

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by BellSouth)
Telecommunications, Inc., pursuant)
to Florida Statutes §364.051(4) to) **Docket No. 060598-TL**
Recover 2005 Tropical System Related) **Filed: October 20, 2006**
Costs and Expenses)
)

TESTIMONY AND EXHIBITS

**OF
DON J. WOOD**

ON BEHALF OF

**THE COMPETITIVE CARRIERS OF THE SOUTH, INC.
(COMPSOUTH)**

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INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Don J. Wood. I am a principal in the firm of Wood & Wood, an economic and financial consulting firm. My business address is 30000 Mill Creek Avenue, Suite 395, Alpharetta, Georgia 30022. I provide economic and regulatory analysis of telecommunications and related convergence industries with an emphasis on economic policy, competitive market development, and cost-of-service issues.

Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.

A. I received a BBA in Finance with distinction from Emory University and an MBA with concentrations in Finance and Microeconomics from the College of William and Mary. My telecommunications experience includes employment at both a Regional Bell Operating Company ("RBOC") and an Interexchange Carrier ("IXC").

Specifically, I was employed in the local exchange industry by BellSouth Services, Inc. in its Pricing and Economics, Service Cost Division. My responsibilities included performing cost analyses of new and existing services, preparing documentation for filings with state regulatory commissions and the Federal Communications Commission ("FCC"), developing methodology and computer models for use by other analysts, and performing special assembly cost studies.

1 I was employed in the interexchange industry by MCI
2 Telecommunications Corporation, as Manager of Regulatory Analysis for the
3 Southern Division. In this capacity I was responsible for the development and
4 implementation of regulatory policy for operations in the southern U. S. I
5 then served as a Manager in MCI's Economic Analysis and Regulatory
6 Affairs Organization, where I participated in the development of regulatory
7 policy for national issues.

8

9 Q. **HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE**
10 **STATE REGULATORS?**

11 A. Yes. I have testified on telecommunications issues before the regulatory
12 commissions of forty-one states, Puerto Rico, and the District of Columbia. I
13 have also presented testimony regarding telecommunications issues in state,
14 federal, and overseas courts, before alternative dispute resolution tribunals,
15 and at the FCC. A listing of my previous testimony is attached as Exhibit
16 DJW-1.

17

18 **PURPOSE OF TESTIMONY**

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

20 A. I have been asked by the Competitive Carriers of the South, Inc.

1 (“CompSouth”) to review and respond to the petition¹ of BellSouth
2 Telecommunications, Inc. (“BellSouth”) to assess a surcharge on wholesale
3 lines in Florida. In my testimony I will respond to the BellSouth petition (as
4 amended) and to the direct testimony of Kathy K. Blake (as amended) and
5 Ronald L. Hilyer.

6

7 **Q. WHAT IS YOUR UNDERSTANDING OF BELLSOUTH’S REQUEST?**

8 A. According to Ms. Blake’s testimony, BellSouth is seeking to impose a \$0.50
9 per access line, per month surcharge on customers who purchase certain
10 services, and to do so for a period of twelve months. Based on my review of
11 §364.051(4), this is the maximum monthly charge and maximum number of
12 months permitted by the statute.

13 BellSouth further proposes to apply the surcharge to customers of
14 retail basic and non-basic services and to wholesale customers who purchase
15 unbundled loops.²

16 As I will explain in my testimony, what BellSouth is actually
17 proposing is (1) to impose a surcharge on some access lines that is much
18 greater than the permitted \$0.50/line/month (\$12/month of \$336/month, per

¹ Petition by BellSouth Telecommunications, Inc., pursuant to Florida Statutes 364.051(4) to Recover 2005 Tropical System Related Costs and Expenses, September 1, 2006, as amended September 20, 2006.

² According to Ms. Blake’s amended testimony (p. 3), BellSouth now seeks to apply the surcharge to stand-alone UNE loops, ISDN loops, DS1 and DS3 loops (stand-alone and as part of an enhanced extended loop, and xDSL loops).

1 line) permitted by the statute, (2) to apply the surcharge in a way that is not
2 competitively neutral by assessing wholesale lines but not retail lines based on
3 the same kind of local loop, (3) to apply a surcharge to wholesale unbundled
4 network element (“UNE”) loops that is not permitted by the Federal
5 Telecommunications Act and FCC pricing rules, and (4) may be proposing to
6 impose the surcharge on access lines purchased pursuant to a commercial
7 agreement, something not permitted by the statute.

8

9 Q. **WHAT IS YOUR UNDERSTANDING OF THE REQUIREMENTS OF**
10 **§364.051(4)?**

11 A. Like Ms. Blake (and the other BellSouth witness who address the
12 requirements of the statute) I am not an attorney, but I have carefully reviewed
13 the language of the statute and the requirements set forth therein.

14 Three aspects of the statute are particularly important in this
15 proceeding:

16 **1. The application of a surcharge to wholesale access lines is**
17 **explicitly subject to a Commission finding that such an application is**
18 **appropriate, and is further constrained by applicable federal law.**
19 §364.051(4)(b)(6) states that the surcharge may be applied to wholesale
20 unbundled loop customers only “to the extent that the commission determines
21 appropriate.” As I will explain in detail, BellSouth’s proposal to apply the
22 surcharge to unbundled loops is not “appropriate” for several reasons, nor is

1 its proposed method of applying the surcharge “appropriate.” The definition
2 of appropriateness must also include an analysis of whether BellSouth’s
3 proposal is inconsistent with the federal rules for the pricing of unbundled
4 network elements, including UNE loops, and whether BellSouth’s proposal
5 would require the Commission to change the terms of a commercial
6 agreement between carriers (including the question of whether the
7 Commission has the authority to order such a change). BellSouth’s proposal
8 fails the “appropriateness” test in both of these areas.

9 **2. The application of the surcharge to wholesale lines is explicitly**
10 **limited to “wholesale loop unbundled network element” lines.** The statute
11 does not provide BellSouth with the opportunity to impose the surcharge on
12 any other types of wholesale access lines, including those purchased pursuant
13 to a tariff (such a special access) or those access lines being provided pursuant
14 to a commercial agreement. Of course, even the application of the surcharge
15 to “wholesale loop unbundled network element” loops can only be made if the
16 Commission determines such an application to be “appropriate.”³

17 **3. Constraints built into the statute create a definite set of**
18 **incentives for BellSouth, and its response to these incentives needs to be**
19 **carefully examined.** The statute requires that the Commission “verify the

³ As explained below, the application of the surcharge to UNE loops represents an end run around the FCC’s UNE pricing rules. This kind of *post hoc* adjustment to TELRIC-based prices is in direct conflict with the requirements of 47 CFR §51.505 through §51.511.

1 intrastate costs and expenses submitted by the company in support of its
2 petition”⁴ and that the “the company must show and the commission shall
3 determine whether the intrastate costs and expenses are reasonable under the
4 circumstances for the named tropical system.”⁵ Investigations into both of
5 these areas are obviously very important. It is equally important to note,
6 however, that the amount that BellSouth can collect through such a surcharge
7 is ultimately capped at \$6.00 (\$0.50/month x 12 months) times the number of
8 access lines to which the surcharge is applied. This constraint causes
9 BellSouth to (1) have little incentive or reason to attempt to justify costs in
10 excess of this *de facto* cap,⁶ and (2) to be highly motivated to seek to apply the
11 surcharge to as many types of access lines as possible (and equally highly
12 motivated to find creative ways of defining and counting “access lines” that
13 will yield the highest number possible). As I will explain in detail later in my
14 testimony, BellSouth’s efforts to maximize the amount that it can collect have
15 caused it to overreach with regard to both the types of lines to which the
16 surcharge is applied and way in which it has chosen to define and count
17 “access lines.”

18

⁴ §364.051(4)(b)(2).

⁵ §364.051(4)(b)(3).

⁶ In light of this constraint, the testimony of the BellSouth witnesses that the company has not sought recovery of all possible categories of costs potentially related to storm damage is not the goodwill gesture that BellSouth makes it out to be. In reality, BellSouth had little incentive or reason to find creative ways to add costs once the total exceeded the \$6.00/access line cap.

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2 **BELLSOUTH'S PROPOSAL TO APPLY THE SURCHARGE TO**
3 **UNBUNDLED LOOPS IS INAPPROPRIATE AND CONFLICTS WITH**
4 **FEDERAL LAW**
5

6 Q. YOU STATED THAT THE COMMISSION SHOULD NOT FIND THE
7 APPLICATION OF A SURCHARGE TO WHOLESALE LOOPS
8 "APPROPRIATE" PURSUANT TO §364.051(2)(b)(6). WHY WOULD
9 THE APPLICATION OF THE SURCHARGE TO WHOLESALE
10 LOOPS NOT BE APPROPRIATE?

11 A. Any surcharge that the Commission may ultimately permit should not apply to
12 wholesale loops for several reasons.

13 First, CLECs who purchase UNE loops from BellSouth have incurred
14 their own expenses related to damage from these same storms. CLECs were
15 required to repair and replace network facilities just as BellSouth was, and
16 were likewise required to purchase new equipment, pay overtime wages, and
17 do all of the other things necessary to restore their networks.

18 Second, unlike BellSouth, CLECs have no practical market
19 mechanism to impose such a surcharge on their own end user customers. By
20 definition, every customer served by a CLEC has at least one viable
21 competitive option available to it. The converse is not true; not every
22 customer served by BellSouth has a competitive option available. It is
23 interesting that BellSouth's petition and supporting testimony never address
24 the question of how, in markets that it argues are fully competitive, BellSouth

1 believes that it can impose a surcharge (of up to \$336/month, or \$4032 in
2 total, per line) with no competitive market repercussions whatsoever.

3 Third, BellSouth is asking the Commission to endorse a creative
4 interpretation of the plain language of the statute in order to permit BellSouth
5 to impose a much higher surcharge on some customer lines. While
6 364.051(4)(b)(5) limits the surcharge to “50 cents per month per customer line
7 for a period of not more than 12 months,” BellSouth is proposing to apply the
8 surcharge on a “per-DS0” rather than on a per access line or per-customer line
9 basis. This change significantly increases the amount of total dollars that
10 BellSouth would be able to collect from CLECs, and renders the “50 cents per
11 month per customer line” cap meaningless. If the customer line in question is
12 a DS1, BellSouth is proposing to impose a monthly surcharge of \$12/month
13 (effectively increasing the statutory cap by 2300%), and if the customer line is
14 a DS3, BellSouth is proposing to impose a monthly surcharge of \$336/month
15 (effectively increasing the statutory cap by 67,100%).

16 Fourth, BellSouth has not demonstrated that its proposed application
17 of the surcharge will be competitively neutral. While it intends to apply the
18 surcharge to a wide range of wholesale lines (DS0, ISDN, DS1, xDSL, and
19 DS3 loops),⁷ BellSouth has not indicated that it intends to apply the surcharge
20 on the same basis to its retail customers. In her testimony, Ms. Blake lists (at

⁷ See BellSouth’s Response to CompSouth’s 1st Interrogatories, Item No. 2.

1 p. 3) what she calls BellSouth's proposed "subject access lines" to which the
2 surcharge would apply. Her list of "retail basic and nonbasic local exchange
3 service lines" includes residential and business lines, payphone lines, PBX
4 trunks, Network Access Registers lines, ... [and] B channels of both Basic
5 ISDN and ISDN PRI. She does *not* say, however, that BellSouth will impose
6 a surcharge of \$12/month (\$144 total) on the customers of its *retail* DS1-
7 based services, or of \$336/month, (\$4032 total) on the *retail* customers of its
8 DS3-based services.

9 Fifth, BellSouth's proposal to effectively re-price UNE loops is
10 directly at odds with the requirements of the Federal Telecommunications Act
11 and FCC rules. BellSouth is taking network elements that are already priced
12 to permit full recovery of forward-looking economic costs (as those costs
13 were calculated when the UNE rates were approved by the Commission) and
14 is attempting to adjust the rates upward to reflect the level of embedded costs
15 incurred in a particular year.

16 Sixth, it appears that BellSouth is proposing to impose the surcharge
17 on wholesale lines that are covered by commercial agreements between
18 BellSouth and other carriers. Absent an explicit provision in these agreements
19 permitting BellSouth to unilaterally change rates, it is my understanding that
20 the proposed surcharge cannot be applied and the Commission does not have
21 the authority to order changes to existing commercial agreements.
22

1 Q. YOU STATED THAT BELL SOUTH HAS IMPROPERLY COUNTED
2 CUSTOMER LINES WHEN SEEKING TO IMPOSE THE
3 SURCHARGE ON UNES. PLEASE EXPLAIN.

4 A. It appears that BellSouth amended its petition and Ms. Blake's testimony, in
5 order to change its proposal from a surcharge of \$6.00⁸ per customer line (per
6 §364.051(4)(b)(5)) or \$6.00 per access line (per §364.051(4)(b)(6)) to a
7 surcharge of \$6.00 per "DS0 equivalent." This proposal must be rejected for
8 several reasons.

9 First, BellSouth appears to have re-written the statute in this regard.
10 The phrase "DS0 equivalent" appears nowhere in the section. The phrase
11 "access line" is used in §364.051(4)(b)(6), however, and is used in exactly the
12 same way when referring to basic retail local exchange customers, retail
13 nonbasic telecommunications service customers, or wholesale loop unbundled
14 network element customers. In its attempt to broaden the language of the
15 statute, BellSouth ascribes different meanings to the term "access line" in this
16 section: BellSouth equates "access line" with a single customer line for basic
17 retail local exchange service (and apparently does the same for nonbasic retail
18 local telecommunications services), but when addressing wholesale loop
19 unbundled network elements, BellSouth seeks to define "access line" not as a
20 single "customer line" but as multiple customer lines based on the bandwidth

⁸ \$0.50/month x 12 months = \$6.00.

1 of the local loop in question. While such an interpretation certainly increases
2 the size of the surcharge applied to wholesale lines (BellSouth would impose
3 \$12/month for a customer line if it is a DS1, and \$336 per customer line of it
4 is a DS3), it is completely at odds with a plain reading of the statute.

5 Second, BellSouth's proposal is at odds with the way in which costs
6 are incurred. The FCC's TELRIC rules require the application of the
7 principle of cost causation in two different ways. The rate of an unbundled
8 element must be based on the costs that are incurred *because* that network
9 element is being used, and the rate structure must be consistent with the way
10 in which costs are incurred (nonrecurring costs cannot be recovered through
11 recurring charges, for example).

12 BellSouth's costs to restore facilities damaged by storms are not
13 incurred on a "per DS0" basis. The restoration of a DS1 (4-wire) loop is
14 unlikely to cost anything different than the restoration of a DS0 (2-wire loop),
15 for example. At most, BellSouth could argue that a 4 wire loop costs twice as
16 much to restore as a 2-wire loop,⁹ but BellSouth is now proposing to assess a
17 surcharge that is *twenty-four times higher* for the 4-wire loop than the 2-wire
18 loop. BellSouth has not demonstrated that it costs twenty-four times as much
19 to restore a DS1 loop than a DS0 loop, and certainly has not demonstrated that
20 it costs *six hundred and seventy-two times as much* to restore a DS3 loop as a

⁹ Though if they made such an argument, they would almost certainly be wrong.

