for the
4 ordering and installation of central office equipment. In 1984, I transferred to the
5 Rates and Tariffs group in Atlanta, Georgia where I was responsible for the rates,
6 costs, tariffs, and implementation of services. During my time in that organization,
7 I worked with many services/offerings, such as Local Exchange Service, Service
8 Order Charges, Operator Services, Mobile Interconnection, and Inside Wire. I
9 moved to the Interconnection Marketing Unit in 1995, where I had various
10 responsibilities, including negotiating with Competitive Local Exchange Carriers
11 ("CLECs"), developing pricing strategies, and product managing Collocation. In
12 December 2000, I moved to a position in the cost organization, a part of the
13 Finance Department. My current responsibilities include cost methodology
14 development and implementation.

15

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17

18 A. The purpose of my testimony is to respond to cost development issues raised in the
19 testimony filed by other parties. I respond specifically to allegations made by Dr.
20 David Gabel who represents the Office of Public Counsel ("OPC") and AARP
21 witness Dr. Mark Cooper.

22

23 **Q. DR. GABEL CONTENDS THAT BELL SOUTH'S COST METHODOLOGY**
24 **DOES NOT FULFILL THE TOTAL SERVICE LONG RUN**
25 **INCREMENTAL COST ("TSLRIC") STANDARDS. IS HE CORRECT?**

1
2 A. No. Dr. Gabel claims that BellSouth and the other incumbents “rely on TELRIC-
3 based estimates that include costs of the loop shared by residential, business, and
4 data services which should not appear in a TSLRIC estimate.” (Gabel testimony,
5 page 12, lines 17-19) As will be discussed in greater detail later in this testimony,
6 Dr. Gabel misrepresents the underlying definition of the service that the cost
7 studies support, i.e., basic local exchange service. Population densities and loop
8 lengths cause differences in cost between residence and business loops. However,
9 the overall physical attributes of the network that provides this service (i.e., access
10 to the telecommunications network) does not differ due to some artificial class-of-
11 service designation designed to promote universal service. This total network that
12 provides access, regardless of class of service, provides the foundation of
13 BellSouth’s cost calculations. Once costs associated with this network are
14 determined, cost recovery dictated by rate structure (e.g., the formation of rate
15 groups and class of service partitioning) can take place.

16
17 Dr. Gabel’s contention that costs associated with trenching, conduit, poles, and
18 cable placements are shared costs flows from this misunderstanding of the service
19 under study. He has created two separate services – residential service and
20 business service – when in actuality there is only one service - and then
21 inappropriately classified costs as shared between these two “services”. Dr. Gabel
22 seems to confuse the concept of “shared facilities” with the concept of “shared
23 costs.” Almost every facility and piece of equipment used in a telecommunication
24 provider’s network is shared by more than one service. Just because a facility is
25 “shared,” however, does not imply that the costs of the facility should be treated as

1 shared costs. Indeed, many of these costs of shared facilities can be broken down
2 into individual components driven by unit increments as volume grows. In a long
3 run incremental analysis, the addition of incremental units of demand bring each of
4 these network components closer to exhaust; thus, advancing future capital
5 expenditure. The long run incremental cost impact is reflected as the unit
6 (capacity) cost and is appropriately considered in the TSLRIC of a service.

7
8 Additionally, implementation of Dr. Gabel's "adjustments" would result in costs
9 that do not reflect the long-run incremental costs incurred in providing access to
10 basic local service; i.e., costs incurred in providing a working circuit from the
11 customer's location to the central office that would allow the end-user to make and
12 receive calls.

13
14 The proceeding that gave rise to the cost standards to be used to develop prices for
15 individual retail services recognized that "certain inherent characteristics of a
16 multi-product firm typical of the telephone industry – notably, the presence of
17 economies of scale and scope, and the existence of significant amounts of joint and
18 common costs – prohibit one from successfully performing a unique one-to-one
19 mapping between component cost elements and specific services." (Memorandum
20 in Docket No. 900633-TL, *Development of Local Exchange Company Cost Study*
21 *Methodology* ("Cost Order"), April 25, 1991, page 4) Thus, the Florida Public
22 Service Commission ("Commission") has acknowledged the difficulty faced in
23 identifying direct costs associated with any telecommunication service – including
24 access to basic local service. The Commission's identification of this problem
25 does not, however, imply that reasonable approaches to overcome the hurdles

1 faced by the cost analysts do not exist. Indeed the Commission has accepted
2 BellSouth's inclusion of the costs Dr. Gabel claims are shared in previous tariff
3 filings that have been supported by TSLRIC results.

4
5 In numerous cost study filings supporting retail services, BellSouth has employed
6 the identical methodology submitted in this proceeding. Specifically, BellSouth
7 establishes relationships between total capitalized costs and material prices in
8 order to capture associated labor and incidental materials required to install the
9 piece of equipment, i.e., to determine the installed investment. Similarly,
10 BellSouth develops loading factors based on relationships between investments to
11 identify supporting structure costs (poles and conduit) and land and building costs
12 in order to capture all costs directly related to provisioning a working circuit. The
13 Commission has never found that this process violates TSLRIC principles.

14

15 **Q. DR. GABEL CONCLUDES THAT: "IT IS HIGHLY PROBABLE THAT**
16 **CURRENT RETAIL PRICES FOR RESIDENTIAL BLTS ALONE**
17 **EXCEED THE DIRECT COSTS OF PROVIDING THESE SERVICES."**
18 **(PAGE 12, LINES 6-7) IS HE CORRECT?**

19

20 A. No. Dr. Gabel's conclusion is valid only if one accepts his erroneous exclusion of
21 most of the loop costs as "shared costs," only then does residential basic local
22 service rates cover costs. If one extends Dr. Gabel's approach and applies it to
23 business basic local service then most, if not all, of the loop costs associated with
24 this service are also "shared" costs. This exercise could be followed by similar
25 studies of all of the remaining services offered by BellSouth. The final result

1 would be the shifting of costs from directly assignable costs to shared costs. In
2 fact, it is interesting that Dr. Gabel stopped where he did with only removing
3 labor-related loop costs. Since most components of any telecommunications
4 network are used to provide multiple services, under his approach he could have
5 lumped even more costs into the classification of “shared costs.” Dr. Gabel is
6 essentially shifting the problem from one of “cost identification” to one of “cost
7 recovery”. Given Dr. Gabel’s approach of lumping much of the network costs into
8 a shared “pot” of costs, this Commission would then be required to wrestle with
9 how this ever-growing pot of shared costs would be recovered. Reclassification of
10 costs does not eliminate the reality of these costs.

11

12 **Q. PLEASE PROVIDE A BRIEF OVERVIEW OF HOW BELL SOUTH**
13 **CONDUCTS ITS TSLRIC STUDIES.**

14

15 A. Any cost study begins with the identification of the cost object; i.e., it begins with
16 the definition of the service/product/element. In this proceeding, the service (cost
17 object) in question is access to the local telephone network – it is not long distance
18 service, it is not vertical features, it is not data services. Therefore, costs
19 associated with these other services have not been considered and the studies
20 identified only those costs directly attributable to basic local exchange service.

