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February 20, 2004

Ms. Blanca S. Bayó, Director
Division of the Commission Clerk
& Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

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Re: Docket No. 030851-TP

Dear Ms. Bayó:

Enclosed for filing on behalf of Sprint Communications Limited Partnership and Sprint-Florida, Incorporated ("Collectively Sprint") are the original and 15 copies of the Supplemental Testimony and Exhibits of Kent W. Dickerson and Christy V. Londerholm. Sprint is also filing the original and 15 copies of Sprint's Motion for Leave to File the Supplemental Testimony and Exhibits of Kent W. Dickerson and Christy V. Londerholm.

Copies are being served on the parties in this docket pursuant to the attached certificate of service.

Please acknowledge receipt of this filing by stamping and initialing a copy of this letter and returning same to my assistant. If you have any questions, please do not hesitate to call me at 850/599-1560.

Sincerely,

Susan S. Masterton

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**CERTIFICATE OF SERVICE
DOCKET NO. 030851-TP & 030852-TP**

I HEREBY CERTIFY that a true and correct copy of the foregoing was served by electronic mail and U.S. mail this 20th day of February, 2004 to the following:

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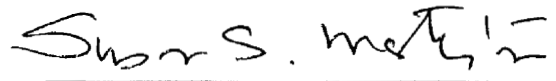
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(+ Signed Protective Agreement)

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**BEFORE THE PUBLIC SERVICE COMMISSION
SUPPLEMENTAL TESTIMONY AND EXHIBITS
OF
KENT W. DICKERSON AND CHRISTY LONDERHOLM**

Introduction and Summary

Q. Mr. Dickerson, please state your name, business address, employer and current position.

A. My name is Kent W. Dickerson. My business address is 6450 Sprint Parkway, Overland Park, KS 66251. I am employed as Director – Cost Support for the Sprint/United Management Company.

Q. Mr. Dickerson, did you previously file Direct, Rebuttal, and Surrebuttal Testimony in this proceeding?

A. Yes, I did.

Q. Ms. Londerholm, please state your name, business address, employer and current position.

A. My name is Christy V. Londerholm. My business address is 6450 Sprint Parkway, Overland Park, KS 66251. I am employed as Manager - Network Costing for the Sprint/United Management Company.

Q. Ms. Londerholm, please discuss your educational background.

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1 A. I received a Bachelor of Science degree in Mathematics from the University of
2 Missouri-Kansas City in 1990. I am currently working towards a Master of
3 Finance from Webster University-Kansas City.
4

5 **Q. Ms. Londerholm, please describe your work experience.**

6 A. I began my career with Sprint in 1998 as a Project Manager in the Customer
7 Service Organization's Decision Support group. In this role, I worked directly
8 with Sprint's financial reporting and operational systems. My responsibilities
9 included projects associated with Outside Plant Engineering and
10 Construction, Labor, Installation and Repair metrics, and General Accounting.
11

12 In 2002, I was promoted to my present position. In my current role, I am
13 responsible for developing and maintaining all macros necessary to process
14 Sprint's Costing Models. I am responsible for enhancing and assisting in the
15 development of each module within these Models. I facilitate the processing
16 and analyze the results for Sprint's TELRIC, TSLRIC, Switched Access,
17 Reciprocal Compensation, and Basic Service Cost Studies. I perform
18 analyses on external models presented to Sprint, such as the BACE model.
19

20 **Q. Ms. Londerholm, have you previously presented testimony before any**
21 **regulatory commission?**

22 A. No, I have not.

23 **Q. What is the purpose of your joint Supplemental Surrebuttal Testimony?**

1 A. On January 13, 2004, Sprint filed a Motion To Compel seeking open,
2 electronic access to the calculation code of the BellSouth BACE Model. On
3 January 20, 2004, BellSouth objected to Sprint's discovery request and
4 responded that Sprint did not need such access to verify the BACE Model.

5
6 On February 16, 2004, the Commission issued an Order ("February 16th
7 Order) requiring BellSouth to make the calculation code available to Sprint at
8 a BellSouth location. Specifically, the Commission stated:

9 In this instance, neither Sprint nor our own staff has been able to
10 audit or otherwise verify the integrity of the BACE model. I
11 therefore order BellSouth to:

- 12
- 13 1. Make the most recent version of the BACE model
14 available to Sprint and our staff by close of the business day
15 on February 18, 2004, at BellSouth's office in Tallahassee,
16 Florida;

17

18 The purpose of this Supplemental Surrebuttal Testimony is to provide the
19 results of Sprint's analyses of the open version of the new BACE Model and
20 new inputs, including the identification of additional concerns, and to identify
21 with greater specificity and further confirm previously identified areas of
22 concern. Sprint did not have access to this model version until after its
23 rebuttal and surrebuttal testimony had already been filed.