1 DS0 loop.

2 BellSouth's own language is inconsistent on this issue. In her original
3 (September 1, 2006) testimony, Ms. Blake stated that there are approximately
4 406,000 unbundled loops in service in Florida. In her amended (September
5 20, 2006) testimony, Ms. Blake asserts that there are approximately 797,300
6 unbundled loops in service in Florida. BellSouth did not add 391,300
7 unbundled loops between September 1 and September 20, so the difference
8 must be a result of a change in how BellSouth defines the term "unbundled
9 loops." On September 1, BellSouth appears to have defined the term
10 "unbundled loop" to mean the same thing as the terms "access line" or
11 "customer line" as used in the statute; i.e. the line or loop used to provide
12 service to a customer is a "customer line." Between September 1 and
13 September 20, BellSouth apparently decided that the terms unbundled loop,
14 access line, and customer line don't mean "the line or loop used to provide
15 service to a customer," but instead all actually mean "DS0 equivalent."

16

17 **Q. WHY WOULD BELLSOUTH SEEK TO CHANGE THE MEANING**
18 **OF THE TERMS "UNBUNDLED LOOP," "ACCESS LINE," AND**
19 **"CUSTOMER LINE" IN THIS PROCEEDING?**

20 **A.** The statute creates an incentive for BellSouth to redefine these terms, even if
21 its redefinition strains credibility a bit. Because the statute caps the surcharge
22 at an amount not to exceed "50 cents per month per customer line for a period

1 of not more than 12 months,” BellSouth is highly motivated to define the term
2 “customer line” as broadly as possible in order to collect more money from
3 CLECs.

4 In this case, BellSouth’s redefinition of terms goes well beyond the
5 accepted industry meaning of the terms “unbundled loop,” “access line,” and
6 “customer line,” in order to artificially expand the number of “access lines”
7 upon which a surcharge can be imposed.

8

9 **Q. DOES BELLSOUTH’S REDEFINITION OF THE TERMS**
10 **“UNBUNDLED LOOP,” “ACCESS LINE,” AND “CUSTOMER LINE”**
11 **HAVE ANTICOMPETITIVE IMPLICATIONS?**

12 **A.** Absolutely. By redefining “access line,” “customer line,” and “unbundled
13 loop” to all mean “DS0 equivalent,” BellSouth is seeking to artificially
14 increase the costs of its competitors. If BellSouth does not impose the
15 surcharge – also on a DS0 equivalent basis – on its retail customers that
16 purchase DS0- and DS1-based services, the anticompetitive effect will be
17 compounded.

18

19 **Q. YOU STATED THAT BEFORE DETERMINING THAT IT WOULD**
20 **BE “APPROPRIATE” FOR BELLSOUTH TO IMPOSE THE**
21 **SURCHARGE ON UNE LOOPS, THE COMMISSION SHOULD**
22 **CONSIDER WHETHER PERMITTING BELLSOUTH TO DO SO IS**

1 **CONSISTENT WITH THE FEDERAL PRICING REQUIREMENTS.**

2 **PLEASE EXPLAIN.**

3 A. Through its proposed surcharge, BellSouth is seeking to effectively re-price
4 UNE loops in order to recover additional costs beyond those that were
5 included in its calculation of forward-looking cost when those elements were
6 priced.¹⁰ In effect, BellSouth is seeking to “true up” its forward-looking costs
7 (calculated pursuant to the FCC’s TELRIC requirements and approved by the
8 Commission) to a higher level based on the embedded costs recorded for a
9 specific year. The ability to make any such “true up” – the practical effect of
10 the imposition of BellSouth’s proposed surcharge – would render the
11 calculation of forward-looking costs meaningless: prices established based on
12 forward-looking economic costs could be retroactively adjusted by the
13 company to a higher level in order to recover costs that could not, pursuant to
14 federal law, be included in the forward-looking cost calculation.

15

16 Q. **IS THE APPLICATION OF THE SURCHARGE TO UNE LOOPS**
17 **CONSISTENT WITH THE FCC’S PRICING RULES?**

18 A. No.¹¹ 47 CFR §51.505 sets forth the FCC’s definition of forward-looking

¹⁰ As explained below, BellSouth *included* its forward-looking projection of the average annual costs associated with the restoration of its network due to storm-related damage in these rates.

¹¹ The FCC has established TELRIC as the pricing methodology for UNEs, and this methodology has been affirmed by the United States Supreme Court. The TELRIC methodology explicitly precludes the inclusion of the kind of booked costs that

1 economic cost. §51.505(b) describes the calculation of direct costs:

2 the total element long-run incremental cost of an
3 element is the *forward-looking cost over the long run* of
4 the total quantity of the facilities and functions that are
5 directly attributable, or reasonably identifiable as
6 incremental to, such element, calculated taken as a
7 given the incumbent LEC's provision of other elements
8 (emphasis added).
9

10 §51.505(c) describes the constraints on adding common costs to the
11 cost of a network element, and similarly requires any such allocation of
12 common costs to be "forward-looking"

13 §51.505(d) lists four types of costs that *may not be considered* when
14 developing the rate for an unbundled element. At the top of this list,
15 §51.505(d)(1) explicitly states that embedded costs – costs that the incumbent
16 LEC incurred in the past and that are recorded in the incumbent LEC's books
17 of accounts" – may not be considered when pricing unbundled network
18 elements.

19 Finally, §51.505(e) places the burden on BellSouth to prove that any
20 costs that it proposes to include in the rate for an unbundled element "do not
21 exceed the forward-looking economic cost per unit of providing the element."

BellSouth is seeking to recover through the storm surcharge. It is my understanding that the Commission is, therefore, pre-empted under federal law from applying the proposed surcharge to UNEs.

1 Q. DO THE FCC'S RULES APPLY WHEN INITIALLY DEVELOPING
2 THE PRICES FOR UNBUNDLED NETWORK ELEMENTS,
3 INCLUDING UNBUNDLED LOOPS?

4 A. Yes. The Commission applied these rules in its UNE pricing docket.¹²

5

6 Q. DO THE FCC RULES APPLY TO ANY PROPOSAL TO CHANGE
7 THE PRICE CHARGED FOR AN UNBUNDLED NETWORK
8 ELEMENT?

9 A. Of course. Any time that an ILEC seeks to change its UNE prices, these rules
10 are applicable. A failure to apply these requirements in a re-pricing scenario
11 would strip the FCC's pricing rules of any meaning.

12

13 Q. IS THE RECOVERY OF COSTS RELATED TO STORM DAMAGE
14 ALREADY INCLUDED IN BELL SOUTH'S TELRIC COST STUDIES
15 THE COMMISSION USED TO SET RATES FOR UNES?

16 A. Yes. When conducting its TELRIC study to support the current unbundled
17 loop prices, BellSouth first calculated the forward-looking investment that
18 would be required and then determined the amount that it needed to recover
19 annually in order to recover all of the costs associated with that investment.

20 Mechanically, BellSouth used an "annual cost factor" ("ACF") to make this

¹² In re: Investigation into pricing of unbundled network elements. (BellSouth Track),
Docket No. 990649A-TP, Order No. PSC-01-1181-FOF-TP (May 25, 2001), Order
No. PSC-02-1311-FOF-TP (Sept. 27, 2002).

1 conversion.

2 According to the attachment to BellSouth's Response to CompSouth
3 Interrogatory No. 12, "annual cost factors are translators used to determine the
4 amount of recurring cost for one year associated with acquiring and using a
5 particular investment."¹³ The costs recovered through the use of ACFs
6 include capital-related costs (depreciation, cost of money, income tax) and
7 operating-related costs (including several types of plant-specific expenses and
8 ad valorem taxes).¹⁴

9 BellSouth's document goes on to explain how plant-specific expenses
10 are calculated: "the plant specific expense factor, which includes the cost of
11 material used and direct labor, is a ratio that reflects the relationship between
12 the expenses for [a] plant category and the respective investment. The factor
13 also includes maintenance-type expenses for existing plant that cannot be
14 directly assigned to a given plant category ... The maintenance expenses
15 incorporated in the Plant Specific Expense factors include those associated
16 with the following types of operations:

- 17 *1. Inspecting and reporting on the condition of plant investment to*
18 *determine the need for repairs, replacements, rearrangements and*
19 *changes,*
20
21 2. Performing routine work to prevent trouble,
22
23 3. Replacing items of plant other than retirement units,

¹³ Capital Cost Calculator (attachment to Item No. 12b), p. 2. BellSouth's response is attached as Exhibit DJW-2.

¹⁴ *Id.*, pp. 3-4.

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- 4. Rearranging and changing the location of plant not retired,
- 5. Repairing material for reuse,
- 6. *Restoring the condition of plant damaged by storms, floods, fire, and other casualties (other than the cost of replacing retirement units),*
- 7. Inspecting after repairs have been made,
- 8. Salaries, wages, and expenses associated with plant craft work and work reporting engineers, as well as their immediate supervision and office support.”¹⁵

As this list shows, BellSouth has already included – in the TELRIC study the Commission accepted and used to establish unbundled loop rates – tasks associated with “inspecting and reporting on the condition of plant investment to determine the need for repairs” and with “restoring the condition of plant damaged by storms, floods, fire, and other casualties.” The levels of expenses BellSouth included in its ACFs represent the company’s estimate of the forward-looking levels of these expenses over the long run.

BellSouth’s proposed re-pricing of unbundled loops is in conflict with the FCC’s pricing requirements (and with basic principles of equity and fairness) for at least three reasons. First, the expenses used by BellSouth in its TELRIC studies are long-run projections; there is no reason to believe that the level of these expenses will not vary from year to year. To the contrary, it is reasonable to expect that in some years BellSouth will incur “actual” costs

¹⁵ Id., p. 5, emphasis added.

1 that are more than the long-run average, and in some years it will incur
2 “actual” costs that are less than the long-run average. There is absolutely no
3 justification for BellSouth to now try to true-up prices to reflect one year of
4 above-average expenses, just as there would be no basis to require BellSouth
5 to “true-down” prices to reflect one year of below-average expenses.

6 Second, BellSouth’s proposal to adjust prices based on embedded
7 costs is directly at odds with §51.505(d)(1), which explicitly states that
8 “embedded costs – costs that the incumbent LEC incurred in the past and that
9 are recorded in the incumbent LEC’s books of accounts” – *may not be*
10 *considered* when pricing unbundled network elements. This rule does *not* say
11 that the prohibition against considering embedded costs applies only when
12 initially setting a price for an unbundled element, so that embedded costs can
13 be used later in order to make an adjustment to bring long run forward-
14 looking costs more in line with a single year’s booked costs. Rather, the rule
15 explicitly says that embedded costs *may not be considered*.

16 Finally, BellSouth’s existing Commission-approved TELRIC study is
17 based on the company’s estimate of long-run average costs, projected based
18 on a base year of 1998. If BellSouth now believes that its previous projection
19 of the long-run level of these expenses was incorrect, its proper recourse is to
20 produce an updated cost study with new ACFs reflecting its revised long-run
21 projection and to petition the Commission to change its UNE rates. At that
22 time, BellSouth will be required, pursuant to §51.505(e), to prove that any

1 costs that it proposes to include in the rate for an unbundled element “do not
2 exceed the forward-looking economic cost per unit of providing the element.”

3 Of course, other costs have certainly changed since the 1999-vintage
4 factors used to set current UNE rates were developed, and it is impossible to
5 determine the net impact that these changes would have on the result of a cost
6 study. Even if an adjustment based on embedded costs were permitted,
7 BellSouth has certainly not demonstrated that such an adjustment would
8 increase rather than decrease the monthly rate for unbundled loops.

9
10 **Q. YOU STATED THAT BELLSOUTH MAY BE SEEKING TO IMPOSE**
11 **THE SURCHARGE ON ACCESS LINES THAT ARE NOT §251**
12 **UNBUNDLED LOOPS, BUT INSTEAD ARE PROVISIONED**
13 **PURSUANT TO COMMERCIAL AGREEMENTS BETWEEN**
14 **CARRIERS. WHY WOULD THE IMPOSITION OF A SURCHARGE**
15 **BE INAPPROPRIATE UNDER THESE CIRCUMSTANCES?**

16 **A.** It is my understanding that these agreements are contracts entered into by
17 BellSouth and a CLEC. Absent an explicit provision to the contrary, the
18 parties are bound by the terms and conditions of these agreements, unless and
19 until these contracts are amended with the consent of both parties to the
20 agreement. BellSouth cannot unilaterally increase the prices contained in
21 these agreements, and characterizing a price increase as a “surcharge” does
22 not create such an ability. While I (like Ms. Blake) am not an attorney, it is

1 my understanding that the Commission cannot require the parties to amend
2 these agreements.

3 Any imposition of a surcharge to commercial agreements also appears
4 to be at odds with the plain language of §364.051(4)(b)(6). This section states
5 that “to the extent the Commission determines appropriate,” BellSouth can
6 apply the surcharge to “its wholesale loop unbundled network element
7 customers.” The services purchased pursuant to these commercial agreements
8 are not “unbundled network elements,” so the statute contains no provision for
9 imposing the surcharge on them. §364.051(4)(b)(6) does not say that
10 BellSouth can impose the surcharge on any wholesale service (with or without
11 a Commission determination of appropriateness), but is instead limited
12 specifically to “unbundled network elements.”

13

14 **Q. AT P. 17 OF HER AMENDED TESTIMONY, MS. BLAKE SUGGESTS**
15 **THAT IF THE COMMISSION DOES NOT PERMIT BELLSOUTH TO**
16 **IMPOSE THE SURCHARGE ON UNE LOOPS, BELLSOUTH’S**
17 **RETAIL CUSTOMERS WILL BE REQUIRED TO SOMEHOW MAKE**
18 **UP THE SHORTFALL. IS SUCH A SCENARIO POSSIBLE?**

19 **A.** No. As BellSouth admits in its response to CompSouth’s 1st Set of
20 Interrogatories, Item No. 10, the amount of the surcharge imposed on
21 BellSouth’s retail customers will be the same whether or not BellSouth is
22 permitted to assess a surcharge on unbundled loops.