21

22 Local exchange service provides the customer access to the telephone network and
23 thus, allows the customer the capability to make and receive calls. This service is
24 comprised of the serving central office terminating equipment, BellSouth plant
25 facilities from the customer’s serving central office up to and including the

1 network interface device, and usage, i.e., the network components required to
2 make and receive calls in the local calling area. Section 364.02(2), Florida
3 Statutes, defines basic local telephone service as:

4 Voice grade, flat-rate residential and flat-rate single-line
5 business local exchange services which provide dial tone,
6 local usage necessary to place unlimited calls within a local
7 exchange area, dual tone multi-frequency dialing, and
8 access to the following: emergency services such as '911,'
9 all locally available interexchange companies, directory
10 assistance, operator services, relay services, and an
11 alphabetical directory listing.

12 This definition comports with BellSouth's study. Additionally, since the purpose
13 of this proceeding is to evaluate BellSouth's existing rates, the cost study must
14 support the existing rate structure and definitions. BellSouth's General Subscriber
15 Service Tariff (A.3.1) states that basic local exchange service is comprised of
16 exchange access lines defined as:

17 The serving central office line equipment and all Company
18 plant facilities up to and including the Company-provided
19 Standard Network Interface. These facilities are Company-
20 provided and maintained and provide access to and from
21 the telecommunications network for message toll service
22 and for local calling appropriate to the tariffed use offering
23 selected by the customer.

24 Both of the definitions above support BellSouth's contention that basic local
25 telephone service is a single service – not separated into residential service and
26 business service - thus, it makes no sense to talk about costs that are "shared"
27 between two classes of service as Dr. Gabel has attempted to do.

28 Once the service has been defined, the following steps are taken:

- 1 1. BellSouth determines the forward-looking architecture, engineering, and
2 provisioning procedures required to provide the functionality for each of
3 the network components (e.g., loop, switch termination, end office
4 switching, etc.) in the defined service through the use of models, special
5 studies and the integrated involvement of necessary BellSouth personnel,
6 such as cost analysts, product managers and network engineers.
- 7 2. BellSouth develops the costs associated with the material and equipment
8 required to provision each network component.
- 9 3. BellSouth models the installation of the materials and equipment by
10 ensuring that the costs associated with installation and supporting
11 structures were appropriately included.
- 12 4. BellSouth determines the cost of each network component by converting
13 the installed investment into its carrying charges and operating expenses.
14 Also included in this step is the impact of taxes.

15
16
17 **Q. HOW DOES BELL SOUTH'S MODELING DEVELOP THE COST OF THE**
18 **NETWORK?**

19
20 A. As Dr. Gabel states, the loop contributes most to the cost of basic local service.
21 Thus, I will explain how the BellSouth Telecommunications Loop Model[®]
22 ("BSTLM") models the narrowband, voice-grade telecommunications network and
23

24 _____
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1 develops the loop investment. First, contrary to Dr. Gabel's assertion, the BSTLM
2 (or any of the other models filed in this proceeding) is not a "fully distributed cost
3 mechanism." (Gabel testimony, page 23, line 17) Fully distributed cost
4 methodology allocates all the costs of the company among the services offered by
5 the company such that the total of all services' costs equal the total cost of the
6 company. This is not what BellSouth has done.

7
8 The foundation of the BSTLM is geocoded customer addresses, as well as services
9 purchased at each address. Once the BSTLM has determined where customers are
10 located, cable routes to serve all customers in each wire center are determined
11 based on a Minimum Spanning Road Tree ("MSRT") algorithm. This approach,
12 as the name implies, determines the minimum distance to serve all customer
13 locations assuming cable routes follow existing roadways. The BSTLM next
14 "clusters" customer locations within each serving wire center boundary into
15 Carrier Serving Areas ("CSAs") based on engineering guidelines. Once the routes
16 and "clusters" have been determined, appropriate components, such as digital loop
17 carrier ("DLC") and Feeder Distribution Interfaces ("FDIs"), are then located
18 within each serving area.

19
20 Once the layout of the network is determined, the BSTLM's configuration process
21 "configures" each network component along each route in each wire center. This
22 procedure entails the determination of cable sizes, cable types (copper/fiber,
23 aerial/buried/underground), FDI sizes, and selection of DLC sufficient to serve the
24 demand expressed as DS0 equivalents. Each of the required network components
25 for each service can be expressed in terms of pair equivalents for the copper cable

1 portion of the service or DS0 equivalents for the fiber and electronic components
2 of the service. The network along each route and at each equipment location is
3 sized to handle the sum of the pair equivalents and/or DS0 equivalents transported
4 over that part of the network. In other words, the network built by the BSTLM is
5 built (i.e., “caused”) by pair equivalents and DS0 equivalents for the services
6 provided along each segment of each route. Once the network has been configured
7 and sized appropriately, the BSTLM calculates the material price of each network
8 component, along each route and at each equipment location. Costs of the network
9 (at each point along the network) are then assigned to services consistent with the
10 way the network was “built” – copper costs are assigned to services riding on each
11 copper cable based on the cost “causer” of the copper – i.e., the pair equivalent
12 required for each service; and, fiber and electronic costs are assigned to the
13 services utilizing the electronics and fiber based on the cost “causer” of the fiber
14 and electronics costs – i.e., the DS0 equivalents of each service.

15
16 Once the total network costs have been determined, and those costs have been
17 assigned to each service at each location based on the cost causers – either copper
18 pairs or DS0s – then, reports can be obtained from the BSTLM. These reports
19 provide average loop costs for customer locations with any specified category of
20 service. The cost studies filed in this proceeding reflect reports of the basic local
21 service loops terminating at residence and business customer locations.

22
23 **Q. DR. GABEL TAKES ISSUE WITH BELL SOUTH’S INCLUSION OF**
24 **CERTAIN INSTALLATION AND SUPPORTING STRUCTURE COST**
25 **CALCULATIONS. HE ALSO CLAIMS THAT: “THE ABSENCE OF**

1 **RESIDENTIAL BLTS WOULD NOT HAVE AN IMPACT ON ILEC'S**
2 **TRENCHING COSTS.” (PAGE 17, LINES 19-20) IS HE CORRECT?**

3
4 A. No. It is appropriate to consider all costs associated with providing the end-user a
5 working circuit – not just a piece of wire. In order to make the loop functional,
6 digital loop carrier common (“DLC”) equipment is required to make the system
7 functional, conduit is required to support underground cables, poles are required to
8 attached aerial cable, etc. As I have described previously, the BSTLM sizes the
9 equipment based upon DS0 (voice grade circuit) requirements. Recognizing
10 equipment capacity constraints, each loop is apportioned a DS0's worth of
11 equipment in the “per loop” calculation.

12
13 Dr. Gabel claims that residential basic local exchange service does not cause
14 BellSouth to directly incur certain costs and that the absence of this service would
15 have no direct effect on these costs. First, Dr. Gabel is starting with an incorrect
16 premise. As I have explained, the foundation of BellSouth's study is NOT
17 residential basic local service. Instead, it is access to basic local service.
18 Nevertheless, his assertion that the “absence of residential BLTS would not have
19 an effect on ILEC's trenching costs” is false. Consider that the vast majority of
20 BellSouth's lines are residential. If BellSouth were to stop serving residential
21 locations, i.e., if BellSouth eliminated this service in its entirety, its trenching costs
22 (and other costs Dr. Gabel has defined as shared) would drop substantially since
23 less cable and equipment would be required to serve the remaining demand.