24

February 17 – 20th On-Site Review of the BACE Model

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Q. Has the February 17 – 20th on-site review enabled Sprint to fully review the BellSouth BACE Model?

A. No. It is, unfortunately, too little, much too late. BellSouth filed its first version of the BACE Model on December 4, 2003. Eighty-nine (89) data tables were not viewable (see Exhibit CVL-1). The second version of the BACE Model was filed on January 21, 2003 with supplemental direct testimony. Twenty (20) data tables remained inaccessible from view. BellSouth filed its third set of Model inputs on January 28, 2004 with surrebuttal testimony. Throughout this entire process, in addition to the missing tables and the late filings of changes to the Model, BellSouth denied Sprint and all other external users open, electronic access to the calculation code. As a result of the February 16th Order, Sprint representatives were given open, electronic access to the BACE Model on February 17, 2004.

Thus, 10 1/2 weeks expired before Sprint had access to an open, visible version of the Model. Open access was ordered just one week prior to the beginning of the hearings, and after all written testimony and discovery cycles had been concluded, leaving Sprint insufficient means to pursue and present any possible analyses and conclusions made after reviewing the open, visible version of the model.

Q. Is one week sufficient time to review the BACE Model?

1 A. No, this timeframe is entirely inadequate. The BACE Model is a very complex
2 model. It is not reasonable to expect validation of the BACE Model's
3 voluminous calculations when Sprint did not have electronic access to the
4 calculation until February 17, 2004, and then in a limited fashion at a
5 BellSouth location.

6

7 **Q. Were there restrictions placed on Sprint at the BellSouth location?**

8 A. Yes. BellSouth minimized the usefulness of this last-minute access to an
9 open version of the BACE Model. For example,

- 10 • The three Sprint representatives were limited to a single computer.
11 They did not have sole access to this computer, but had to coordinate
12 access to it with the Commission Staff.
- 13 • Each scenario run requires 45 minutes, during which time the three
14 Sprint representatives were required to wait before another scenario
15 could be processed.
- 16 • BellSouth explicitly denied Sprint administrator rights, which prevented
17 Sprint from saving any of its scenario runs for later analysis.
- 18 • Sprint did not have access to a printer.

19

20 **Q. Was all of the BACE Model source code made available to Sprint at the**
21 **BellSouth location during the February 17 – 20th review?**

22 A. No. The BACE.exe and BACEu.exe source code were not provided by
23 BellSouth.

24

1 **Q. What is the function of this missing source code within the BACE**
2 **Model?**

3 A. The BACE Model consists of three core-executable programs:

- 4 • BACE.exe, which from our understanding controls the user interface,
- 5 • BACEe.exe, which performs cost calculations, and
- 6 • BACEu.exe, which from our understanding performs table utility
- 7 functions.

8

9 Two of these three programs were not available at the BellSouth location for
10 Sprint's review.

11

12 **Q. Did this hinder Sprint's analysis?**

13 A. Yes. Without access to the missing source code, Sprint did not have the
14 ability to step through the calculations. As a result, Sprint had to spend most
15 of one morning simply making modifications to the available code. While this
16 modification allowed Sprint to step through the calculations, it was a waste of
17 Sprint's limited time, and further limited Sprint's ability to perform sensitivity
18 analyses.

19

20 **Additional Analyses of the BellSouth BACE Model**

21

22 **Q. Has the on-site February 17 – 20th review revealed any additional areas**
23 **of concern?**

1 A. Yes. Despite the time-limited and otherwise restricted access Sprint was
2 provided to the open Model, Sprint has performed additional analyses and
3 identified concerns in the following areas:

- 4 • BACE Model switch investment is understated,
- 5 • BACE Model DLC (Digital Loop Carrier) investment is understated,
- 6 • BACE Model OSS (Operating Support Systems) Costs are
7 understated, and
- 8 • BACE Model Network and General Support Assets are understated.

9
10 **Q. Have any other significant events occurred since Sprint's January 28,**
11 **2004 surrebuttal testimony was filed which have allowed Sprint to**
12 **perform additional analyses of the BACE Model?**

13 A. Yes. First, BellSouth filed a "corrected" version 2.2 of the BACE Model on
14 January 22, 2004. This was less than one week prior to the January 28, 2004
15 surrebuttal testimony filing date, which did not allow Sprint time to analyze
16 this corrected version.

17
18 Second, BellSouth served Sprint with a BACE Model Demonstration version,
19 populated with mock inputs, on January 23, 2004. Again, this was less than
20 one week prior to the surrebuttal testimony filing date.