1

2 **BELLSOUTH'S BASIS FOR IMPOSING THE SURCHARGE SHOULD BE**

3

CAREFULLY EXAMINED

4

5 Q. **YOU STATED THAT §364.051(4) REQUIRES THE COMMISSION TO**
6 **“VERIFY THE INTRASTATE COSTS AND EXPENSES SUBMITTED**
7 **BY THE COMPANY IN SUPPORT OF ITS PETITION” AND**
8 **REQUIRES BELLSOUTH TO SHOW THAT THE INTRASTATE**
9 **COSTS AND “EXPENSES ARE REASONABLE UNDER THE**
10 **CIRCUMSTANCES FOR THE NAMED TROPICAL SYSTEM.” DOES**
11 **YOUR TESTIMONY FOCUS ON THESE ISSUES?**

12 A. No. It is my understanding that the Commission Staff is currently conducting
13 a review of the validity and reasonableness of BellSouth's claims. While I
14 have some fundamental questions about BellSouth's decisions that have
15 caused it to now seek recovery of these costs from customers, the focus of my
16 testimony is on the scope of the services to which the surcharge would be
17 applied and the way in which BellSouth has chosen to count “access lines” in
18 order to circumvent the \$0.50/access line/month cap in §364.051(4)(b)(5).

1 Q. YOU STATED THAT YOU HAVE SOME FUNDAMENTAL
2 QUESTIONS ABOUT THE DECISIONS THAT HAVE CAUSED
3 BELL SOUTH TO SEEK TO RECOVER THESE COSTS FROM
4 CUSTOMERS. WHAT DO YOU MEAN?

5 A. BellSouth has chosen, as part of a profit-maximizing strategy, not to maintain
6 a storm reserve fund that could be tapped in these circumstances and has also
7 chosen not to insure its outside plant against storm damage. To be clear, I do
8 not take issue with BellSouth's ability to operate pursuant to §364.051 or its
9 rights as a carrier operating pursuant to price regulation to make these
10 decisions. Unlike the case for a company operating pursuant to rate of return
11 regulation, the Commission has little oversight over these management
12 decisions of a price regulation company. But I can think of no public policy
13 reason that such a price-regulated company, having made these decisions,
14 should not be required to live with the consequences of its actions.

15 Put directly, BellSouth could have maintained a storm reserve fund (as
16 it has done in the past)¹⁶ as a means of buffering the losses that it now seeks to
17 recover pursuant to a surcharge on customers, or it could have purchased
18 insurance coverage for its outside plant (as it has also done in the past).¹⁷
19 Tropical systems are not a new or unusual occurrence in Florida; BellSouth's
20 management certainly had familiarity with the potential for damage and with

¹⁶ See BellSouth's Response to Citizen's First Interrogatories, Item Nos. 1, 2, 3.

¹⁷ See BellSouth's Response to CompSouth's First Interrogatories, Item Nos. 3, 4, 6.

1 the costs of repairing that damage. Based on its projection of the amount of
2 future storm damage and the cost to either maintain a storm reserve fund or
3 purchase insurance, BellSouth's management decided on what it considered a
4 profit-maximizing course of action.¹⁸ If BellSouth's management had guessed
5 correctly and the company had experienced a lower than anticipated level of
6 storm damage, it is highly unlikely that a BellSouth would now be before the
7 Commission with a proposal to issue a \$6.00/access line refund to its retail
8 and wholesale customers. As has often been the case since it ceased operating
9 pursuant to traditional rate of return regulation, BellSouth wants the freedom
10 of price regulation to retain higher profits when things go well, but effectively
11 seeks the protection of rate of return regulation when things don't go as well.
12 This is a very good deal for BellSouth but a very bad deal for its Florida
13 customers (both wholesale and retail customers).

14
15 **Q. ACCORDING TO MR. HILYER, WHY DID BELLSOUTH DECIDE**
16 **TO DISCONTINUE PURCHASING INSURANCE FOR ITS OUTSIDE**
17 **PLANT?**

18 **A.** According to Mr. Hilyer, BellSouth made the decision not to purchase this
19 insurance, as it had done in the past, because the insurance was "not
20 reasonably priced" and the "coverage terms were prohibitive." In other

¹⁸ According to Mr. Hilyer, this decision is based in part on the company's "risk management best practices" (BellSouth's Response to CompSouth's First Interrogatories, Item No. 6).

1 words, BellSouth's management decided, based on its own assessment of
2 future storm-related expenses and the price of insurance, not to purchase the
3 insurance.

4

5 **Q. ASSUMING THAT TROPICAL STORMS AND HURRICANES ARE**
6 **LIKELY TO OCCUR IN FLORIDA, WHAT WOULD A PRUDENT**
7 **COURSE OF ACTION BE FOR A COMPANY THAT DECIDES NOT**
8 **TO INSURE ITS FACILITIES AGAINST STORM DAMAGE?**

9 A. A prudent course of action would be to set aside funds internally so that the
10 needed funds would be available in the event of damage from a tropical
11 system.

12

13 **Q. DID BELL SOUTH TAKE THIS PRUDENT COURSE OF ACTION?**

14 A. No. According to Mr. Hilyer, BellSouth decided not to insure its outside plant
15 beginning in 1994, and stopped maintaining its storm reserve fund in 1997.
16 With no "rainy day fund" available at all, BellSouth's management was
17 willing to (1) bet that Florida would not be impacted by any major tropical
18 storms in the future, (2) assume that the company would have the ability to
19 absorb any such uninsured losses if they did occur, or (3) expect that some
20 mechanism would be found, in spite of the company's operation pursuant to
21 price regulation, to have customers pick up part of the tab for any failure in
22 BellSouth's "risk management best practices."

1

2 Q. **DOES MR. HILYER EXPLAIN WHY, HAVING CANCELLED ITS**
3 **INSURANCE COVERAGE, BELL SOUTH DECIDED NOT TO**
4 **MAINTAIN A STORM RESERVE FUND?**

5 A. Yes, but his explanation is based primarily on a play on words. He argues that
6 BellSouth has not set aside any funds to use in case of major storm damage
7 because “paragraph 28 of SFAS No. 5 specifically prohibits the accrual for
8 uninsured future losses.” In other words, for external reporting purposes
9 BellSouth cannot report a portion of these potential future expenses as current
10 expenses. That may be true, but the fact that BellSouth cannot recognize the
11 expenses associated with uninsured storm damage until they are actually
12 incurred in no way prevents the company from setting aside a cash (or cash-
13 equivalent) reserve within the company for just such a contingency.

14 Mr. Hilyer’s testimony actually recognizes (p. 9) this distinction:
15 “BellSouth neither has a storm reserve fund *nor* has it maintained an accrued
16 reserve for future storm damages” (emphasis added). Setting aside the funds
17 internally, and externally reporting the funds being set aside as a current-
18 period expense, are two completely different things.

19 Mr. Hilyer’s statement that SFAS No. 5 *prevents* BellSouth from
20 maintaining a storm reserve fund¹⁹ is incorrect; SFAS No. 5 prevents

¹⁹ See BellSouth’s Response to CompSouth’s First Interrogatories, Item No. 7.

1 BellSouth from reporting as current expenses accruals for future storm
2 damage. The fact that BellSouth must report these expenses only when
3 actually incurred in no way prevents it from setting aside cash or other liquid
4 assets internally in the form of a ‘storm reserve fund.’”

5 Before a company comes to the Commission seeking to impose a
6 surcharge on Florida ratepayers and wholesale customers, it ought to have
7 exhausted a reasonable storm reserve fund, applicable insurance coverage, or
8 both.

9
10 Q. **PLEASE SUMMARIZE YOUR TESTIMONY.**

11 A. BellSouth is seeking to impose a surcharge on a wide range of wholesale
12 access lines. Both the application of the surcharge to these lines, and the way
13 in which BellSouth proposes to define the term “access line” in order to
14 artificially increase the amount of money collected from its competitors, fails
15 the §364.051(4)(b)(6) requirement that the Commission find BellSouth’s
16 proposal “appropriate.” Further, the application of the proposed surcharge to
17 UNEs violates TELRIC pricing methodologies. For the reasons set forth in
18 my testimony, CompSouth asks the Commission to reject BellSouth’s petition
19 to impose a surcharge on wholesale loops.

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

22 A. Yes.

Vita of Don J. Wood

*30000 Mill Creek Avenue, Suite 395, Alpharetta, Georgia 30022
Voice 770.475.9971, Facsimile 770.475.9972*

CURRENT EMPLOYMENT

Don J. Wood is a principal in the firm of Wood & Wood. He provides economic, financial, and regulatory analysis services in telecommunications and related convergence industries, specializing in economic policy related to the development of competitive markets, inter-carrier compensation, and cost of service issues. In addition, Mr. Wood advises industry associations on regulatory and economic policy and assists investors in their evaluation of investment opportunities in the telecommunications industry. The scope of his work has included wireline and wireless communications, data services, and emerging technologies.

As a consultant, Mr. Wood has assisted his clients in responding to the challenges and business opportunities of the industry both before and subsequent to the Telecommunications Act of 1996. Prior to his work as a consultant, Mr. Wood was employed in a management capacity at a major Local Exchange Company and an Interexchange Carrier. He has been directly involved in both the development and implementation of regulatory policy and business strategy.

In the area of administrative law, Mr. Wood has presented testimony before the regulatory bodies of forty-one states, the District of Columbia, and Puerto Rico, and has prepared comments and testimony for filing with the Federal Communications Commission. The subject matter of his testimony has ranged from broad policy issues to detailed cost and rate analysis.

Mr. Wood has also presented testimony in state, federal, and overseas courts regarding business plans and strategies, competition policy, inter-carrier compensation, and cost of service issues. He has presented studies of the damages incurred by plaintiffs and has provided rebuttal testimony to damage calculations performed by others. Mr. Wood has also testified in alternative dispute resolution proceedings conducted pursuant to both AAA and CPR rules.

Mr. Wood is an experienced commercial mediator and is registered as a neutral with the Georgia Office of Dispute Resolution.

PREVIOUS INDUSTRY EMPLOYMENT

Klick, Kent & Allen/FTI Consulting, Inc.

Regional Director.

GDS Associates, Inc.

Senior Project Manager.

MCI Telecommunications Corporation

Manager of Regulatory Analysis, Southeast Division.

Manager, Corporate Economic Analysis and Regulatory Affairs.

BellSouth Services, Inc.

Staff Manager.

EDUCATION

Emory University, Atlanta, Ga.

BBA in Finance, with Distinction.

College of William and Mary, Williamsburg, Va.

MBA, with concentrations in Finance and Microeconomics.

TESTIMONY - STATE REGULATORY COMMISSIONS:

Alabama Public Service Commission

Docket No. 19356, Phase III: Alabama Public Service Commission vs. All Telephone Companies Operating in Alabama, and Docket 21455: AT&T Communications of the South Central States, Inc., Applicant, Application for a Certificate of Public Convenience and Necessity to Provide Limited IntraLATA Telecommunications Service in the State of Alabama.

Docket No. 20895: In Re: Petition for Approval to Introduce Business Line Termination for MCI's 800 Service.

Docket No. 21071: In Re: Petition by South Central Bell for Introduction of Bidirectional Measured Service.

Docket No. 21067: In Re: Petition by South Central Bell to Offer Dial Back-Up Service and 2400 BPS Central Office Data Set for Use with PulseLink Public Packet Switching Network Service.

Docket No. 21378: In Re: Petition by South Central Bell for Approval of Tariff Revisions to Restructure ESSX and Digital ESSX Service.

Docket No. 21865: In Re: Petition by South Central Bell for Approval of Tariff Revisions to Introduce Network Services to be Offered as a Part of Open Network Architecture.

Docket No. 25703: In Re: In the Matter of the Interconnection Agreement Between AT&T Communications of the South Central States, Inc. and BellSouth Telecommunications, Inc., Pursuant to 47 U.S.C. § 252.

Docket No. 25704: In Re: Petition by AT&T Communications of the South Central States, Inc. for Arbitration of Certain Terms and Conditions of a Proposed Agreement with GTE South Incorporated and CONTEL of the South, Inc. Concerning Interconnection and Resale under the Telecommunications Act of 1996.

Docket No. 25835: In Re: Petition for Approval of a Statement of Generally Available Terms and Conditions Pursuant to §252(f) of the Telecommunications Act of 1996 and Notification of Intention to File a §271 Petition for In-Region InterLATA Authority with the Federal Communications Commission Pursuant to the Telecommunications Act of 1996.

Docket No. 26029: In Re: Generic Proceeding - Consideration of TELRIC Studies.

Docket No. 25980: Implementation of the Universal Support Requirements of Section 254 of the Telecommunications Act of 1996.

Docket No. 27091: Petition for Arbitration by ITC^DeltaCom Communications, Inc. with BellSouth Telecommunications, Inc. Pursuant to the Telecommunications Act of 1996.

Docket No. 27821: Generic Proceeding to Establish Prices for Interconnection Services and Unbundled Network Elements.

Docket Nos. 27989 and 15957: BellSouth "Full Circle" Promotion and Generic Proceeding Considering the Promulgation of Telephone Rules Governing Promotions.

Docket No. 060598-TL
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Docket No. 28841: In Re: Petition for Arbitration of ITC^DeltaCom Communications, Inc. with BellSouth Telecommunications, Inc. Pursuant to the Telecommunications Act of 1996.

Docket No. 29075: Petition of CenturyTel to Establish Wholesale Avoidable Cost Discount Rates for Resale of Local Exchange Service.

Docket No. 29054: IN RE: Implementation of the Federal Communications Commission's Triennial Review Order (Phase II – Local Switching for Mass Market Customers).

Docket No. 29172: Southern Public Communication Association, Complainant, and BellSouth Telecommunications, Inc., Defendant.

The Regulatory Commission of Alaska

Case No. U-02-039: In the Matter of Request by Alaska Digitel, LLC for Designation as a Carrier Eligible To Receive Federal Universal Service Support Under the Telecommunications Act of 1996.

Case No. U-04-62: In the Matter of the Request by Alaska Wireless Communications, LLC For Designation as a Carrier Eligible to Receive Federal Universal Service Support Under the Telecommunications Act of 1996.

Arkansas Public Service Commission

Docket No. 92-337-R: In the Matter of the Application for a Rule Limiting Collocation for Special Access to Virtual or Physical Collocation at the Option of the Local Exchange Carrier.

Public Utilities Commission of the State of California

Rulemaking 00-02-005: Order Instituting Rulemaking on the Commission's Own Motion into Reciprocal Compensation for Telephone Traffic Transmitted to Internet Service Provider Modems.

Application Nos. 01-02-024, 01-02-035, 02-02-031, 02-02-032, 02-02-034, 02-03-002: Applications for the Commission to Reexamine the Recurring Costs and Prices of Unbundled Network Element Costs Pursuant to Ordering Paragraph 11 of D.99-11-050.

Application No. 05-02-027: In the Matter of the Joint Application of SBC Communications Inc. ("SBC") and AT&T Corp. ("AT&T") for Authorization to Transfer Control of AT&T Communications of California (U-5002), TCG Los Angeles, Inc. (U-5462), TCG San Diego (U-5389), and TCG San Francisco (U-5454) to SBC, Which Will Occur Indirectly as a Result of AT&T's Merger With a Wholly-Owned Subsidiary of SBC, Tau Merger Sub Corporation.