24
25 Additionally, Dr. Gabel focuses on what happens to existing plant when a service

1 is eliminated rather than what happens to future plant (and the forward-looking
2 capital expenditures associated with future plant) when a service is eliminated, or
3 added, to the mix of services. If residential basic local service were eliminated
4 from BellSouth's mix of service offerings, future placements of facilities,
5 including the labor associated with placing those facilities, would be avoided.
6 Therefore, by definition, costs associated with the placement (e.g., trenching) of
7 those facilities are a part of the TSLRIC of that service. To further illustrate the
8 problems with his approach, suppose for example that a route was entirely
9 residential so even under Dr. Gabel's approach, 100% of the loop would be
10 included in the TSLRIC for residential service. Now, suppose a business opens at
11 the end of the cable route and orders one line. Under Dr. Gabel's methodology,
12 that route suddenly becomes a shared cost and those costs are excluded from the
13 TSLRIC for residential service as well as from the TSLRIC for business service.
14 Then, if that business closes, the loop is once again included in the TSLRIC of
15 residential service. Such a methodology is not manageable and clearly not correct.
16
17 Dr. Gabel's claim that "trenching is a shared cost of all services that have facilities
18 running through the trench" is also false. (Gabel testimony, page 18, lines 1-2)
19 The trench is a shared facility, however, the cost of digging the trench is not a
20 shared cost. For example, assume the trench is in place today providing both
21 residential and business basic local service. As each increment of service is added
22 (whether it be residential or business), the cable in that trench gets closer and
23 closer to exhaust and all future jobs are advanced by one unit of demand. Each
24 unit of service added "causes" a portion of the cost of those future trenching jobs,
25 as well as the cable in it. That unit capacity cost of the trench, as well as the cable

1 material, are a real part of the long run incremental cost (TSLRIC) of each service
2 being transported in that trench.

3
4 Dr. Gabel also states that: “the TSLRIC estimate of residential BLTS equals the
5 total cost of providing the combined services minus the stand-alone cost of
6 providing all service with the exception of residential BLTS.” (Gabel testimony,
7 page 24, lines 12-14) This Commission has found that “SAC [stand alone costs]
8 data are unnecessary” in evaluating the cost of basic local service. (“Report of the
9 Florida Public Service Commission on the Relationship Among the Costs and
10 Charges Associated with Providing Basic Local Service, Intrastate Access, and
11 Other Services Provided by Local Exchange Companies, in Compliance with
12 Chapter 98-277, Section 2(1), Laws of Florida,” Florida Public Service
13 Commission Tallahassee, Florida February 15, 1999, page 53) So his statement,
14 which appears to rely on SAC estimates, is irrelevant.

15
16 Nonetheless, if residential service was removed entirely from BellSouth’s list of
17 products, the basic local exchange network would look entirely different and many
18 of the economies of scale and scope reflected in the cost study and recognized by
19 this Commission would be lost. For example, the BSTLM places digital loop
20 carrier systems based on demand considerations. If there were a change to the
21 underlying demand (for example if residential service is eliminated), the number of
22 digital loop carrier systems, their locations, and the sizes of the systems would not
23 be the same.

24

25 **Q. IS IT APPROPRIATE TO REMOVE THE COSTS OF COMMON PLUG-**

1 **INS AND HARDWIRED EQUIPMENT COSTS AS DR. GABEL ASSERTS?**

2

3 A. No. A DLC system is comprised of hardwire (cabinet) and commons which have
4 a finite capacity based on DS0 equivalents (which equate to voice-grade lines)
5 regardless of the DS0's use. Under TSLRIC methodology, investments should be
6 calculated in a manner that best reflects cost causation. The DS0 approach utilized
7 by the BSTLM to determine the cost of DLC equipment is reasonable, is
8 competitively neutral, and best reflects cost causation. The DS0 cost causality link
9 is supported by the vendors' technical specifications of DLC systems. For
10 example, from the technical specifications of Nortel's Access Node:

11

2,688 DS0s per Network Element

12 Each AccessNode Network Element, using Universal Edge 9000 shelves in
13 a dual bay configuration, may support up to 2,688 DS0s.

13

14 The ABM supports up to seven (7) Copper Distribution or Universal Edge
15 9000 shelves or a combination of them offering narrowband and xDSL
16 services. One ABM shelf can support up to 2,688 DS0s, 98 DS1s, 9 DS3s or
17 combination of DS1s, DS3s, along OC-3s and OC-3c optical tribs

15

16 Based on the vendor specifications, the DLC system has DS0-based capacity
17 constraints. Thus, there is cost causality between DS0 quantities and all required
18 DLC equipment including commons and hardwire equipment. Indeed, as one adds
19 additional residential basic local service at a DLC site, the DLC common
20 equipment capacity is used up and each added residential service advances the
21 future placements of additional DLC common equipment. Therefore, DLC
22 common equipment is a direct cost of residential service and is appropriately
23 included in the TSLRIC of residential basic local service

24

25 **Q. ON PAGE 19, DR. GABEL ASSERTS THAT HE CAN "DEMONSTRATE**

1 **THAT BELLSOUTH ESSENTIALLY RELIES ON TELRIC ESTIMATES**
2 **TO INCORRECTLY ESTIMATE TSLRIC.” HAS HE DONE THIS?**

3
4 A. No. Dr. Gabel has entered into a game of semantics whereby any facility that can
5 by some stretch of the imagination have a shared attribute must be disallowed from
6 a TSLRIC study. Since he (incorrectly) assumes the study is for residential
7 service, his study would require partitioning the network into residence and
8 business. In doing so, the realities of the telecommunications network, a network
9 that relies on “shared” capabilities to achieve efficient use of resources as reflected
10 in the economies of scale and scope demonstrated in the cost studies, would be
11 lost. Furthermore, he ignores the fact that in the long run, facilities will exhaust
12 and new facilities will need to be deployed --- including DLC common equipment
13 and additional conduit and poles. Finally, he ignores the fact that without these
14 “shared” costs, the loop will not function --- this cannot possibly reflect the costs
15 BellSouth incurs in providing this working service.

16
17 **Q. DR. GABEL CLAIMS BELLSOUTH’S STATEWIDE TSLRIC FOR**
18 **RESIDENCE IS BELOW \$10. PLEASE COMMENT.**

19
20 A. Based solely on this result, Dr. Gabel’s manipulations should be suspect. As a
21 sanity check, BellSouth filed a statewide cost of \$31.52 in the Florida Universal
22 Service Fund (“USF”) proceeding, which was conducted to “determine and report
23 to the Legislature the total forward-looking cost of providing **basic local**
24 **telecommunications services.....**” (Emphasis added, Order No. PSC-99-0835-
25 FOF-TP, dated April 26, 1999, page 1) The Commission ordered adjustments to

1 BellSouth's proposed inputs¹, however, not a single wire center cost approached
 2 Dr. Gabel's statewide result², thus it is impossible for the statewide USF average
 3 to even come close. I am not proposing that the absolute values decided in the
 4 USF proceeding are now relevant, however, the magnitude of the difference
 5 between the USF results – conducted to determine the cost of basic local
 6 telecommunications services – and Dr. Gabel's results – also purportedly for basic
 7 local telecommunications service - should raise serious questions with respect to
 8 his testimony.