21
22 Third, it was not until January 29, 2004 that Sprint was aware that a printable
23 version of the BACE Model source code, in Adobe Acrobat.pdf format, was
24 available at the BellSouth website. Sprint was not notified of its existence,

1 and only became aware of it as a result of a self-initiated check of the
2 CostQuest website.

3
4 Fourth, after the February 16, 2004 Commission Order, BellSouth finally
5 allowed Sprint access to an open, electronic version of the BACE Model at a
6 BellSouth location.

7 **A. Switching Investment**

8
9 **Q. Has Sprint analyzed the Switching investments generated by the**
10 **“corrected” January 22, 2004 version of the BACE Model?**

11 A. Yes. This analysis is summarized on Exhibit KWD-13. Row 10 represents
12 annual investment in switching equipment from the BellSouth “corrected”
13 January 22, 2004 filing. Row 11 shows that the average investment per line
14 over years 2 – 10 ranges from *** \$ [REDACTED] to \$ [REDACTED] ***. Row 13 shows that
15 Sprint’s average switching investment per line is *** \$ [REDACTED] *** as approved
16 in Docket No. 990649-TP. Thus the BACE Model understates switching
17 investment in years 2 – 10 by a range of *** [REDACTED]% to [REDACTED]% *** (Row 14).

18
19 **Q. Is this reasonable?**

20 A. No. The BACE Model switching investment per line for a start-up CLEC is
21 severely understated even when compared to a mid-sized ILEC such as
22 Sprint. A start-up CLEC without Sprint’s economies of scale intuitively would
23 have even higher per line costs.

24

1 Specifically, the CLEC modeled by the BACE Model has one switch per
2 LATA. The CLEC has *** [REDACTED] *** switches in Florida, while BellSouth has
3 *** [REDACTED] *** switches. The overwhelming volume of BellSouth's *** [REDACTED] ***
4 switches compared to the CLEC's *** [REDACTED] *** clearly suggests BellSouth's
5 use of their internal vendor cost to estimate the CLEC's cost is not
6 reasonable.

7

8

B. DLC Investment

9

10 **Q. Has Sprint analyzed the DLC (Digital Loop Carrier) investments**
11 **generated by the "corrected" January 22, 2004 version of the BACE**
12 **Model?**

13 A. Yes. This analysis is also summarized on Exhibit KWD-13. Row 21
14 represents annual investment in DLC equipment from the BellSouth
15 "corrected" January 22, 2004 filing. Row 22 shows that the average
16 investment per line over the ten years ranges from *** \$ [REDACTED] to \$ [REDACTED] ***.
17 Row 24 shows that Sprint's Commission-approved average DLC investment
18 per line was *** \$ [REDACTED] *** in Docket No. 990649-TP. Thus the BACE
19 Model understates DLC investment by a range of *** [REDACTED] % to [REDACTED] % *** over
20 the ten year period (Row 25).

21

22 **Q. Is the BACE Model DLC investment per line reasonable?**

23 A. No. The BACE Model DLC investment per line for a start-up CLEC is
24 severely understated even when compared to a mid-sized ILEC such as

1 Sprint. A start-up CLEC without Sprint's economies of scale would have even
2 higher per line costs.

3
4 Specifically, the CLEC modeled by the BACE Model has approximately ***

5 [REDACTED] *** DLCs in Florida, while BellSouth has approximately 4,200 DLCs.

6 (Sprint – Florida has approximately 1,500 DLCs. Since BellSouth – Florida
7 has about 2.8 times the number of switched access lines in Florida as Sprint,
8 a reasonable estimate of the number of BellSouth DLCs is approximately
9 4,200.) Thus the dramatically larger number of DLCs in BellSouth's network
10 versus the start-up CLEC modeled in the BACE Model again shows
11 BellSouth's use of their internal vendor cost to be unreasonable.

12
13 **C. Operating Support System (OSS) Costs**

14
15 **Q. Has your on-site review of the BACE Model resulted in any other**
16 **material understatements?**

17
18 A. Yes. The outcome of the on-site review of the BACE Model indicates that
19 costs related to both Operating Support Systems (OSS) and Network and
20 General Support Assets are also severely understated.

21
22 **Q. Please explain the understatement of Operating Support Systems (OSS)**
23 **costs.**

1 A. As defined by the BACE Model, the cost element labeled "OSSStartup"
2 theoretically captures the cost of all ordering, billing, and network-related
3 systems required by any provider to supply local telephone service. The
4 BACE Model calculates its total cost for OSS by multiplying the input value of
5 *** \$ [REDACTED] *** by the BSTAsPctOfScopeOfOperations factor of *** [REDACTED] ***
6 (which according to the BACE Model Methodology Manual "accounts for the
7 relative size of the CLECs national scope of operations as compared to the
8 BellSouth operating territory within the state"), resulting in a final OSS input
9 value of *** \$ [REDACTED] ***.