Application No. 05-04-020: In the Matter of the Joint Application of Verizon Communications Inc. ("Verizon") and MCI, Inc. ("MCI") to Transfer Control of MCI's California Utility Subsidiaries to Verizon, Which Will Occur Indirectly as a Result of Verizon's Acquisition of MCI.

Public Utilities Commission of the State of Colorado

Docket No. 96A-345T: In the Matter of the Interconnection Contract Negotiations Between AT&T

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Communications of the Mountain States, Inc., and US West Communications, Inc., Pursuant to 47 U.S.C. Section 252. Docket No. 96A-366T: In the Matter of the Petition of MCIMetro Access Transmission Services, Inc., for Arbitration Pursuant to 47 U.S.C. § 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with US West Communications, Inc. (consolidated).

Docket No. 96S-257T: In Re: The Investigation and Suspension of Tariff Sheets Filed by US West Communications, Inc., with Advice Letter No. 2608 Regarding Proposed Rate Changes.

Docket No. 98F-146T: Colorado Payphone Association, Complainant, v. US West Communications, Inc., Respondent.

Docket No. 02A-276T: In the Matter of the Application of Wiggins Telephone Association for Approval of its Disaggregation Plan

Docket No. 02A-444T: In the Matter of NECC's Application to Redefine the Service Area of Eastern Slope Rural Telephone Association, Inc., Great Plains Communications, Inc., Plains Coop Telephone Association, Inc., and Sunflower Telephone Co., Inc.

State of Connecticut, Department of Utility Control

Docket 91-12-19: DPUC Review of Intrastate Telecommunications Services Open to Competition (Comments).

Docket No. 94-07-02: Development of the Assumptions, Tests, Analysis, and Review to Govern Telecommunications Service Reclassifications in Light of the Eight Criteria Set Forth in Section 6 of Public Act 94-83 (Comments).

Docket No. 03-11-16: Petition of Tel Comm Technologies, et. al., for Review and Amendment of Southern New England Telephone Company's Charges for Pay Telephone Access Services.

Delaware Public Service Commission

Docket No. 93-31T: In the Matter of the Application of The Diamond State Telephone Company for Establishment of Rules and Rates for the Provision of IntelliLinQ-PRI and IntelliLinQ-BRI.

Docket No. 41: In the Matter of the Development of Regulations for the Implementation of the Telecommunications Technology Investment Act.

Docket No. 96-324: In the Matter of the Application of Bell Atlantic-Delaware, Inc. for Approval of its Statement of Terms and Conditions Under Section 252(f) of the Telecommunications Act of 1996 (Phase II).

Docket No. 02-001: In the Matter of the Inquiry into Verizon Delaware Inc.'s Compliance with the Conditions Set Forth in 47 U.S.C. § 271(c).

Florida Public Service Commission

Docket No. 881257-TL: In Re: Proposed Tariff by Southern Bell to Introduce New Features for Digital ESSX Service, and to Provide Structural Changes for both ESSX Service and Digital ESSX Service.

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Docket No. 880812-TP: In Re: Investigation into Equal Access Exchange Areas (EAEAs), Toll Monopoly Areas (TMAs), 1+ Restriction to the Local Exchange Companies (LECs), and Elimination of the Access Discount.

Docket No. 890183-TL: In Re: Generic Investigation into the Operations of Alternate Access Vendors.

Docket No. 870347-TI: In Re: Petition of AT&T Communications of the Southern States for Commission Forbearance from Earnings Regulation and Waiver of Rule 25-4.495(1) and 25-24.480 (1) (b), F.A.C., for a trial period.

Docket No. 900708-TL: In Re: Investigation of Methodology to Account for Access Charges in Local Exchange Company (LEC) Toll Pricing.

Docket No. 900633-TL: In Re: Development of Local Exchange Company Cost of Service Study Methodology.

Docket No. 910757-TP: In Re: Investigation into the Regulatory Safeguards Required to Prevent Cross-Subsidization by Telephone Companies.

Docket No. 920260-TL: In Re: Petition of Southern Bell Telephone and Telegraph Company for Rate Stabilization, Implementation Orders, and Other Relief.

Docket No. 950985-TP: In Re: Resolution of Petitions to establish 1995 rates, terms, and conditions for interconnection involving local exchange companies and alternative local exchange companies pursuant to Section 364.162, Florida Statutes.

Docket No. 960846-TP: In Re: Petition by MCI Telecommunications Corporation and MCI Metro Access Transmission Services, Inc. for Arbitration of Certain Terms and Conditions of a proposed agreement with BellSouth Telecommunications, Inc. Concerning Interconnection and Resale Under the Telecommunications Act of 1996 and Docket No. 960833-TP: In Re: Petition by AT&T Communications of the Southern States, Inc. for Arbitration of Certain Terms and Conditions of a Proposed Agreement with BellSouth Telecommunications, Inc. Concerning Interconnection and Resale Under the Telecommunications Act of 1996 (consolidated).

Docket No. 960847-TP and 960980-TP: In Re: Petition by AT&T Communications of the Southern States, Inc., MCI Telecommunications Corporation, MCI Metro Access Transmission Service, Inc., for Arbitration of Certain Terms and Conditions of a Proposed Agreement with GTE Florida Incorporated Inc. Concerning Interconnection and Resale Under the Telecommunications Act of 1996 (consolidated).

Docket No. 961230-TP: In Re: Petition by MCI Telecommunications Corporation for Arbitration with United Telephone Company of Florida and Central Telephone Company of Florida Concerning Interconnection Rates, Terms, and Conditions, Pursuant to the Federal Telecommunications Act of 1996.

Docket No. 960786-TL: In Re: Consideration of BellSouth Telecommunications, Inc.'s Entry Into InterLATA Services Pursuant to Section 271 of the Federal Telecommunications Act of 1996.

Docket Nos. 960833-TP, 960846-TP, 960757-TP, and 971140-TP: Investigation to develop permanent rates for certain unbundled network elements.

Docket No. 980696-TP: In Re: Determination of the cost of basic local telecommunications service, pursuant to Section 364.025 Florida Statutes.

Docket No. 060598-TL
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Docket No. 990750-TP: Petition by ITC^DeltaCom Communications, Inc., d/b/a/ ITC^DeltaCom, for arbitration of certain unresolved issues in interconnection negotiations between ITC^DeltaCom and BellSouth Telecommunications, Inc.

Docket No. 991605-TP: Petition of BellSouth Telecommunications, Inc. for Arbitration of the Interconnection Agreement Between Time Warner Telecom of Florida, L.P., pursuant to Section 252 (b) of the Telecommunications Act of 1996.

Docket No. 030137-TP: In re: Petition for Arbitration of Unresolved Issues in Negotiation of Interconnection Agreement with BellSouth Telecommunications, Inc. by ITC^DeltaCom Communications, Inc. d/b/a ITC^DeltaCom.

Docket No. 030300-TP: In re: Petition for expedited review of BellSouth Telecommunications, Inc.'s intrastate tariffs for pay telephone access services (PTAS) rate with respect to rates for payphone line access, usage, and features, by Florida Public Telecommunications Association.

Docket No. 030851-TP: In Re: Implementation of Requirements Arising from Federal Communications Commission Triennial UNE Review: Local Circuit Switching for Mass Market Customers.

Docket No. 040353-TP: In Re: Petition of Supra Telecommunications and Information Systems, Inc. to Review and Cancel BellSouth's Promotional Offering Tariffs Offered In Conjunction with its New Flat Rate Service Known as PreferredPack.

Docket No. 040604-TL: In Re: Adoption of the National School Lunch Program and an Income-based Criterion at or Below 135% of the Federal Poverty Guidelines as Eligibility Criteria for the Lifeline and Linkup Programs.

Docket No. 050119-TP: Joint Petition of TDS Telecom d/b/a TDS Telecom/Quincy Telephone, ALLTEL Florida, Inc., Northeast Florida Telephone Company d/b/a NEFCOM, GTC, Inc. d/b/a GT Com, Smart City Telecommunications, LLC d/b/a Smart City Telecom, ITS Telecommunications Systems, Inc., and Frontier Communications of the South, LLC ("Joint Petitioners") objecting to and requesting suspension of Proposed Transit Traffic Service Tariff filed by BellSouth Telecommunications, Inc. and Docket No. 050125-TP: Petition and complaint for suspension and cancellation of Transit Tariff Service No. FL 2004-284 filed by BellSouth Telecommunications, Inc. by AT&T Communications of the Southern States, LLC (consolidated).

Georgia Public Service Commission

Docket No. 3882-U: In Re: Investigation into Incentive Telephone Regulation in Georgia.

Docket No. 3883-U: In Re: Investigation into the Level and Structure of Intrastate Access Charges.

Docket No. 3921-U: In Re: Compliance and Implementation of Senate Bill 524.

Docket No. 3905-U: In Re: Southern Bell Rule Nisi.

Docket No. 3995-U: In Re: IntraLATA Toll Competition.

Docket No. 4018-U: In Re: Review of Open Network Architecture (ONA) (Comments).

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Docket No. 5258-U: In Re: Petition of BellSouth Telecommunications for Consideration and Approval of its "Georgians FIRST" (Price Caps) Proposal.

Docket No. 5825-U: In Re: The Creation of a Universal Access Fund as Required by the Telecommunications Competition and Development Act of 1995.

Docket No. 6801-U: In Re: Interconnection Negotiations Between BellSouth Telecommunications, Inc. and AT&T Communications of the Southern States, Inc., Pursuant to Sections 251-252 and 271 of the Telecommunications Act of 1996.

Docket No. 6865-U: In Re: Petition by MCI for Arbitration of Certain Terms and Conditions of Proposed Agreement with BellSouth Telecommunications, Inc. Concerning Interconnection and Resale Under the Telecommunications Act of 1996.

Docket No. 7253-U: In Re: BellSouth Telecommunications, Inc.'s Statement of Generally Available Terms and Conditions Under Section 252 (f) of the Telecommunications Act of 1996.

Docket No. 7061-U: In Re: Review of Cost Studies and Methodologies for Interconnection and Unbundling of BellSouth Telecommunications Services.

Docket No. 10692-U: In Re: Generic Proceeding to Establish Long-Term Pricing Policies for Unbundled Network Elements.

Docket No. 10854-U: In Re: Petition for Arbitration of ITC^DeltaCom Communications, Inc. with BellSouth Telecommunications, Inc. Pursuant to the Telecommunications Act of 1996.

Docket No. 16583-U: In Re: Petition for Arbitration of ITC^DeltaCom Communications, Inc. with BellSouth Telecommunications, Inc. Pursuant to the Telecommunications Act of 1996.

Docket No. 17749-U: In Re: FCC's Triennial Review Order Regarding the Impairment of Local Switching for Mass Market Customers.

Docket No. 22682-U: In Re: Notice of Merger of AT&T, Inc. and BellSouth Corporation together with its Certificated Georgia Subsidiaries.

Public Utilities Commission of Hawaii

Docket No. 7702: In the Matter of Instituting a Proceeding on Communications, Including an Investigation of the Communications Infrastructure of the State of Hawaii.

Idaho Public Utilities Commission

Case No. GNR-T-03-08: In the Matter of the Petition of IAT Communications, Inc., d/b/a NTCDIdaho, Inc., or ClearTalk, for Designation as an Eligible Telecommunications Carrier, and Case No. GNR-T-03-16: In the Matter of the Application of NCPR, Inc., d/b/a Nextel Partners, seeking designation as an Eligible Telecommunications Carrier.

Illinois Commerce Commission

Docket No. 04-0653: USCOC of Illinois RSA #1, LLC., USCOC of Illinois RSA #4 LLC., USCOC of Illinois Rockford, LLC., and USCOC of Central Illinois, LLC. Petition for Designation as an Eligible Telecommunications Carrier Under 47 U.S.C. Section 214(e)(2).

Docket Nos. 05-0644, 05-0649, and 05-0657: Petition of Hamilton County Telephone Co-Op et. al. for Arbitration under the Telecommunications Act to Establish Terms and Conditions for Reciprocal Compensation with Verizon Wireless and its Constituent Companies.

Indiana Utility Regulatory Commission

Cause No. 42303: In the Matter of the Complaint of the Indiana Payphone Association for a Commission Determination of Just and Reasonable Rates and Charges and Compliance with Federal Regulations.

Cause No. 41052-ETC-43: In the Matter of the Designation of Eligible Telecommunications Carriers by the Indiana Utility Regulatory Commission Pursuant to the Telecommunications Act of 1996 and Related FCC Orders. In Particular, the Application of NPCR, Inc. d/b/a Nextel Partners to be Designated.

Cause No. 42530: In the Matter of the Indiana Utility Regulatory Commission's Investigation of Matters Related to Competition in the State of Indiana Pursuant to Ind. Code 8-1-2 *et seq.*

Iowa Utilities Board

Docket No. RPU-95-10.

Docket No. RPU-95-11.

State Corporation Commission of the State of Kansas

Docket No. 00-GIMT-1054-GIT: In the Matter of a General Investigation to Determine Whether Reciprocal Compensation Should Be Paid for Traffic to an Internet Service Provider.

Docket No. 04-RCCT-338-ETC: In the Matter of Petition of RCC Minnesota, Inc. for Designation as an Eligible Telecommunications Carrier under 47 U.S.C. § 214(e)(2).

Kentucky Public Service Commission

Administrative Case No. 10321: In the Matter of the Tariff Filing of South Central Bell Telephone Company to Establish and Offer Pulselink Service.

Administrative Case No. 323: In the Matter of An Inquiry into IntraLATA Toll Competition, An Appropriate Compensation Scheme for Completion of IntraLATA Calls by Interexchange Carriers, and WATS Jurisdictionality.

- Phase IA: Determination of whether intraLATA toll competition is in the public interest.
- Phase IB: Determination of a method of implementing intraLATA competition.

- Rehearing on issue of Imputation.

Administrative Case No. 90-256, Phase II: In the Matter of A Review of the Rates and Charges and Incentive Regulation Plan of South Central Bell Telephone Company.

Administrative Case No. 336: In the Matter of an Investigation into the Elimination of Switched Access Service Discounts and Adoption of Time of Day Switch Access Service Rates.

Administrative Case No. 91-250: In the Matter of South Central Bell Telephone Company's Proposed Area Calling Service Tariff.

Administrative Case No. 96-431: In Re: Petition by MCI for Arbitration of Certain Terms and Conditions of a Proposed Agreement with BellSouth Telecommunications, Inc. Concerning Interconnection and Resale Under the Telecommunications Act of 1996.

Administrative Case No. 96-478: In Re: The Petition by AT&T Communications of the South Central States, Inc. for Arbitration of Certain Terms and Conditions of a Proposed Agreement with GTE South Incorporated Concerning Interconnection and Resale Under the Telecommunications Act of 1996.

Administrative Case No. 96-482: In Re: The Interconnection Agreement Negotiations Between AT&T Communications of the South Central States, Inc. and BellSouth Telecommunications, Inc., Pursuant to 47 U.S.C. § 252.