9

10 **Q. ARE DR. GABEL'S ADJUSTMENTS TO THE IN-PLANT FACTORS**
 11 **APPROPRIATE?**

12

13 A. No. Fundamentally, Dr. Gabel begins with an incorrect assumption and then
 14 attempts to contrive a mathematical construct to support his position. As I have
 15 emphasized, Dr. Gabel's classification of certain costs as "shared" results from (1)
 16 his belief that residential access constitutes a separate service and (2) his confusion
 17 with respect to the difference between shared facilities and shared costs. First, the
 18 service under study is access to basic local telecommunications service regardless
 19 of the class of service --- residential access is merely a subpart of the total study
 20 (and service). Second, while many of the network's facilities are "shared," the
 21 costs are not.

22

23

24 ¹ These modifications include in part changes to depreciation inputs, decrease in the effective cost of
 25 capital, reduction in the number of pairs per unit, change to the feeder utilization, adoption of Sprint's
 fiber and copper cable and Service Area Interface inputs, use of an average DLC cost, adjustment to
 switch discounts and a reduction to the expense per line.

² The USF ordered costs range from \$16.12 in FTDFLSGDS0 to \$138.80 in STAGFLWGRS0.

1 In order to manipulate BellSouth's in-plant factors, Dr. Gabel develops "an excess
2 loop length factor" that "equals the difference between the residential loop length
3 and the business loop length divided by the residential loop length." (Gabel
4 testimony, page 77, lines 8-11) He then outlines a mathematical exercise that he
5 used to determine adjusted in-plant factors. Even if one were to accept Dr. Gabel's
6 position that much of the loop's costs are shared between residence and business
7 basic local service, his in-plant methodology is grossly over-simplistic. The
8 underlying assumption in Dr. Gabel's calculations is that every cable route, in
9 every wire center, has exactly the same characteristics as the statewide average
10 residence and business loops. Every cable route has the same length, every cable
11 route has the same distribution to code (aerial, underground, buried), and every
12 cable route has the same split of copper and fiber cable.

13

14 It is interesting to note that Dr. Gabel admits that his adjusted in-plants can lead to
15 an underestimate of the installed investment. He states that: "the extreme example
16 would occur if every residential loop is built separately from every business loop."
17 (Gabel testimony, page 81, lines 21-22) Dr. Gabel's view is just as "extreme."
18 He has assumed that every residence and every business loop run along the same
19 route. In fact he has assumed even more. His adjustments were made on an
20 individual field reporting code ("FRC") basis. Thus, he is inherently assuming that
21 every business loop and residential loop "share" the same type of cable placement
22 – aerial, buried, and underground – along the same route. This simply is not the
23 case. Backpedaling, Dr. Gabel also states that if the residential loop included any
24 additional services "then the adjustment process described above would understate
25 the amount of shared installation investment and overestimate the total installed

1 investment associated with residential services.” (Gabel testimony, page 82, lines
2 13-15) Dr. Gabel is essentially advocating that the loop is a common facility and
3 thus its costs should be allocated among all the services that ride the loop. As
4 discussed in my direct testimony, this Commission has recognized the fallacy of
5 this argument.

6

7 **Q. IS DR. GABEL’S CALCULATION OF PER LINE RETAIL COSTS**
8 **ACCURATE?**

9

10 A. No. Dr. Gabel continues his argument that BellSouth has included “shared” costs
11 in the development of its Customer Operations Cost factor. Again, the foundation
12 of this assertion is that the service BellSouth studied is residential access. It is not.
13 Instead the service studied is access to basic local exchange service. Thus, Dr.
14 Gabel’s lament that “BellSouth has not provided any information supporting the
15 assumption that retail costs do not vary across customer classes” is moot and his
16 claim that BellSouth included “shared costs in its retail costs is unfounded”.
17 (Gabel testimony, page 86, lines 16-17, line 11)

18

19 Furthermore, Dr. Gabel bases most of his retail adjustment on the ratio of
20 residence to business marketing costs as developed in New England Telephone's
21 (“NET’s”) 1992 Massachusetts Cost of Service Study that became a part of the
22 FCC's 10th Report & Order on CC Docket 96-45 Universal Service released
23 11/02/99. This relationship is based solely on NET's Advertising costs for 1992 (it
24 does not appear to fully consider other Customer Operations type costs such as
25 Product Management, Sales, or Customer Service). Obviously, even if it were

1 appropriate to attempt to allocate these customer operations costs between
2 residence and business (which it is not), 1992 data from a Massachusetts study of
3 NET's operations would not be indicative of BellSouth's operations in Florida.
4 Additionally, this NET analysis was conducted prior to the 1996
5 Telecommunications Act and prior to any real competition in the residential
6 market, which forces the incumbent to expend additional resources devoted to
7 maintaining its customer base. As evidenced by the telecommunications industry's
8 current promotional offerings, residential customers are receiving more attention.

9

10 **Q. DR. GABEL ELIMINATES BILLING & COLLECTION COSTS FROM**
11 **BELLSOUTH'S CUSTOMER OPERATIONS COST FACTOR. IS THIS**
12 **APPROPRIATE?**

13

14 A. No. While costs associated with other services may be listed on the telephone bill,
15 it is a customer's request for basic local exchange service that causes the bill to be
16 generated. Each incremental service may generate a line of information on the bill,
17 but the request for basic local service is the cost driver --- without access to basic
18 local service no other billing information would take place. Additionally, the
19 incremental cost of adding another line to a bill is insignificant in relationship to
20 the cost of generating the bill in its entirety.

21

22 One must also consider the manner in which the factor was developed and how it
23 is used. The factor reflects a relationship between the retail portion of customer
24 related costs and total network costs. Since the factor is applied against the

25

1 TSLRIC results for basic local service; only a portion of the total billing and
2 collection cost is ever captured.

3

4 **Q. WOULD RESIDENTIAL RATES STILL BE BELOW TSLRIC EVEN IF**
5 **THE HIGHER SUBSCRIBER LINE CHARGE FOR ADDITIONAL LINES**
6 **WERE CONSIDERED?**

7

8 A. Yes. Exhibit DDC-2, filed with my direct testimony, compared the existing rates
9 to the cost study results. In developing this comparison only the SLC charge
10 associated with the first line (\$6.50) was considered. To develop the average SLC
11 charge of \$6.59, the average number of lines per residential household³ was
12 utilized. As Exhibit WBS-1 supports, even if the additional SLC rate for non-
13 primary lines (\$7.00) was considered, residential rates are still below cost. Thus,
14 Dr. Gabel's concern that BellSouth "excludes the higher SLCs that are allowed for
15 additional lines" does not change the outcome ---- residential rates are still below
16 cost. (Gabel testimony, page 36, lines 3-4)

17

18 **Q. DR. COOPER RESURRECTS THE CLAIM THAT THE LOOP IS A**
19 **COMMON COST. PLEASE COMMENT.**

20

21 A. Dr. Banerjee will address this issue in greater detail. As I discussed previously,
22 from a cost development perspective, the cost object dictates what facilities should
23 be considered in the cost study. In this case, basic local exchange service by

24

25

³ See BellSouth's response to Staff's 4th Set, Item #81.