10 These OSS systems are assumed to have a *** [REDACTED]-year *** life in the BACE
11 Model. Therefore, the *** \$ [REDACTED] *** investment is made in both Year 1 and
12 *** Year [REDACTED] ***, for a total OSS investment of *** \$ [REDACTED] *** over the 10-
13 year analysis period. In comparison, Sprint/United Management Company
14 had over *** \$ [REDACTED] *** in capitalized software on its books as of year-end
15 2003, of which over half (or *** \$ [REDACTED] ***) was attributable solely to
16 Sprint's ILEC operations. Included in this total was *** \$ [REDACTED] *** in
17 capitalized software additions that Sprint ILEC booked in 2003 alone, not to
18 mention the over *** \$ [REDACTED] *** in expensed software enhancements
19 recorded in 2003. The *** \$ [REDACTED] *** in capital additions made in 2003 by
20 Sprint (a 100-year old company with existing OSS systems) by themselves
21 exceed the 10-year total additions generated by the BACE Model for a
22 hypothetical CLEC starting with no embedded OSS.

23

1 To illustrate the point in another way, the amount of capitalized software on
2 Sprint's books is approximately 41 times greater than the amount predicted
3 by the BACE Model for a new CLEC. By any measure, the *** [REDACTED] ***
4 for OSS costs as shown in the BACE Model is severely understated,
5 particularly considering that there is limited scalability in provisioning OSS
6 systems (i.e., the same basic OSS must be in place for the first customer as
7 for the millionth customer).

8
9
10 **D. Network and General Support Assets**

11
12 **Q. Have you reviewed the BACE Model estimates of Network/General**
13 **Support Asset capital costs?**

14 A. Yes. Within the BACE Model, the cost element labeled
15 "CapitalRelatedtoG&A" is apparently intended to capture the cost of Network
16 and General Support assets (e.g., Vehicles, Work Equipment, Buildings, and
17 Office Equipment) utilized by the CLEC. The BACE Model calculates its total
18 investment for these Support Assets by multiplying the input value of ***
19 [REDACTED] (or [REDACTED]) *** by the amount of revenue in each year to determine
20 the resulting total investment (not capital additions) in each year. In other
21 words, the Support Asset balance grows (or declines) in lock-step with
22 revenue growth.

23
24 However, similar to the testimony related to the G&A Expense calculation in
25 the BACE Model, it is unrealistic to calculate Support Asset investment based

1 on Revenue trends. Setting that point aside for the moment, the amounts
2 calculated by the BACE Model do not bear any reasonable relationship to
3 reality.

4
5 The BACE Model shows an investment in Support Assets of *** \$ [REDACTED] ***
6 in Year 1, *** \$ [REDACTED] *** in Year 2, and *** \$ [REDACTED] *** in Year 3, with
7 a growth to *** \$ [REDACTED] *** in Year 10, with an access lines served count of
8 roughly *** [REDACTED] *** in Year 10. In comparison, Sprint-Florida had over
9 *** \$ [REDACTED] *** in Network and General Support Assets on its books as
10 of year-end 2002, which is approximately 18 times greater than the Year 10
11 asset amount produced by the BACE Model, even though Sprint-Florida's
12 Access Line count of 2,200,000 is only *** [REDACTED] times *** the CLEC's Year 10
13 access line count. Again, by any measure, the ultimate *** \$ [REDACTED] ***
14 in Support Asset investment as shown in the BACE Model is dramatically
15 understated, as are the Year 1 through Year 9 amounts.

16
17 **Summary**

18
19 **Q. Please summarize your Supplemental Surrebuttal Testimony.**

20 A. Sprint's last-minute on-site review of the BellSouth BACE Model was
21 insufficient to allow an adequate review of all areas of such a complex model.

22
23 Sprint's additional analysis has identified that switch investment, DLC
24 investment, OSS costs, and network and general support assets are all

1 significantly understated. It is clear that BellSouth's excessively optimistic
2 NPVs are unrealistic and wrong.

3

4 **Q. Do you believe an adequate amount of time to review and analyze the**
5 **BACE Model would reveal additional areas of concern?**

6 A. Yes, I do. However, the numerous and significant errors, omissions, and
7 understatements already identified provide sufficient evidence that BellSouth
8 has failed to demonstrate that CLECs may economically serve the mass
9 market without unbundled access to BellSouth's switches. For this reason,
10 the Commission should reject BellSouth's potential deployment case.

11

12 **Q. Does this conclude your Supplemental Surrebuttal Testimony?**

13 A. Yes, it does.

Docket No. 030851-TP

Exhibit KWD-13

PROPRIETARY