Administrative Case No. 360: In the Matter of: An Inquiry into Universal Service and Funding Issues.

Administrative Case No. 96-608: In the Matter of: Investigation Concerning the Provision of InterLATA Services by BellSouth Telecommunications, Inc. Pursuant to the Telecommunications Act of 1996.

Administrative Case No. 382: An Inquiry into the Development of Deaveraged Rates for Unbundled Network Elements.

Case No. 2003-00143: In the matter of: Petition of NCPR, Inc., d/b/a Nextel Partners for Designation as an Eligible Telecommunications Carrier in the Commonwealth of Kentucky.

Case No. 2003-00397: Review of Federal Communications Commission's Triennial Review Order Regarding Unbundling Requirements for Individual Network Elements.

Louisiana Public Service Commission

Docket No. 17970: In Re: Investigation of the Revenue Requirements, Rate Structures, Charges, Services, Rate of Return, and Construction Program of AT&T Communications of the South Central States, Inc., in its Louisiana Operations.

Docket No. U-17949: In the Matter of an Investigation of the Revenue Requirements, Rate Structures, Charges, Services, Rate of Return, and Construction Program of South Central Bell Telephone Company, Its Louisiana Intrastate Operations, The Appropriate Level of Access Charges, and All Matters Relevant to the Rates and Service Rendered by the Company.

- Subdocket A (SCB Earnings Phase)

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- Subdocket B (Generic Competition Phase)

Docket No. 18913-U: In Re: South Central Bell's Request for Approval of Tariff Revisions to Restructure ESSX and Digital ESSX Service.

Docket No. U-18851: In Re: Petition for Elimination of Disparity in Access Tariff Rates.

Docket No. U-22022: In Re: Review and Consideration of BellSouth Telecommunications, Inc.'s TSLRIC and LRIC Cost Studies Submitted Pursuant to Sections 901(C) and 1001(E) of the Regulations for Competition in the Local Telecommunications Market as Adopted by General Order Dated March 15, 1996 in Order to Determine the Cost of Interconnection Services and Unbundled Network Components to Establish Reasonable, Non-Discriminatory, Cost Based Tariffed Rates and Docket No. U-22093: In Re: Review and Consideration of BellSouth Telecommunications, Inc.'s Tariff Filing of April 1, 1996, Filed Pursuant to Section 901 and 1001 of the Regulations for Competition in the Local Telecommunications Market Which Tariff Introduces Interconnection and Unbundled Services and Establishes the Rates, Terms and Conditions for Such Service Offerings (consolidated).

Docket No. U-22145: In the Matter of Interconnection Agreement Negotiations Between AT&T Communications of the South Central States, Inc. and BellSouth Telecommunications, Inc., Pursuant to 47 U.S.C. § 252.

Docket No. U-22252: In Re: Consideration and Review of BST's Preapplication Compliance with Section 271 of the Telecommunications Act of 1996, including but not limited to the fourteen requirements set forth in Section 271 (c) (2) (b) in order to verify compliance with section 271 and provide a recommendation to the FCC regarding BST's application to provide interLATA services originating in-region.

Docket No. U-20883 Subdocket A: In Re: Submission of the Louisiana Public Service Commission's Forward Looking Cost Study to the FCC for Purposes of Calculating Federal Universal Service Support.

Docket No. U-24206: In Re: Petition for Arbitration of ITC^DeltaCom Communications, Inc. with BellSouth Telecommunications, Inc. Pursuant to the Telecommunications Act of 1996.

Docket No. U-22632: In Re: BellSouth Telecommunications, Inc. Filing of New Cost Studies for Providing Access Line Service for Customer Provided Public Telephones and Smartline Service for Public Telephone Access.

Docket No. U-24714-A: In Re: Final Deaveraging of BellSouth Telecommunications, Inc. UNE Rates Pursuant to FCC 96-45 Ninth Report and Order and Order on Eighteenth Order on Reconsideration Released November 2, 1999.

Docket No. U-27571: In Re: Louisiana Public Service Commission Implementation of the Requirements Arising from The Federal Communications Commission's Triennial Review Order, Order 03-36: Unbundled Local Circuit Switching for Mass Market Customers and Establishment of a Batch Cut Migration Process.

Public Service Commission of Maryland

Case 8584, Phase II: In the Matter of the Application of MFS Intelenet of Maryland, Inc. for Authority to Provide and Resell Local Exchange and Intrastate Telecommunications Services in Areas Served by C&P Telephone Company of Maryland.

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Case 8715: In the Matter of the Inquiry into Alternative Forms of Regulating Telephone Companies.

Case 8731: In the Matter of the Petitions for Approval of Agreements and Arbitration of Unresolved Issues Arising Under Section 252 of the Telecommunications Act of 1996.

Massachusetts Department of Telecommunications and Energy

D.P.U./D.T.E. 97088/97-18 (Phase II): Investigation by the Department of Telecommunications & Energy on its own motion regarding (1) implementation of section 276 of the Telecommunications Act of 1996 relative to public interest payphones, (2) Entry and Exit Barriers for the Payphone Marketplace, (3) New England Telephone and Telegraph Company d/b/a NYNEX's Public Access Smart-Pay Service, and (4) the rate policy for operator service providers.

Minnesota Public Utilities Commission

PUC Docket No. PT6153/AM-02-686, OAH Docket No. 3-2500-14980-2: In the Matter of Petition of Midwest Wireless Communications, LLC for Designation as an Eligible Communications carrier under 47 U.S.C. § 214(e)(2).

PUC Docket No. PT-6182, 6181/M-02-1503: In the Matter of RCC Minnesota, Inc. and Wireless Alliance, LLC for Designation as an Eligible Telecommunications Carrier under 47 U.S.C. § 214(e)(2).

Mississippi Public Service Commission

Docket No. U-5086: In Re: MCI Telecommunications Corporation's Metered Use Service Option D (Prism I) and Option E (Prism II).

Docket No. U-5112: In Re: MCI Telecommunications Corporation's Metered Use Option H (800 Service).

Docket No. U-5318: In Re: Petition of MCI for Approval of MCI's Provision of Service to a Specific Commercial Banking Customers for Intrastate Interexchange Telecommunications Service.

Docket 89-UN-5453: In Re: Notice and Application of South Central Bell Telephone Company for Adoption and Implementation of a Rate Stabilization Plan for its Mississippi Operations.

Docket No. 90-UA-0280: In Re: Order of the Mississippi Public Service Commission Initiating Hearings Concerning (1) IntraLATA Competition in the Telecommunications Industry and (2) Payment of Compensation by Interexchange Carriers and Resellers to Local Exchange Companies in Addition to Access Charges.

Docket No. 92-UA-0227: In Re: Order Implementing IntraLATA Competition.

Docket No. 96-AD-0559: In Re: In the Matter of the Interconnection Agreement Negotiations Between AT&T Communications of the South Central States, Inc. and BellSouth Telecommunications, Inc., Pursuant to 47 U.S.C. § 252.

Docket No. 98-AD-035: Universal Service.

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Docket No. 97-AD-544: In Re: Generic Proceeding to Establish Permanent Prices for BellSouth Interconnection and Unbundled Network Elements.

Docket No. 2003-AD-714: Generic Proceeding to Review the Federal Communications Commission's Triennial Review Order.

Public Service Commission of the State of Missouri

Case No. TO-2004-0527: In the Matter of the Application of WWC License, LLC, d/b/a CellularOne, for Designation as an Eligible Telecommunications Carrier, and Petition for Redefinition of Rural Telephone Company Areas.

Case No. to-2005-0384: Application of USCOC of Greater Missouri, LLC For Designation as an Eligible Telecommunications Carrier Pursuant to the Telecommunications Act of 1996.

Public Service Commission of the State of Montana

Docket No. D2000.8.124: In the Matter of Touch America, Inc.'s Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 of the Terms and Conditions of Interconnection with Qwest Corporation, f/k/a US West Communications, Inc.

Docket No. D2000.6.89: In the Matter of Qwest Corporation's Application to Establish Rates for Interconnection, Unbundled Network Elements, Transport and Termination, and Resale Services.

Docket No. D2003.1.14: In the Matter of WWC Holding Co. Application for Designation as an Eligible Telecommunications Carrier in Montana Areas Served by Qwest Corporation.

Nebraska Public Service Commission

Docket No. C-1385: In the Matter of a Petition for Arbitration of an Interconnection Agreement Between AT&T Communications of the Midwest, Inc., and US West Communications, Inc.

Public Utilities Commission of Nevada

Docket No. 04-3030: In re: Application of WWD License LLC, d/b/a CellularOne, for redefinition of its service area as a designated Eligible Telecommunications Carrier.

New Jersey Board of Public Utilities

Docket No. TM0530189: In the Matter of the Joint Petition of Verizon Communications Inc., and MCI, Inc. for Approval of Merger.

New York Public Service Commission

Case No. 28425: Proceeding on Motion of the Commission as to the Impact of the Modification of Final Judgement and the Federal Communications Commission's Docket 78-72 on the Provision of Toll Service in New York State.

North Carolina Public Utilities Commission

Docket No. P-100, Sub 72: In the Matter of the Petition of AT&T to Amend Commission Rules Governing Regulation of Interexchange Carriers (Comments).

Docket No. P-141, Sub 19: In the Matter of the Application of MCI Telecommunications Corporation to Provide InterLATA Facilities-Based Telecommunications Services (Comments).

Docket No. P-55, Sub 1013: In the Matter of Application of BellSouth Telecommunications, Inc. for, and Election of, Price Regulation.

Docket Nos. P-7, Sub 825 and P-10, Sub 479: In the Matter of Petition of Carolina Telephone and Telegraph and Central Telephone Company for Approval of a Price Regulation Plan Pursuant to G.S. 62-133.5.

Docket No. P-19, Sub 277: In the Matter of Application of GTE South Incorporated for and Election of, Price Regulation.

Docket No. P-141, Sub 29: In the Matter of: Petition of MCI Telecommunications Corporation for Arbitration of Interconnection with BellSouth Telecommunications, Inc., Petition of AT&T Communications of the Southern States, Inc. for Arbitration of Interconnection with BellSouth Telecommunications, Inc. (consolidated).

Docket No. P-141, Sub 30: In the Matter of: Petition of MCI Telecommunications Corporation for Arbitration of Interconnection with General Telephone Company of North Carolina, Inc., Petition of AT&T Communications of the Southern States, Inc. for Arbitration of Interconnection with General Telephone Company of North Carolina, Inc. (consolidated).

Docket No. P-100, Sub 133b: Re: In the Matter of Establishment of Universal Support Mechanisms Pursuant to Section 254 of the Telecommunications Act of 1996.

Docket No. P-100, Sub 133d: Re: Proceeding to Determine Permanent Pricing for Unbundled Network Elements.

Docket No. P-100, Sub 84b: Re: In the Matter of Petition of North Carolina Payphone Association for Review of Local Exchange Company Tariffs for Basic Payphone Services (Comments).

Docket No. P-561, Sub 10: BellSouth Telecommunications, Inc., Complainant, v. US LEC of North Carolina, LLC, and Metacomm, LLC, Respondents.

Docket No. P-472, Sub 15: In the Matter of the Interconnection Agreement Between BellSouth Telecommunications, Inc. and Time Warner Telecom of North Carolina, L.P. Pursuant to Section 252(b) of the Telecommunications Act of 1996.

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Docket Nos. P-7, Sub 995; P-10, Sub 633: ALEC., Inc. v. Carolina Telephone and Telegraph Company and Central Telephone Company.

Docket No. P-500, Sub 18: In the Matter of: Petition for Arbitration of ITC^DeltaCom Communications, Inc. with BellSouth Telecommunications, Inc. Pursuant to the Telecommunications Act of 1996.

Docket No. P-118, Sub 30: In the matter of: Petition of Celco Partnership d/b/a Verizon Wireless for Arbitration Pursuant to Section 252 of the Telecommunications Act of 1996.

Docket No. P-100, Sub 133q: In Re: Implementation of Requirements Arising from Federal Communications Commission Triennial UNE Review: Local Circuit Switching for Mass Market Customers.

Public Utilities Commission of Ohio

Case No. 93-487-TP-ALT: In the Matter of the Application of The Ohio Bell Telephone Company for Approval of an Alternative Form of Regulation.

Case No. 05-0269-TP-ACO: In the matter of the Joint Application of SBC Communications, Inc. and AT&T Corp. for Consent and Approval of a Change of Control.

Oklahoma Corporation Commission

Cause No. PUD 01448: In the Matter of the Application for an Order Limiting Collocation for Special Access to Virtual or Physical Collocation at the Option of the Local Exchange Carrier.

Cause No. PUD 200300195: Application of United States Cellular Corporation for Designation as an Eligible Telecommunications Carrier Pursuant to the Telecommunications Act of 1996.

Cause No. PUD 200300239: Application of Dobson Cellular Systems, Inc. for Designation as an Eligible Telecommunications Carrier Pursuant to the Telecommunications Act of 1996.

Cause No. PUD 200500122: In the matter of Dobson Cellular Systems, Inc., and American Cellular Corporation application for designation as a competitive eligible telecommunications carrier and redefinition of the service area requirement pursuant to Section 214(e) of the Telecommunications Act of 1996.

Public Utility Commission of Oregon

Docket No. UT 119: In the Matter of an Investigation into Tariffs Filed by US West Communications, Inc., United Telephone of the Northwest, Pacific Telecom, Inc., and GTE Northwest, Inc. in Accordance with ORS 759.185(4).

Docket No. ARB 3: In the Matter of the Petition of AT&T Communications of the Pacific Northwest, Inc., for Arbitration of Interconnection Rates, Terms, and Conditions Pursuant to 47 U.S.C. § 252(b) of the Telecommunications Act of 1996. Docket No. ARB 6: In the Matter of the Petition of MCIMetro Access Transmission Services, Inc. for Arbitration of Interconnection Rates, Terms, and Conditions Pursuant to 47 U.S.C. § 252(b) of the Telecommunications Act of 1996 (consolidated).

Docket No. ARB 9: In the Matter of the Petition of an Interconnection Agreement Between MCIMetro

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Access Transportation Services, Inc. and GTE Northwest Incorporated, Pursuant to 47 U.S.C. Section 252.

Docket No. UT-125: In the Matter of the Application of US West Communications, Inc. for an Increase in Revenues.

Docket No. UM 1083: RCC Minnesota, Inc. Application for Designation as an Eligible Telecommunications Carrier, Pursuant to the Telecommunications Act of 1996.

Docket No. UM 1084: United States Cellular Corporation Application for Designation as an Eligible Telecommunications Carrier, Pursuant to the Telecommunications Act of 1996.

Docket No. UM 1217: Staff Investigation to Establish Requirements for Initial Designation and Recertification of Telecommunications Carriers Eligible to Receive Federal Universal Service Support.