1 definition includes the loop: “all Company plant facilities up to and including the
2 Company-provided Standard Network Interface.” By introducing additional
3 services, Dr. Cooper is confusing cost development with revenue requirements.
4

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

6

7 A. Yes.

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1 BY MS. WHITE:

2 Q Mr. Shell, would you please give your summary?

3 A Yes. Good evening, Commissioners. The purpose of my
4 testimony is to present the toll service long-run incremental
5 cost, TSLRIC, associated with providing access to basic local
6 exchange service comparing costs by rate group or compared to
7 the existing monthly rates found in the tariff. A review of
8 this data confirms that subsidization exists for basic local
9 exchange service using the existing rates and rate structure.

10 The first step in any cost development is to
11 determine the network components required. The description of
12 the service and rate structure determine what needs to be
13 considered. In order to attain access to the network, which is
14 equivalent to basic local exchange service, a customer requires
15 several components of the network including a loop, a physical
16 point of presence in the switch, interoffice connections,
17 interoffice switch functionality, and local tandem switches.

18 The local loop is the facility that extends from the
19 main distribution frame, MDF, in the central office to the
20 customer's premises. The loop cost reflects the MDF and all
21 outside plant components required for transmission such as
22 cable, electronic equipment, poles, conduit, et cetera, as well
23 as all cable up to and including the connection at the
24 customer's premises, the network interface device.

25 The line termination is the facility used to connect

1 the local loop to a BellSouth end office switch. The line
2 termination costs include the nontraffic sensitive termination
3 in the switch, such as line cards and the DMS 100 switch.
4 Local usage costs include the traffic sensitive switching costs
5 of the end office for intraoffice and interoffice calls, which
6 are calls which flow between -- within the local calling area
7 of the end office.

8 Additional local switching, local tandem switching,
9 interoffice transport, and signaling costs are considered in
10 the flat rate usage cost used in the study. Customer usage
11 characteristics were used to convert per minute of use elements
12 to a flat rate monthly cost.

13 As stated above, TSLRIC was the cost methodology used
14 by BellSouth. TSLRIC methodology uses incremental costing
15 techniques to identify the additional costs associated with
16 providing a service. Incremental costs are based on cost
17 causation and include all the costs directly generated by
18 expanding production or, alternatively, costs that would be
19 saved if production levels were reduced. For basic local
20 exchange service, if the level of production increased,
21 additional costs would be incurred for loops. Switching,
22 switch terminations, as well.

23 The loop cost is directly caused because of the
24 request for service, thus it is appropriately included in
25 TSLRIC. Shared and common costs are not included in TSLRIC,

1 since only direct costs are to be considered in a TSLRIC
2 analysis.

3 Dr. Gabel contends that BellSouth's cost methodology
4 does not fulfill TSLRIC standards. He claims that BellSouth
5 includes the loop as a shared cost between a residential,
6 business, and data services which should not appear in the
7 TSLRIC. Dr. Gabel misrepresents the underlying definition of
8 the service that the cost study supports, and that is basic
9 local exchange service. Population densities and loop length
10 cause differences in costs between residence and business
11 loops. However, the overall physical attributes of the network
12 that provides this service does not differ due to the class of
13 service designation.

14 Once costs associated with the network are
15 determined, cost-recovery dictated by rate structure such as
16 the formation of rate groups and class of service can take
17 place. Therefore, Dr. Gabel's contention that costs associated
18 with the digital loop carrier system, trenching, conduit,
19 poles, and cable placement are shared costs flows from his
20 misunderstanding of the service in the study. The service in
21 the study is basic local change service.

22 Regarding the TSLRIC study described above, none of
23 the direct costs required to support retail services, such as
24 billing, collections, product life cycle management, have been
25 included. There are obviously direct retail customer

1 operations costs associated with basic local exchange service,
2 however, direct assignment of these costs is very difficult.
3 Therefore, an allocation process was used to estimate a retail
4 customer operations factor.

5 Dr. Gabel continues his argument that BellSouth has
6 included shared costs in the development of the retail growth
7 operations factor. Again, the foundation of his assertion is
8 that the service in BellSouth's study is residential service.
9 Instead, the service study is access to basic local exchange
10 service. Therefore, again, Dr. Gabel is wrong. That concludes
11 my summary. Thank you.

12 MS. WHITE: Thank you, Mr. Shell. Madam Chairman, I
13 also neglected to tell you that the WBS-1, which is now labeled
14 as Exhibit 53, is a proprietary exhibit.

15 CHAIRMAN JABER: Not the whole exhibit, though.

16 MS. WHITE: No, not the whole exhibit, but there are
17 -- there are three columns. I think it is Column D -- well,
18 the last three columns of the exhibit are proprietary is my
19 understanding. So I did want to point that out. And with
20 that, Mr. Shell is available for cross.

21 CHAIRMAN JABER: Okay. For purposes of the record, I
22 think it is appropriate to just acknowledge that portions of
23 WBS-1 are confidential. Companies, do you have cross
24 examination of Mr. Shell?

25 MR. HATCH: No questions.

1 MS. McNULTY: No questions.

2 CHAIRMAN JABER: Mr. Mann?

3 MR. MANN: No questions.

4 CHAIRMAN JABER: Mr. Twomey.

5 MR. TWOMEY: Yes, ma'am.

6 CHAIRMAN JABER: Go ahead.

7 MR. TWOMEY: I have got a nonconfidential almost
8 plain piece of paper I would like to have identified and ask
9 the witness a few questions in relation to. Let me say good
10 evening, Mr. Shell, while I'm waiting for them to be passed
11 out. How are you doing?

12 THE WITNESS: All right. Good evening.

13 MR. TWOMEY: Good. Madam Chair, this would be
14 regarding Mr. Shell, and I don't know what number would be
15 next.

16 CHAIRMAN JABER: Give me a short title.

17 MR. TWOMEY: It would be a diagram of a local loop.

18 CHAIRMAN JABER: Diagram of local loop will be
19 identified as Exhibit 54.

20 (Exhibit 54 marked for identification.)

21 CROSS EXAMINATION

22 BY MR. TWOMEY:

23 Q Mr. Shell, you testified a minute ago about the main
24 distribution frame.

25 A That is correct.

1 Q That is part of the computer, the computer switch.
2 Is it part of the computer switch?

3 A No, the MDF is not a part of the switch. It is the
4 piece of equipment frame where you terminate the loops coming
5 into a central office. It is a termination point.

6 Q Okay. That would be -- in this diagram, that would
7 be in the left-hand block of the central office?

8 A It would be in the central office, yes.

9 Q Okay. Well, I want you to look at -- this is my
10 artwork here. I apologize for the crudeness, but if you have a
11 central office there and you have those two lines that go
12 between that and the residential customer, I purport that those
13 two lines would be the wire, the pairs or whatever that is
14 going over there, okay? Is that acceptable?

15 A I see what you are doing, I guess, in a
16 simplification form, but there is a lot -- there will be a lot
17 of equipment between the central office and the residence
18 customer. I see what you are saying, but there is a lot
19 missing.

20 Q Okay. What I want to ask you is this, because --

21 CHAIRMAN JABER: Mr. Twomey, that means the witness
22 has acknowledged this is a crude diagram.

23 MS. WHITE: Very nicely.

24 MR. TWOMEY: Some people would expect that from me.

25 BY MR. TWOMEY:

1 Q What I want to ask you is in relation to your -- as I
2 understand your rebuttal testimony, you have suggested that any
3 notion that the local loop is a common cost is incorrect,
4 right?

5 A That is correct, and it has, I think, been accepted
6 as not correct by this Commission at least a couple of times,
7 as well. And, of course, the FCC in documents, yes.

8 Q Okay. Well, notwithstanding what this Commission has
9 accepted, no disrespect there, but just for purposes of
10 cross-examining your testimony I want to ask you some brief
11 questions with respect to this exhibit, okay? Now, as I
12 understand it, in order for BellSouth to sell a residential
13 customer local service you have to have the basic elements of
14 the loop, is that correct?

15 A That is correct.

16 Q How about going down my list here, in the center
17 there. Can BellSouth provide that residential customer
18 intraLATA long distance service without the elements of the
19 local loop?

20 A No. The local loop is the basis for all services,
21 but you can have a local exchange without those services
22 listed.

23 Q Yes, sir. So as I understand it your answer to my
24 question was that you need that local loop to provide intraLATA
25 long distance service, right?

1 A That is correct, but I did want to clarify that,
2 again, you don't need to have -- you can have a local loop
3 without these services. These are add-on ancillary services to
4 basic local exchange service, but obviously you have to have
5 the base before you can add on to it.

6 Q You can't sell anything without the local loop, can
7 you?

8 A No, not as a local exchange company.

9 Q Okay. Now, my second service. InterLATA long
10 distance service, can you sell it without the local loop?

11 A You can't provision it without a local loop, no.

12 Q Okay. How about vertical services, such as caller
13 ID, three-way calling, voicemail, and other vertical services
14 that BellSouth offers, can you sell any of those without
15 utilization of the local loop?

16 A No, you can't. And, again, I just want to reiterate
17 that you do not have to have these to have a basic local
18 exchange service, but you are correct in stating that you must
19 have basic local exchange service before you have those.

20 Q Yes, sir. Now, how about let me ask you -- as I
21 understand your company's filings, you don't propose to have
22 any rate increases, am I correct in understanding for your
23 existing bundles or packages?

24 A I'm not really familiar with that area. That is my
25 understanding, but Mr. Ruscilli would have been the person to

1 ask that question.

2 Q Okay. He may be coming back. But the bundles --

3 CHAIRMAN JABER: He is coming back for me, though.

4 So what is your question, again?

5 BY MR. TWOMEY:

6 Q The bundles, can you sell the bundles or packages
7 without utilization of the local loop?

8 A That is a different question. I thought you were
9 repeating the question that you had for Mr. Ruscilli. Your
10 question then was, if I can remember it, is that can you have a
11 bundle without the loop. Is that the question? No. Again,
12 you can't have a bundle. A bundle implies you have local
13 exchange services as well as some other components. It could
14 be long distance, it could be wireless, it could be Internet
15 service. But, again, basic local exchange service is the
16 foundation. You get that first. Everything else is ancillary,
17 it is on top of it. It's just add-ons that you can get, but
18 you have to have the base first.

19 Q Okay. How about -- I will speed it up a little bit.
20 How about directory assistance? You all charge for directory
21 assistance and receive revenues for providing directory
22 assistance to your customers, right?

23 A We do charge for directory assistance if that is your
24 question, yes. And in order to make a call you must have the
25 basic local exchange service, correct.

1 Q Okay. How about DSL services, do you all provide DSL
2 services through the local loop?

3 A That is my understanding. I'm not a DSL expert, but
4 it is my understanding that the loop is there and DSL is on top
5 of the loop.

6 Q Okay. Can you bill or collect for any of the
7 services we have described above without the bill generated by
8 the local service?

9 MS. WHITE: Do you mean without the local loop?

10 MR. TWOMEY: Yes.

11 BY MR. TWOMEY:

12 Q Essentially, can you bill for these revenue -- can
13 you bill the revenues or the rates for these other services
14 without having a bill that was generated as a result of the
15 local loop?

16 A I don't know of a way that BellSouth would have ever
17 established that. In other words, again, to answer the
18 question, my answer is no, I don't think you can. But to
19 clarify again for anyone that comes to BellSouth that wants
20 service, we give them 1FR or 1FB. If they want beyond that,
21 obviously we try to sell them what we can, but they don't have
22 to have any additional features. But if they have additional
23 features, that is an additional item that we do bill, yes.

24 Q Okay. Are you aware of any services that utilize the
25 local loop for their provision that I left off of my list?

1 A I think you have covered it pretty well. I can't
2 think of anything off the top of my head. You have covered the
3 basic areas.

4 Q Okay. I think this is still part of your area, but
5 let me see if I understand what you all's position is here. Is
6 it your position, BellSouth's position in this case that the
7 reason that local rates are subsidized is that when you compare
8 the cost of the local loop versus the revenues you receive only
9 for basic local service rates, that the two don't match up. Is
10 that basically the theory of the company's case in terms of --

11 MS. WHITE: I am going to object to this. I think
12 this line of questioning is more appropriate for Mr. Ruscilli.
13 Mr. Shell is a cost witness. He adopted a cost study performed
14 by Ms. Caldwell that talks about the level of support. I don't
15 think these questions are appropriate for him or within the
16 scope of his testimony.

17 CHAIRMAN JABER: Mr. Twomey, the objection is that
18 this line of questioning is outside the scope of Mr. Shell's
19 testimony. Your response?

20 MR. TWOMEY: Well, I could probably go through and
21 find it, but it just strikes me that I think the totality of
22 his testimony is that there is a subsidy being paid because
23 the -- as they describe it, the revenues achieved for local
24 service don't meet the cost they have assigned to the local
25 loop. And it strikes me that, you know, he can -- if he

1 doesn't know it, he can say so, and I will accept that. If he
2 knows it, he could say yes and we would be finished.

3 CHAIRMAN JABER: Unless you can show me -- because I
4 have taken another look at his testimony, and unless you can
5 show me exactly where that might be, reword the question or
6 move on. Do you want an opportunity to reword the question?

7 MR. TWOMEY: No, I'm going to quit.

8 CHAIRMAN JABER: Any other questions?

9 MR. TWOMEY: That's all.

10 CHAIRMAN JABER: Staff.

11 MS. BANKS: Staff has a few questions for Mr. Shell.
12 There is two handouts that are being passed out now. One of
13 them is analysis of accounts, and then the other is BellSouth's
14 response to staff's Interrogatory Number 36.