Pennsylvania Public Utilities Commission

Docket No. I-00910010: In Re: Generic Investigation into the Current Provision of InterLATA Toll Service.

Docket No. P-00930715: In Re: The Bell Telephone Company of Pennsylvania's Petition and Plan for Alternative Form of Regulation under Chapter 30.

Docket No. R-00943008: In Re: Pennsylvania Public Utility Commission v. Bell Atlantic-Pennsylvania, Inc. (Investigation of Proposed Promotional Offerings Tariff).

Docket No. M-00940587: In Re: Investigation pursuant to Section 3005 of the Public Utility Code, 66 Pa. C. S. §3005, and the Commission's Opinion and Order at Docket No. P-930715, to establish standards and safeguards for competitive services, with particular emphasis in the areas of cost allocations, cost studies, unbundling, and imputation, and to consider generic issues for future rulemaking.

Docket No. A-310489F7004: Petition of Cellco Partnership d/b/a Verizon Wireless for Arbitration Pursuant to Section 252 of the telecommunications Act of 1996.

Docket Nos. A-310580F9, A-310401F6, A-310407F3, A-312025F5, A-310752F6, A-310364F3: Joint Application of Verizon Communications Inc. and MCI, Inc. For Approval of Agreement and Plan of Merger.

South Carolina Public Service Commission

Docket No. 90-626-C: In Re: Generic Proceeding to Consider Intrastate Incentive Regulation.

Docket No. 90-321-C: In Re: Petition of Southern Bell Telephone and Telegraph Company for Revisions to its Access Service Tariff Nos. E2 and E16.

Docket No. 88-472-C: In Re: Petition of AT&T of the Southern States, Inc., Requesting the Commission to Initiate an Investigation Concerning the Level and Structure of Intrastate Carrier Common Line (CCL) Access Charges.

Docket No. 92-163-C: In Re: Position of Certain Participating South Carolina Local Exchange Companies for Approval of an Expanded Area Calling (EAC) Plan.

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Docket No. 92-182-C: In Re: Application of MCI Telecommunications Corporation, AT&T Communications of the Southern States, Inc., and Sprint Communications Company, L.P., to Provide IntraLATA Telecommunications Services.

Docket No. 95-720-C: In Re: Application of BellSouth Telecommunications, Inc. d/b/a Southern Bell Telephone and Telegraph Company for Approval of an Alternative Regulation Plan.

Docket No. 96-358-C: In Re: Interconnection Agreement Negotiations Between AT&T Communications of the Southern States, Inc. and BellSouth Telecommunications, Inc., Pursuant to 47 U.S.C. § 252.

Docket No. 96-375-C: In Re: Interconnection Agreement Negotiations Between AT&T Communications of the Southern States, Inc. and GTE South Incorporated Pursuant to 47 U.S.C. § 252.

Docket No. 97-101-C: In Re: Entry of BellSouth Telecommunications, Inc. into the InterLATA Toll Market.

Docket No. 97-374-C: In Re: Proceeding to Review BellSouth Telecommunications, Inc. Cost for Unbundled Network Elements.

Docket No. 97-239-C: Intrastate Universal Service Fund.

Docket No. 97-124-C: BellSouth Telecommunications, Inc. Revisions to its General Subscriber Services Tariff and Access Service Tariff to Comply with the FCC's Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996.

Docket No. 1999-268-C: Petition of Myrtle Beach Telephone, LLC, for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Horry Telephone Cooperative, Inc.

Docket No. 1999-259-C: Petition for Arbitration of ITC^DeltaCom Communications, Inc. with BellSouth Telecommunications, Inc. Pursuant to the Telecommunications Act of 1996.

Docket No. 2001-65-C: Generic Proceeding to Establish Prices for BellSouth's Interconnection Services, Unbundled Network Elements and Other Related Elements and Services.

Docket No. 2003-326-C: In Re: Implementation of Requirements Arising from Federal Communications Commission Triennial UNE Review: Local Circuit Switching for Mass Market Customers.

South Dakota Public Utilities Commission

Docket No. TC03-191: In the Matter of the Filing by WWC License, LLC d/b/a CellularOne for Designation as an Eligible Telecommunications Carrier in Other Rural Areas.

Docket No. TC03-193: In the Matter of the Petition of RCC Minnesota, Inc., and Wireless Alliance, L.L.C., for Designation as an Eligible Telecommunications Carrier under 47 U.S.C. §214(e)(2).

Tennessee Public Service Commission

Docket No. 90-05953: In Re: Earnings Investigation of South Central Bell Telephone Company.

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Docket Nos. 89-11065, 89-11735, 89-12677: AT&T Communications of the South Central States, MCI Telecommunications Corporation, US Sprint Communications Company -- Application for Limited IntraLATA Telecommunications Certificate of Public Convenience and Necessity.

Docket No. 91-07501: South Central Bell Telephone Company's Application to Reflect Changes in its Switched Access Service Tariff to Limit Use of the 700 Access Code.

Tennessee Regulatory Authority

Docket No. 96-01152: In Re: Petition by AT&T Communications of the South Central States, Inc. for Arbitration under the Telecommunications Act of 1996 and Docket No. 96-01271: In Re: Petition by MCI Telecommunications Corporation for Arbitration of Certain Terms and Conditions of a Proposed Agreement with BellSouth Telecommunications, Inc. Concerning Interconnection and Resale Under the Telecommunications Act of 1996 (consolidated).

Docket No. 96-01262: In Re: Interconnection Agreement Negotiations Between AT&T of the South Central States, Inc. and BellSouth Telecommunications, Inc. Pursuant to 47 U.S.C. § 252.

Docket No. 97-01262: Proceeding to Establish Permanent Prices for Interconnection and Unbundled Network Elements.

Docket No. 97-00888: Universal Service Generic Contested Case.

Docket No. 99-00430: Petition for Arbitration of ITC^DeltaCom Communications, Inc. with BellSouth Telecommunications, Inc. pursuant to the Telecommunications Act of 1996.

Docket No. 97-00409: In Re: All Telephone Companies Tariff Filings Regarding Reclassification of Pay Telephone Service as Required by Federal Communications Commission Docket No. 96-128.

Docket No. 03-00119: In Re: Petition for Arbitration of ITC^DeltaCom Communications, Inc. with BellSouth Telecommunications, Inc.

Docket No. 03-00491: In Re: Implementation of Requirements Arising from Federal Communications Commission Triennial UNE Review: Local Circuit Switching for Mass Market Customers.

Docket No. 06-00093: In Re: Joint Filing of AT&T, Inc., BellSouth Corporation, and BellSouth's Certified Tennessee Subsidiaries Regarding Change of Control.

Public Utility Commission of Texas

Docket No. 12879: Application of Southwestern Bell Telephone Company for Expanded Interconnection for Special Access Services and Switched Transport Services and Unbundling of Special Access DS1 and DS3 Services Pursuant to P. U. C. Subst. R. 23.26.

Docket No. 18082: Complaint of Time Warner Communications against Southwestern Bell Telephone Company.

Docket No. 21982: Proceeding to Examine Reciprocal Compensation Pursuant to Section 252 of the Federal Telecommunications Act of 1996.

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Docket No. 23396: Joint Petition of CoServ, LLC d/b/a CoServ Communications and Multitechnology Services, LP d/b/a CoServ Broadband Services for Arbitration of Interconnection Rates, Terms, Conditions, and Related Arrangements with Southwestern Bell Telephone Company.

Docket No. 24015: Consolidated Complaints and Requests of Post-Interconnection Dispute Resolution Regarding Inter-Carrier Compensation for FX-Type Traffic Against Southwestern Bell Telephone Company.

PUC Docket No. 27709: Application of NPCR, Inc., dba Nextel Partners for Eligible Telecommunications Carrier Designation (ETC).

PUC Docket No. 28744: Impairment Analysis for Dedicated Transport.

PUC Docket No. 28745: Impairment Analysis for Enterprise Loops.

PUC Docket No. 29144: Application of Dobson Cellular Systems, Inc., for Designation as an Eligible Telecommunications Carrier (ETC) pursuant to 47 U.S.C. 241 (e) and P.U. C. Subst. Rule 26.418.

State of Vermont Public Service Board

Docket No. 6533: Application of Verizon New England Inc. d/b/a Verizon Vermont for a Favorable Recommendation to Offer InterLATA Services Under 47 U.S.C. 271.

Docket No. 6882: Investigation into Public Access Line Rates of Verizon New England, Inc., d/b/a Verizon Vermont.

Docket No. 6934: Petition of RCC Atlantic Inc. for designation as an Eligible Telecommunications Carrier in areas served by rural telephone companies under the Telecommunications Act of 1996.

Virginia State Corporation Commission

Case No. PUC920043: Application of Virginia Metrotel, Inc. for a Certificate of Public Convenience and Necessity to Provide InterLATA Interexchange Telecommunications Services.

Case No. PUC920029: Ex Parte: In the Matter of Evaluating the Experimental Plan for Alternative Regulation of Virginia Telephone Companies.

Case No. PUC930035: Application of Contel of Virginia, Inc. d/b/a GTE Virginia to implement community calling plans in various GTE Virginia exchanges within the Richmond and Lynchburg LATAs.

Case No. PUC930036: Ex Parte: In the Matter of Investigating Telephone Regulatory Methods Pursuant to Virginia Code § 56-235.5, & Etc.

Case No. PUC-200540051: Application of Verizon Communications Inc. and MCI, Inc. for approval of Agreement and Plan of Merger resulting in the indirect transfer of control of MCImetro Access Transmission Services of Virginia, Inc., to Verizon Communications Inc.

Washington Utilities and Transportation Commission

Docket Nos. UT-941464, UT-941465, UT-950146, and UT-950265 (Consolidated): Washington Utilities and Transportation Commission, Complainant, vs. US West Communications, Inc., Respondent; TCG Seattle and Digital Direct of Seattle, Inc., Complainant, vs. US West Communications, Inc., Respondent; TCG Seattle, Complainant, vs. GTE Northwest Inc., Respondent; Electric Lightwave, Inc., vs. GTE Northwest, Inc., Respondent.

Docket No. UT-950200: In the Matter of the Request of US West Communications, Inc. for an Increase in its Rates and Charges.

Docket No. UT-000883: In the Matter of the Petition of U S West Communications, Inc. for Competitive Classification.

Docket No. UT-050814: In the Matter of the Joint Petition of Verizon Communications Inc., and MCI, Inc. for a Declaratory Order Disclaiming Jurisdiction Over or, in the Alternative a Joint Application for Approval of, Agreement and Plan of Merger.

Public Service Commission of West Virginia

Case No. 02-1453-T-PC: Highland Cellular, Inc. Petition for consent and approval to be designated as an eligible telecommunications carrier in the areas served by Citizens Telecommunications Company of West Virginia.

Case No. 03-0935-T-PC: Easterbrooke Cellular Corporation Petition for consent and approval to be designated as an eligible telecommunications carrier in the area served by Citizens Telecommunications Company of West Virginia d/b/a Frontier Communications of West Virginia.

Public Service Commission of Wyoming

Docket No. 70000-TR-95-238: In the Matter of the General Rate/Price Case Application of US West Communications, Inc. (Phase I).

Docket No. PSC-96-32: In the Matter of Proposed Rule Regarding Total Service Long Run Incremental Cost (TSLRIC) Studies.

Docket No. 70000-TR-98-420: In the Matter of the Application of US West Communications, Inc. for authority to implement price ceilings in conjunction with its proposed Wyoming Price Regulation Plan for essential and noncompetitive telecommunications services (Phase III).

Docket No. 70000-TR-99-480: In the Matter of the Application of US West Communications, Inc. for authority to implement price ceilings in conjunction with its proposed Wyoming Price Regulation Plan for essential and noncompetitive telecommunications services (Phase IV).

Docket No. 70000-TR-00-556: In the Matter of the Filing by US West Communications, Inc. for Authority to File its TSLRIC 2000 Annual Input Filing and Docket No. 70000-TR-00-570: In the Matter of the Application of US West Communications, Inc. for Authority to File its 2000 Annual TSLRIC Study Filing.

Docket No. 70042-AT-04-4: In the Matter of the Petition of WWC Holding Co., Inc., d/b/a CellularOne for Designation as an Eligible Telecommunications Carrier in Areas Served by Qwest Corporation, and Docket

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No. 70042-AT-04-5: In the Matter of the Petition of WWC Holding Co., Inc., d/b/a CellularOne for Designation as an Eligible Telecommunications Carrier in Clark, Basin, Frannie, Greybull, Lovell, Meeteetse, Burlington, Hyattville, and Tensleep (consolidated).

Public Service Commission of the District of Columbia

Formal Case No. 814, Phase IV: In the Matter of the Investigation into the Impact of the AT&T Divestiture and Decisions of the Federal Communications Commission on Bell Atlantic - Washington, D. C. Inc.'s Jurisdictional Rates.

Puerto Rico Telecommunications Regulatory Board

Case No. 98-Q-0001: In Re: Payphone Tariffs.

Case No. JRT-2001-AR-0002: In the Matter of Interconnection Rates, Terms and Conditions between WorldNet Telecommunications, Inc. and Puerto Rico Telephone Company.

Case No. JRT-2003-AR-0001: Re: Petition for Arbitration pursuant to Section 252(b) of the Federal Communications Act, and Section 5(b), Chapter II of the Puerto Rico Telecommunications Act, regarding interconnection rates, terms, and conditions.

Case No. JRT-2004-Q-0068: Telefónica Larga Distancia de Puerto Rico, Inc., Complainant, v. Puerto Rico Telephone Company, Defendant.

Case Nos. JRT-2005-Q-0121 and JRT-2005-Q-0218: Telefónica Larga Distancia de Puerto Rico, Inc., and WorldNet Telecommunications, Inc., Plaintiffs, v. Puerto Rico Telephone Company, Inc., Defendant.

COMMENTS/DECLARATIONS - FEDERAL COMMUNICATIONS COMMISSION

CC Docket No. 92-91: In the Matter of Open Network Architecture Tariffs of Bell Operating Companies.

CC Docket No. 93-162: Local Exchange Carriers' Rates, Terms, and Conditions for Expanded Interconnection for Special Access.

CC Docket No. 91-141: Common Carrier Bureau Inquiry into Local Exchange Company Term and Volume Discount Plans for Special Access.

CC Docket No. 94-97: Review of Virtual Expanded Interconnection Service Tariffs.

CC Docket No. 94-128: Open Network Architecture Tariffs of US West Communications, Inc.

CC Docket No. 94-97, Phase II: Investigation of Cost Issues, Virtual Expanded Interconnection Service Tariffs.

CC Docket No. 96-98: In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996.

CC Docket No. 97-231: Application by BellSouth to Provide In-Region InterLATA Services.

CC Docket No. 98-121: Application by BellSouth to Provide In-Region InterLATA Services.

CCB/CPD No. 99-27: In the Matter of Petition of North Carolina Payphone Association for Expedited Review of, and/or Declaratory Ruling Concerning, Local Exchange Company Tariffs for Basic Payphone Services.