15 CHAIRMAN JABER: Do you want them identified, Ms.
16 Banks?

17 MS. BANKS: Yes. The first would be the analysis of
18 the account. I guess for simplicity purposes call that account
19 analysis. And the interrogatory is already in the record.

20 CHAIRMAN JABER: Oh, okay. Let me wait until all the
21 parties and the witness have copies.

22 CROSS EXAMINATION

23 BY MS. BANKS:

24 Q Mr. Shell, while we are waiting for those copies, I
25 am assuming that you still have in front of you your direct

1 testimony and exhibits?

2 A Yes, I do.

3 Q Okay. Thank you.

4 MR. TWOMEY: Did you give me a number for my exhibit?

5 CHAIRMAN JABER: I sure did.

6 MR. TWOMEY: I'm sorry, I missed it.

7 CHAIRMAN JABER: 54.

8 MR. TWOMEY: Thank you.

9 CHAIRMAN JABER: Account analysis will be identified
10 as Exhibit 55.

11 MS. BANKS: And just to note, Chairman, BellSouth's
12 response to staff's Interrogatory Number 36 is a part of the
13 Exhibit Stipulation 2, Stipulated Exhibit 2.

14 CHAIRMAN JABER: All right. Ms. Banks, we are ready
15 for your cross.

16 MS. BANKS: Okay.

17 (Exhibit 55 marked for identification.)

18 BY MS. BANKS:

19 Q Mr. Shell, I did want to begin by saying that the
20 first document that I will be making reference to is
21 Confidential Exhibit DDC-1, and I will make every attempt not
22 to divulge any information which may be confidential. And if
23 you need a moment before you respond to think it carefully,
24 please do so.

25 A Okay.

1 Q My first reference I want to make or get some
2 understanding of the common cost factor, and if you would just
3 please refer to Appendix J of the basic local service, the
4 common cost factor calculation. And this is, I think,
5 previously marked as Exhibit 52.

6 A Okay, I have it.

7 Q What is the purpose of the common cost factor shown
8 in the upper left-hand corner?

9 A The number in the top left-hand corner is just a
10 number that was used by the parties when this document was
11 developed to identify where this data originated. The way this
12 process worked is we started with a shared and common worksheet
13 that had been done previously, and extracted out the
14 information to develop the retail customer operations factor.
15 And the common cost number at the top left is just a number
16 that was on the sheet when it was pulled into this analysis
17 process for identification purposes. It was not used in the
18 study.

19 Q Okay. I want to make reference to your direct
20 testimony now. Referring to Page 11, and Lines 14 through 15,
21 if you will just let me know when you get there.

22 A I'm there.

23 Q Okay. In that passage or reference you state that an
24 additional 9.59 percent is required to account for retail costs
25 such as billing, collections, marketing, sales, advertising,

1 and product management. Is that factor used in addition to the
2 common cost factor to calculate the cost of service?

3 A I'm sorry, I got everything except for your question.
4 Could you please repeat the question part of that.

5 Q Okay. Making reference to your statement on Page 11,
6 Lines 14 through 15, you state that an additional 9.59 percent
7 is required to account for retail costs such as billing,
8 collections, marketing, sales, advertising, and product
9 management. Is that factor used in addition to the common cost
10 factor to calculate the cost of service?

11 A No. Again, we did not use the common cost factor in
12 this analysis at all. The common cost is only used in the UNE
13 dockets and we used as the starting point the shared and common
14 work files from the UNE docket, so the only reason that number
15 was on there was to identify which file was used as a starting
16 point for this analysis. Again, if I may, the retail -- we
17 know there are retail costs, every day for customers we have to
18 deal with billing issues, customers calls to business offices
19 and so forth, but we couldn't identify it. So the only way --
20 the best way we could see to identify those costs were to use
21 data from the accounts under product management, for example,
22 that would show the retail customer operations portions of it.
23 So we used data that was already there that was pulled, it was
24 from accounting records, and the number of common cost factor
25 is just there to identify which file we began with.

1 Q Okay. And that factor is shown on Page 10 of
2 Appendix J, is that correct?

3 A The factor you are referring to is the retail
4 customer operations factor?

5 Q That is correct.

6 A Yes.

7 Q Okay. I want to now refer you to your UNE filings
8 dated August 16, 2000. And what I want to do here is to just
9 make a comparison of amounts in some of the USOA accounts. I
10 recognize that this is not your last filing, but I think
11 generally the figures will be accurate enough for a comparison.
12 And if not, you are welcome to provide the numbers from your
13 last UNE filing.

14 And I am actually referencing what has been marked as
15 Exhibit 55, account analysis. The first file is analysis of
16 Account 6611. That is a USOA Account 6611, product management.
17 If you would turn to Page 3, and this is a double sided
18 document. So, it is actually Number 2, but Page 3 of this
19 handout.

20 A I have it.

21 Q Okay. Which is referencing Account 6611. There is a
22 total for the retail column. I would like for you to compare
23 that total to amount of retail expense shown on Page 5 of
24 Appendix J for Account 6611?

25 A Yes. And the number on the one you refer to as the

1 UNE Docket File 6611 is less than the one I am showing on the
2 current Appendix J, Page 5, and that is because the document,
3 the initial one you provided is based on 1998 base period,
4 whereas the one we are dealing with now is 2000 base period.
5 So the data has changed and the costs have gone up in that time
6 period.

7 Q Okay. So would it be correct to say that in
8 calculating its retail customer operations cost factor
9 BellSouth used all of its product management expenses without
10 regard to whether they actually pertained to basic local
11 service?

12 A Well, again, let me answer your question by saying
13 yes, BellSouth used this because the heading that this number
14 6611 came from is under customer operations expense. That is
15 the whole heading for the account, customer operations, and it
16 is labeled product management. The number we started with was
17 a total retail cost, so the data had already been -- all the
18 wholesale was pulled out, all the common and shared were pulled
19 out. We started with total retail costs, and then that total
20 retail cost was used as customer operations because it is
21 already under the heading customer operations. And it is not
22 unreasonable, because even though that number is used in total,
23 product management would occur for retail, you do have, for
24 example, all the product management with tariff filings with
25 retail service, residential service that could exist in that as

1 well as activities that commissions require to make changes for
2 certain times on tariffs. So there will be work for retail
3 services.

4 Q Okay. And I would like to make a similar comparison
5 with Account 6612, which is sales expense. Which is in that
6 same handout you just referenced. It is headed analysis of
7 Account 6612. Compare the numbers -- again, the amount is
8 considerably higher in the current study, is that correct?

9 A Yes, the current study does have higher numbers for
10 the same reason. Again, the different time period when the
11 study was begun is why the number is greater for the current
12 study.

13 Q Okay. And I would like to go on to comparison of
14 Account 6613, which is product advertising.

15 A Okay. In doing that comparison it shows that the
16 1998 base data had a larger expense than the current one, and
17 since it is dealing with advertising, it is not unreasonable to
18 assume that that would not necessarily grow because it depends
19 on the strategy as opposed to the ongoing cost increases of an
20 operations activity.

21 Q Having said that, does this reflect a reduction in
22 advertising overall for BellSouth?

23 A It reflects a reduction for retail, under customer
24 operations for the total retail side for that base period of
25 '98 versus 2000, it would.