CC Docket No. 96-128: In the Matter of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, CCB/CPD No. 99-31: Oklahoma Independent Telephone Companies Petition for Declaratory Ruling (consolidated).

CCB/CPD No. 00-1: In the Matter of the Wisconsin Public Service Commission Order Directing Filings.

CC Docket No. 99-68: In the Matter of Inter-Carrier Compensation for ISP-Bound Traffic.

File No. EB-01-MD-020: In the Matter of Sprint Communications Company, L.P., Complainant v. Time Warner Telecom, Inc. Defendant.

Request by the American Public Communications Council that the Commission Issue a Notice of Proposed Rulemaking to Update the Dial-Around Compensation Rate.

File Nos. EB-02-MD-018-030: In the Matter of Communications Vending Corp. of Arizona, et. al., Complainants, v. Citizens Communications Co. f/k/a Citizens Utilities Co. and Citizens Telecommunications Co., et. al., Defendants.

CC Docket No. 96-45: In the Matter of Federal-State Joint Board on Universal Service, Cellular South License, Inc., RCC Holdings, Inc., Petitions for designation as an Eligible Telecommunications Carrier in the State of Alabama.

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CC Docket No. 96-45: In the Matter of Federal-State Joint Board on Universal Service, Declaration in Support of the Comments to the Federal-State Joint Board of the Rural Cellular Association and the Alliance of Rural CMRS Carriers.

REPRESENTATIVE TESTIMONY – STATE, FEDERAL, AND OVERSEAS COURTS

Court of Common Pleas, Philadelphia County, Pennsylvania

Shared Communications Services of 1800-80 JFK Boulevard, Inc., Plaintiff, v. Bell Atlantic Properties, Inc., Defendant.

Texas State Office of Administrative Hearings

SOAH Docket No. 473-00-0731: Office of Customer Protection (OCP) Investigation of Axces, Inc. for Continuing Violations of PUC Substantive Rule §26.130, Selection of Telecommunications Utilities, Pursuant to Procedural Rules 22.246 Administrative Penalties.

SOAH Docket No. 473-03-3673: Application of NPCR, Inc., dba Nextel Partners for Eligible Telecommunications Carrier Designation (ETC).

SOAH Docket No. 473-04-4450: Application of Dobson Cellular Systems, Inc., for Designation as an Eligible Telecommunications Carrier (ETC) pursuant to 47 U.S.C. 241 (e) and P.U. C. Subst. Rule 26.418.

Superior Court for the State of Alaska, First Judicial District

Richard R. Watson, David K. Brown and Ketchikan Internet Services, a partnership of Richard R. Watson and David K. Brown, Plaintiffs, v. Karl Amylon and the City of Ketchikan, Defendants.

Superior Court for the State of Alaska, Third Judicial District

Dobson Cellular Systems, Inc., Plaintiff, v. Frontline Hospital, LLC, Defendant.

United States District Court for the District of South Carolina, Columbia Division

Brian Wesley Jeffcoat, on behalf of himself and others similarly situated, Plaintiffs, v. Time Warner Entertainment - Advance/Newhouse Partnership, Defendant.

United States District Court for the Northern District of Texas, Fort Worth Division

Multitechnology Services, L. P. d/b/a CoServ Broadband Services, Plaintiffs, v. Southwestern Bell Telephone Company, Defendant.

Multitechnology Services, L. P. d/b/a CoServ Broadband Services, Plaintiffs, v. Verizon Southwest f/k/a GTE Southwest Incorporated, Defendant.

United States District Court for the District of Oregon

Time Warner Telecom of Oregon, LLC, and Qwest Communications Corporation, Plaintiffs, v. The City of Portland, Defendant.

High Court of the Hong Kong Special Administrative Region, Court of First Instance

Commercial List No. 229 of 1999: Cable and Wireless HKT International Limited, Plaintiff v. New World Telephone Limited, Defendant.

REPRESENTATIVE TESTIMONY – PRIVATE COMMERCIAL ARBITRATION TRIBUNALS

American Arbitration Association

Southwestern Bell Telephone Company, Claimant vs. Time Warner Telecom, Respondent.

New Access Communications LLC, Choicetel LLC and Emergent Communications LLC, Claimants vs. Qwest Corporation, Respondent (Case No. 77 Y 1818 0031603).

CPR Institute for Dispute Resolution

Supra Telecommunications and Information Systems, Inc., Claimant vs. BellSouth Telecommunications, Inc., Respondent.

Capital Cost Calculator

The Capital Cost Calculator calculates the three annual capital cost factors - depreciation, cost of money and income tax for each class of physical plant. Depreciation (book) is a function of the Gompertz-Makeham survival curve for the respective classes of plant, and is defined in the calculator by the c, G and S parameters. Cost of Money is the return on investment needed to satisfy both the debt and equity investors in the enterprise. Income tax calculations are a function of the return on equity (that portion of the Cost of Money not directed toward debt retirement) and debt service requirements.

User adjustable inputs to the calculator include financial data, tax data, tax depreciation information, and book depreciation data. The calculator also allows the user to input the Gompertz-Makeham curve shapes, the lives, and the future net salvage (FNS) of each plant account.

Survival data for each class of plant is based on the Gompertz-Makeham survival curve defined by the c, G, and S parameters describing the attrition of plant over its useful life. The curve is adjusted to match the respective economic lives. The G-M survival curves are the standard approach used in the telecom industry and approved by most state and federal regulatory bodies. While the curve represents the pattern of retirements, the area under the curve represents the average life of the plant. Thus, as the user adjusts the average life, the area under the curve must also be adjusted to match the input average life.

The calculator contains survival data for both beginning of year (BOY) convention and end of year (EOY) convention. Yearly retirements are obtained by subtracting current year survival proportions from previous year survival proportions.

In calculating annual depreciation amounts, the Calculator methodology uses the standard Midyear Equal Life Group (ELG) approach. Since midyear convention is used, the first year values recognize that capital is only on the books for ½ of a year.

Average Capital per year is used as the basis against which Cost of Money calculations are made. Beginning of Year Capital and End of Year Capital are averaged together to develop the Average Capital per year.

The EOY capital balance is calculated as:

$$(\text{BOY Capital}) - (\text{Book Depreciation}) - (\text{Deferred Tax})$$

This balance recognizes the deferred tax balance that is available to the company from "normalizing" its deferred taxes. However, this balance is

assumed to have a 0% rate of return (therefore, it can be removed from the capital amount the company has invested).

Annual Deferred Tax is calculated as:

$$(\text{Tax Depreciation}) - (\text{Book Depreciation}) * (\text{Combined Income Tax Rate})$$

Data inputs for income tax data calculations include a MACRS (Modified Accelerated Cost Recovery System) table. This table provides the yearly tax depreciation rates for each Recovery Class as specified by MACRS tax depreciation rules.

Grossed-up Income Tax is calculated as:

$$\frac{(\text{Return on Equity} * \text{Combined Income Tax Rate})}{(1 - \text{the Combined Income Tax Rate})}$$

This formula recognizes that most states do not allow Federal Income Taxes to be deducted from income.

Tax depreciation is included in Federal Income Tax calculations and serves to reduce the effective tax on the Return on Equity portion of Cost of Money.

When the initial operations of the Calculator are completed, the total capital cost factors for each year that plant survives is determined. In order to develop a set of levelized annual cost factors, two steps are necessary. First, the net present value (NPV) of the annual factor streams is calculated using a discount rate equal to the Cost of Money. Second, the NPV is spread over the economic life of the plant account using a midyear convention to arrive at a set of levelized annual cost factors for book depreciation, cost of money, and combined income taxes.

ANNUAL COST FACTORS

GENERAL

Annual cost factors are translators used to determine the amount of recurring cost for one year associated with acquiring and using a particular investment. Annual cost factors were developed for each category of plant investment. When the dollar amount for a particular investment is multiplied by the annual cost factor for that particular category of plant investment, the product reflects the annual recurring cost incurred by BellSouth with respect to that particular investment. There are basically two types of cost associated with investment: capital-related costs and operating-related costs.

The initial purchase price of plant equipment and any installation costs are paid with a combination of investor supplied funds and retained earnings. The investors who provide the "loan" may be either bondholders or stockholders. The plant placed must be able to generate enough revenues to cover capital costs associated with its placement and usage. Capital-related costs consist of three major categories: depreciation, cost of money, and income tax. The capital-related cost factors are developed using a PC based spreadsheet, the Capital Cost Calculator, which uses various financial data and plant investment characteristics to compute the annual capital costs by category of plant.

Plant investments must also be maintained to provide for continuing operations. Ordinary repairs and maintenance, as well as rearrangements and changes, are necessary costs for all categories of plant (except land) in order to provide proper service. These maintenance costs, as well as ad valorem taxes and other taxes must be covered by the revenues received from the use of the asset. The operating-related cost factors are developed using various spreadsheets, which basically compute the annual operating-related costs by category of plant, and divide that amount by the investment in that category of plant.

CAPITAL-RELATED COSTS

DEPRECIATION (book) - the allocation of the initial plant investment over the years of service provided by the plant. Depreciation is determined by analysis of survivor curve data. Survivor curves represent the survival pattern of plant investment. Specifically, for any year, depreciation is defined as the difference in the plant surviving at the beginning of the year less the amount of that same plant surviving at the end of the year. Survivor curve shapes for different classes of plant are determined by the respective Gompertz-Makeham c, G, and S parameters.

COST OF MONEY - the annual cost to the firm of the debt and equity on capital invested in the business. This annual cost is determined in the financial market as it represents the investors' expected return on their investment.

INCOME TAX - the composite of income taxes paid to the Federal and State governments based on the taxable net income of the company.

OPERATING-RELATED COSTS

PLANT SPECIFIC EXPENSE - the expense required to keep existing telephone plant, circuits, and service up to standards, as well as rents paid for facilities. This includes trouble clearing, rearrangements, and replacing defective elements.

AD VALOREM AND OTHER TAX - taxes levied by city and county governments based on the assessed value of property. This includes property taxes, capital stock taxes, and other taxes.

FACTOR DEVELOPMENT - CAPITAL COST

Depreciation is the allocation of the initial plant investment over the years of service provided by the plant. The method employed in these studies employs survivor curves as defined by the Gompertz-Makeham c, G, S parameters. The general form of the survivor curves, in log form, is:

$$P_x = P_0 + xS + G [(c^x) - 1],$$

where:

P_x = Proportion surviving at age x,

P_0 = Proportion surviving at age zero, and

x = Age.

The curve shape parameters describe a particular curve shape, along with an associated life. In practice, the parameters are determined by actuarial-type studies of classes of telephone plant.

The curves for specific classes of plant are rendered as tables of proportions surviving versus years in service. Depreciation ratios for specific years of service are determined by subtracting proportions surviving at the beginning and end of the years in question. Where the half-year convention is employed, proportions surviving may be expressed at intervals such as 0.5, 1.5, 2.5, etc. years.

Cost of Money is the amount of money that must be paid to investors for the use of investor-supplied funds. This amount to be paid investors is the annual cost to the company of the debt and equity capital invested in the company. Cost of money is determined in part by the financial market and, as it represents the investors' expected return on their investment, may differ considerably from the actual earnings a company generates. The overall cost of money rate provided by BellSouth Treasury depends on the cost of equity financing, the cost of debt financing, and the debt to equity ratio of the capital structure of the company. The overall cost of money rate is equivalent to the rate of return currently authorized by the Federal Communications Commission (FCC) and the rate of return referred to by the FCC in its First Report and Order, CC Docket 96-98.

Income tax expense is the federal and state taxes levied on "taxable income." For income tax purposes, what is considered gross income and what expenses are deductible are defined by laws and codes. The income tax factor is developed to reflect the income tax in two situations: 1) payment of dividends to stockholders, which are neither tax deductions nor accounting expenses; and 2)

and the existence of a tax-timing difference between book depreciation and tax depreciation. While interest to bondholders is book expense and deductible for income tax purposes, the federal government and most state governments levy a tax on the revenues, which are earned to compensate stockholders for the use of their money. A company must pay income taxes on the equity portion of return, but the debt portion is tax exempt. The timing differences for depreciation are the result of both different depreciable lives and different depreciation methods. In addition, the basis for tax depreciation may be different from the basis for accounting depreciation.

FACTOR DEVELOPMENT - OPERATING RELATED

PLANT SPECIFIC EXPENSE

The plant specific expense factor, which includes the cost of material used and direct labor, is a ratio that reflects the relationship between the expenses for plant category and the respective investment. The factor also includes maintenance-type expenses for existing plant that cannot be directly assigned to a given plant category, such as, transmission power. Certain expenses, such as service order activity, have been excluded from the appropriate categories. These costs are excluded because: 1) they should be separately identified for each service, or 2) they should be included in nonrecurring cost studies. The maintenance expenses incorporated in the Plant Specific Expense Factors include those associated with the following types of operations:

1. Inspecting and reporting on the condition of plant investment to determine the need for repairs, replacements, rearrangements and changes
2. Performing routine work to prevent trouble
3. Replacing items of plant other than retirement units
4. Rearranging and changing the location of plant not retired
5. Repairing material for reuse
6. Restoring the condition of plant damaged by storms, floods, fire and other casualties (other than the cost of replacing retirement units)
7. Inspecting after repairs have been made
8. Salaries, wages and expense associated with plant craft and work reporting engineers, as well as their immediate supervision and office support.

The plant specific expense factors are based on three years of projected expense and investment data. The 1998 expenses used in the study were pulled from the Cost Separations System (CSS). Rent expense is excluded from building expense; net rent (rent revenue less rent expense) is included in pole and conduit expenses. Projected view data was obtained from the Finance Regulatory Accounting Group for the 1999 through 2000 expenses and spread based on actual expenses. Service order-related expenses were excluded from the study because such expenses are recovered in a direct manner rather than through the use of a factor. The 2000 through 2002 projected expense amounts are added together and averaged to represent the average annual expenses for the projected period.

The investment dollars are derived from actual EOY 1997 and 1998 levels plus 1999 through 2002 projected net additions from the Network Budgets Group. The investment projections are based on plant additions less retirements added to the cumulative historical year. The actual EOY 1997 and EOY 1998 dollars were extracted from BellSouth financial systems. EOY 1997 and EOY 1998 investments are averaged to develop average 1998 amounts, current cost factors are applied, and then 1999 through 2002 net additions are added together to represent the projected period. The expenses are then divided by the investments, resulting in the unloaded plant specific expense factors. Power expense loadings are then added to the factors for central office equipment investment. These plant specific expense factor calculations result in a factor for each category of plant representative of the average expense per investment expected in the future for each plant category.