1 Q Okay. And the last account I would like to make the
2 comparison is Account 6623, customer services. And if you
3 could just make this similar comparison of that account with
4 the current study. I guess my question is is it slightly
5 higher in the current study?

6 A Yes, it is. It is a larger number in the current
7 study. And, again, I would say that is not unreasonable,
8 because that is associated with various operational activities.

9 Q Okay. In calculating the retail customer operation
10 cost factor, did BellSouth remove costs without regard to
11 whether they actually pertain to basic local service? I'm
12 sorry, let me rephrase that. In calculating the retail
13 customer operation cost, did BellSouth remove the costs
14 associated with other services like vertical services?

15 A No. BellSouth issues the total cost, the total
16 numbers in the account, but if you see what this factor does,
17 it develops a retail customer operations number divided by the
18 total network costs, so you get a factor that is applied
19 against any network cost. In this case we are only using the
20 basic local exchange TSLRIC cost. This number would also
21 reasonably be applied to any other network costs such as long
22 distance, vertical services, and so forth. So, what I'm saying
23 is this factor times the TSLRIC for business is only recovering
24 the costs associated with that service.

25 Q Okay. I would like to now make reference to the

1 handout which I think is a part of Stipulated Exhibit 2. It is
2 BellSouth's response to staff Interrogatory Number 36.

3 A I have it.

4 Q Okay. In the response to staff Interrogatory 36,
5 BellSouth indicated that while models used to generate the cost
6 study are the same, the cost study and its inputs are not the
7 same as those used in the Commission approved UNE rates. Is
8 that correct?

9 A That is correct.

10 Q Looking at the bottom of Page 2 to this response,
11 BellSouth indicates that the inputs used in this TSLRIC study
12 are the inputs proposed by BellSouth in its in-plant BSTLM
13 filing in Docket Number 990649, or the UNE docket, rather than
14 the bottoms-up BSTLM inputs ordered by the Commission in the
15 UNE docket. Just to clarify our understanding of the models,
16 isn't it true that BellSouth did not use any of the
17 Commission's adjustments to its inputs in the UNE docket?

18 A Well, yes. What BellSouth did, again, to contrast
19 the UNE docket, BellSouth, as well as the Commission, was
20 required to look at the TELRIC requirements, what was required
21 pursuant to TELRIC. In the TSLRIC environment we are
22 suggesting that our proposal, for example, costs of money, are
23 appropriate there. And our use of in-plant factors which we
24 use for all of our TSLRIC studies for tariffs are appropriate.
25 And given that we are not under the mandate of TELRIC, which

1 requires certain items, we believed it was appropriate to go
2 with what we believed was the appropriate forward-looking costs
3 for BellSouth as opposed to the TELRIC number.

4 Q So would it be correct to say that the top-down
5 methodology used by BellSouth produces in general higher rates
6 than the bottoms-up methodology approved by this Commission?

7 A I don't know that for a fact other than to say I
8 believe the resulting number that came from this, the filings
9 before this Commission showed that the tops down in-plant was
10 greater than the resulting bottoms-up number.

11 MS. BANKS: Thank you, Mr. Shell. That is all that
12 staff has.

13 CHAIRMAN JABER: Commissioners, do you have any
14 questions of this witness? Redirect.

15 MS. WHITE: Madam Chair, I have no redirect. And I
16 would ask that Exhibits 51, 52, and 53 be entered into the
17 record.

18 CHAIRMAN JABER: Without objection, Exhibits 51
19 through 53 are admitted into the record.

20 (Exhibits 51 through 53 admitted into the record.)

21 CHAIRMAN JABER: Mr. Twomey, Exhibit 54? Mr. Twomey
22 wouldn't be here. We will skip that exhibit. Staff, Exhibit
23 55.

24 MS. BANKS: Yes, Chairman.

25 CHAIRMAN JABER: Without objection, Exhibit 55 --

1 MS. WHITE: And may Mr. Shell be excused?

2 CHAIRMAN JABER: -- is admitted into the record.

3 (Exhibit 55 admitted into the record.)

4 CHAIRMAN JABER: Mr. Shell, thank you for being here,
5 and you may be excused.

6 Let me get a feel for how many questions the parties
7 have for the next two witnesses, please. Mr. Bigelow, Public
8 Counsel, and where is Mr. Twomey? Public Counsel.

9 MR. BECK: For Mr. Bigelow I have a few. It
10 shouldn't take more than a few minutes.

11 CHAIRMAN JABER: What about Mr. Hendrix?

12 MR. BECK: I'm not sure. I don't think we have much
13 for him at all.

14 CHAIRMAN JABER: Someone else is doing that?

15 MR. BECK: Mr. Mann is going to be doing Mr. Hendrix.

16 CHAIRMAN JABER: Okay. So, Mr. Twomey, I wanted to
17 know how many questions -- give me a feel for the questions you
18 may have for Mr. Bigelow and Mr. Hendrix.

19 MR. TWOMEY: I think one for Mr. Bigelow and I don't
20 know beyond that.

21 CHAIRMAN JABER: You missed the discussion on Exhibit
22 54, your exhibit for the last witness.

23 MR. TWOMEY: I'm sorry, I thought there would be more
24 cross when I left.

25 CHAIRMAN JABER: Are you asking that that exhibit be

1 admitted into the record?

2 MR. TWOMEY: Yes, I am.

3 CHAIRMAN JABER: Without objection, Exhibit 54 is
4 admitted into the record.

5 (Exhibit 54 admitted into the record.)

6 CHAIRMAN JABER: Commissioners, in light of the fact
7 that we have got questions on the next two witnesses, I propose
8 we break for the evening, if that is all right with you all.
9 But that we start at 8:30 in the morning tomorrow. Okay.
10 8:30. We will see you here bright and early.

11 (The hearing concluded at 7:10 p.m.)

12 (Transcript continued in sequence with Volume 5.)

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1 STATE OF FLORIDA)

2 :

CERTIFICATE OF REPORTER

3 COUNTY OF LEON)

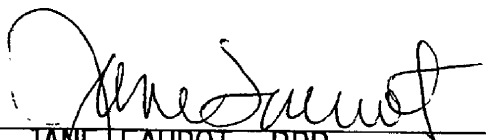
4

5 I, JANE FAUROT, RPR, Chief, Office of Hearing Reporter
6 Services, FPSC Division of Commission Clerk and Administrative
7 Services, do hereby certify that the foregoing proceeding was
8 heard at the time and place herein stated.

9 IT IS FURTHER CERTIFIED that I stenographically
10 reported the said proceedings; that the same has been
11 transcribed under my direct supervision; and that this
12 transcript constitutes a true transcription of my notes of said
13 proceedings.

14 I FURTHER CERTIFY that I am not a relative, employee,
15 attorney or counsel of any of the parties, nor am I a relative
16 or employee of any of the parties' attorney or counsel
17 connected with the action, nor am I financially interested in
18 the action.

19 DATED THIS 10th day of December, 2003.

20 

21 _____
22 JANE FAUROT, RPR
23 Chief, Office of Hearing Reporter Services
24 FPSC Division of Commission Clerk and
25 Administrative Services
(850) 413-6732