AD VALOREM AND OTHER TAXES

The ad valorem and other tax factor is an effective tax factor furnished by the BellSouth Tax Department. The BellSouth Tax Department develops the factor by calculating the ratio of certain tax expenses to the telephone plant in service, as follows:

$$\frac{\text{Accounts 7240.1000} + \text{7240.3000} + \text{7240.9000}}{\text{Telephone Plant In Service}}$$

Account 7240.1000 includes taxes levied upon the assessed value of property.

Account 7240.3000 includes taxes levied upon the value or number of shares of outstanding capital stock, upon invested capital, upon rate of dividends paid, etc.

Account 7240.9000 includes other nonincome, nonrevenue taxes such as municipal license taxes, state privilege taxes, state self-insurer's tax, etc.

SHARED FACTORS AND COMMON FACTOR DEVELOPMENT AND APPLICATION

Process Overview

In order to develop factors that reflect a distribution of a) shared costs to distinct network elements or facilities and b) common costs that span the activities of the business, BellSouth designed a process which complies with FCC pronouncements. This process employs cost assignments, where possible, based on the cost attribution principles underlying the Cost Allocation Manual (CAM) approved by the FCC. These principles provide a structural "cost causative" basis for assigning costs to network related plant or to non-network related groupings (Common, Non-Recurring Costs, Retail, etc.).

Base Period Data

Base period cost profile data for regulated 1998 expenses and 1998 average investment amounts were extracted from BellSouth's financial records. In addition, the related salary and wage amounts were retrieved for use in the apportionment processes. The data was retrieved by Account, Field Reporting Code/Subsidiary Record Category (FRC/SRC), Cost Pool, Cost Sub-Pool, Expense Matrix Indicator (EMI), and Account Type as appropriate.

STEP 1. Development of 2000-2002 Average Annual Costs

Projection factors were applied to the base period data at a cost pool/sub-pool level to develop average annual forward-looking costs for the 2000-2002 period. As a first step in this process, the 1998 expenses and salary and wage amounts were multiplied by the 2000-2002 Expense/Salary & Wage Development Factors to develop the related average annual expenses and salary and wage amounts for the 2000-2002 period. Next, 1998 averaged investment amounts were multiplied by the 2000-2002 Investment Development Factors to develop the average 2000-2002 investment levels. Next, the 2000-2002 average investment levels were converted to average annual capital related costs by applying the Capital Cost and Ad Valorem Factors. The final process in this step was the identification and segregation of all nonrecurring costs to prevent them from being impacted by any recurring costs.

After the expenses and investments have been converted into forward-looking costs in Step 1, the next steps assigned these costs to cost objectives such as wholesale network investments, retail, nonrecurring, etc.

STEP 2. Reclassification

The next operation identified those accounts where there were direct, cost causative relationships between expense accounts and related investment accounts, and performed a reclassification process to combine the expenses and capital costs of the related accounts. As an example, Account 6112 Motor Vehicle maintenance expense was combined with Account 2112 Motor Vehicle capital related costs. Most of the plant specific expenses have a direct, cost-causative relationship with either a general support or network investment account.

STEP 3. Primary Attribution of Cost

After the above-referenced reclassifications, the remaining expenses and support asset costs (Accounts 61XX, 65XX, 66XX, 67XX, 1220, 21XX, and 26XX) were assigned by applying factors based on the cost attribution principles underlying the CAM. Apportionment factors were developed on a cost pool/sub-pool basis reflecting salary and wage relationships, investment relationships, or expense relationships.

STEP 4. Secondary Reclassification

Following the first iteration of cost assignments, a reclassification of assigned costs was made to associate costs which, by their nature, were assignable to related accounts or to final non-network related groupings. During the first iteration of cost assignments, some apportionments were made to support type accounts; and therefore, a second iteration of cost assignment was required to appropriately distribute support type costs on a cost causative basis. The second iteration of cost assignment began in this step and included only computer costs (Account 6124).

STEP 5. Secondary Attribution of Costs

This step continued the distribution of support type costs referred to in Step 4 above. It included the assignment of provisioning expenses (Account 6512), and network operations expenses (Accounts 653X).

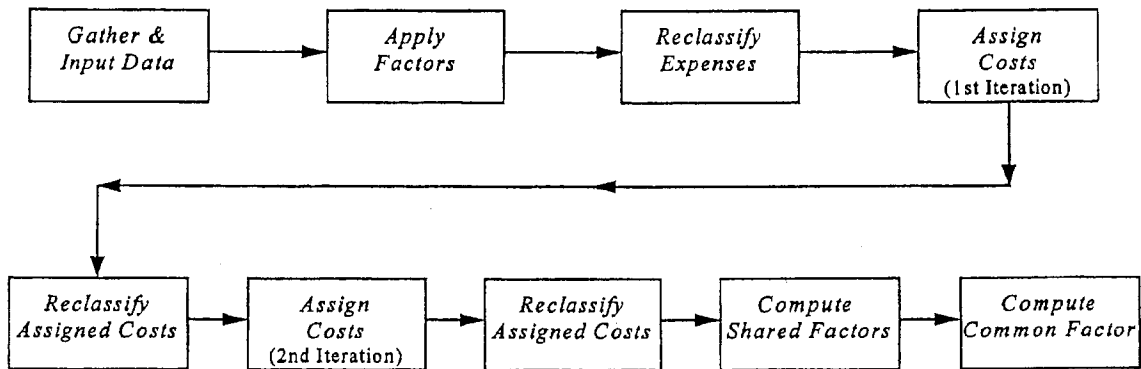
STEP 6. Reclassification and Factors Development

After the second iteration of cost assignment, a final reclassification was required to associate the remaining costs with either a network related account or with a nonnetwork related grouping. The cost assignments that were associated with network related accounts were then divided by the related 2000-2002 investment amounts in order to develop the shared factors

In the steps of the process outlined above, some costs, though common in nature, have wholesale/retail attributions that facilitate an assignment to the wholesale or retail category. These costs are referred to as directly assigned common costs. Other common costs, having no reasonable cost causation basis, were allocated to the wholesale and retail categories on the basis of the relationship between total wholesale costs and total retail costs.

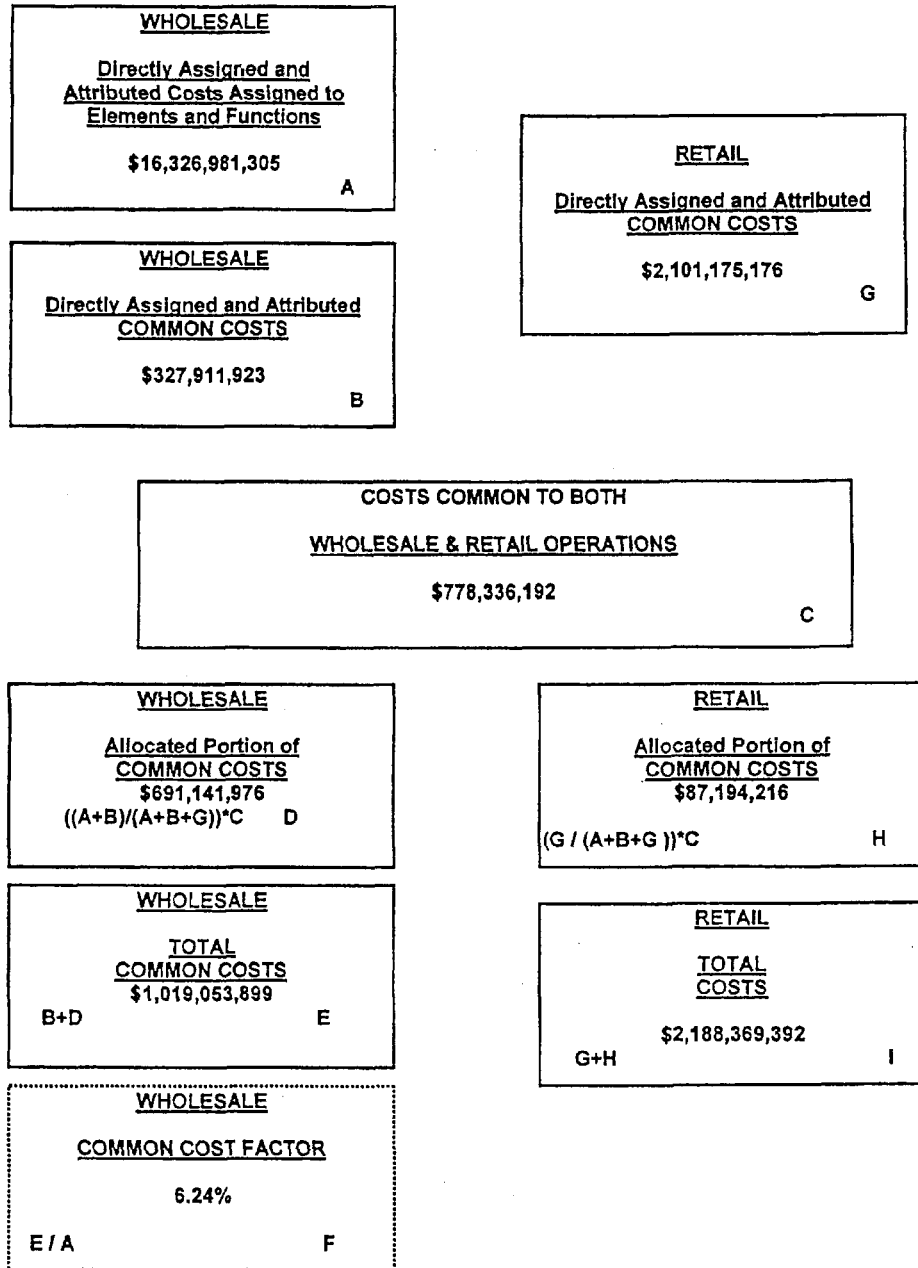
Total wholesale common costs were developed by summing the directly assigned wholesale common costs and the allocated wholesale common costs. The common cost factor was developed by dividing the total wholesale common costs by the total wholesale costs excluding the common portion (Nonrecurring costs were included with the total wholesale costs to form the denominator).

Flow Diagram of the Calculation of the Shared Cost Factors and the Common Cost Factor



CALCULATION OF COMMON COST FACTOR

Note: The amounts and percentages on this diagram are illustrative in nature and may or may not reflect the amounts or results incorporated in this filing.



Inputs To The Application

The inputs to the Shared and Common Cost Application consist of the following:

- 1998 regulated expenses
- 1998 averaged regulated investment amounts
- 1998 regulated salary and wage amounts
- 2000-2002 Expense/S&W Development Factors
- Capital Cost Factors
- Ad Valorem Factors
- 2000-2002 Investment Development Factors
- Service Order Proportion Factors
- Wholesale/Retail Factors for A/C 661X Marketing
- Wholesale/Retail Factors for A/C 6623 Customer Services

The 1998 expense and investment data provides a foundation or template to drive the 2000-2002 projected expenses and investment to appropriate cost pool/sub pool assignments. The salary and wage (S&W) amounts are used in the apportionment processes performed by the application. The 1998 salary and wage amounts were input into the application and were utilized in appropriate salary and wage attribution bases for assigning attributable costs.

The 2000-2002 Expense/S&W Development factors that were input to the shared and common application are a reflection of the relationships of projected average annual expense for the 2000-2002 period to the actual 1998 expense amounts on an account level basis. Estimates of expenses for each of the three years in the 2000-2002 period were developed to reflect BellSouth's projected operations. These expenses were averaged and utilized in the 2000-2002 Expense/S&W factors described above.

The 2000-2002 Investment Development factors were calculated by restating the 1998 investment based on historical cost to investment based on current prices. In addition, any planned additions and retirements were considered in arriving at an investment reflecting the forward-looking costs required by the FCC. Once the investment was calculated for each year, it was averaged for the period 2000-2002. The 2000-2002 averaged investment by account was divided by the 1998 investment by account to produce the 2000-2002 Investment Development factors.

Capital Cost and Ad Valorem Factors include calculations for Depreciation, Cost of Money, Income Taxes, and Ad Valorem Taxes. The Capital Cost Calculator computes the Capital Cost factors used in the Shared and Common Cost Application. For details concerning the calculations of these factors, see the Capital Cost Calculator and Ad Valorem Costs.

The Service Order Proportion factors are used to derive the non-recurring costs associated with Central Office Equipment Expenses (62XX accounts), Terminal Equipment Expenses (63XX accounts), and Cable and Wire Expenses (64XX accounts). Actual service order work hours by network related plant were retrieved and a relationship to total work hours was developed for each type of plant. The hours were extracted on a study basis.

The Wholesale/Retail Factors relating to Accounts 6611, 6612, 6613, and 6623 reflected an analysis of each account by cost pool/sub pool to determine the nature of the expenses and how they would be reflected in a wholesale versus retail company. The study was often carried out at a Work ID level. Based on the analysis, an assignment to wholesale or retail was specified for each cost pool/sub pool. At the conclusion of the analysis, the total wholesale portion was divided by the account total to arrive at a wholesale percentage. A similar calculation was done for determining the retail percentage.

BellSouth Shared and Common Cost Application

The BellSouth Shared and Common Cost Application is a menu driven application used in calculating the Common Cost Factor and the Shared Cost Factors. Users are guided through the process by selecting from easy to understand choices.

The user interface for the Shared and Common Cost Application allows for editing inputs, viewing reports of the outputs, examining the underlying methodology of the Application, and saving and loading edits as scenarios. The Application provides help screens and descriptions of processes to guide the user in understanding the process, creating new scenarios and reviewing the results/outputs of the process. The application processes in either of two modes. By selecting SETTINGS on the user interface main screen, the user may process the application in steps or all at once. The Batch mode processes the data without allowing the user to view results at various stages of the process. The Interactive mode allows the user to access data at various stages of the process and provides a description of the step being performed.

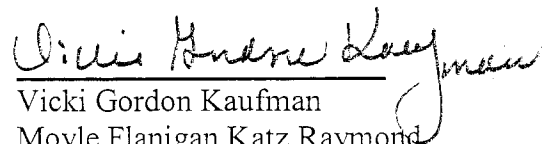
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Testimony and Exhibits of Don J. Wood on Behalf of The Competitive Carriers of the South, Inc., was served on the following by hand delivery this 20th day of October, 2006:

Adam Teitzman
Staff Counsel
Florida Public Service Commission
Division of Legal Services
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850
ateitzma@psc.state.fl.us

James Meza III
Manuel A. Gurdian
c/o Nancy Sims
150 South Monroe Street, Suite 400
Tallahassee, FL 32301
james.meza@bellsouth.com
manuel.gurdian@bellsouth.com
nancy.sims@bellsouth.com

Charles J. Beck
Deputy Public Counsel
Office of Public Counsel
111 West Madison Street, Room 812
Tallahassee, FL 32399-1400
Beck.Charles@leg.state.fl.us


Vicki Gordon Kaufman
Moyle Flanigan Katz Raymond
White & Krasker, PA
118 North Gadsden Street
Tallahassee, Florida 32301
850.681.3828
850.681.8788 (fax)
vkaufman@moylelaw.com

Attorneys for CompSouth