

REDACTED

ATTACHMENT B

BellSouth Telecommunications, Inc.
FPSC Dkt No. 060598-TL
Request for Confidential Classification
Page 1 of 1
12/1/06

REQUEST FOR CONFIDENTIAL CLASSIFICATION OF THE SURREBUTTAL
TESTIMONY AND EXHIBITS OF KATHY K. BLAKE, RONALD L. HILYER, AND C.
S. PENDERGRASS, FILED NOVEMBER 17, 2006

TWO REDACTED COPIES FOR PUBLIC DISCLOSURE

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FPSC-COMMISSION CLERK

PROPRIETARY

BellSouth Telecommunications, Inc. - Florida
Calculation of Hypothetical Storm Reserve Balance
\$ in 000s

RLH Exhibit 3
Page 1 of 1

(Dr) Cr to the Reserve

1. Storm Reserve Accruals 1994 - 2005 (\$10M per year times 12 years)
2. Incremental Intrastate Storm Expense/Reversals (See RLH Exhibits 4 and 5)
3. Hypothetical Storm Reserve Deficit before any recovery from Storm Petition (Ln 1 + Ln 2)
4. Estimated Maximum Recovery Requested in Storm Petition (per Surrebuttal Testimony of Kathy Blake)
5. Hypothetical Storm Reserve Deficit after Recovery (Ln 3 + Ln 4)

Amounts

[REDACTED]


Note: In addition to the \$ [REDACTED]M in incremental intrastate storm expense used in the calculation above, BellSouth also incurred \$ [REDACTED]M in intrastate capital as a result of the named storms.

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PROPRIETARY

BellSouth Telecommunications, Inc. - Florida
Summary of Intrastate Incremental Storm Expense for 1994 - 2005
\$ in 000s

RLH Exhibit 4
Page 1 of 1

<u>Storm Year</u>	<u>Named Storms</u>	<u>Incremental Intrastate Expense</u>
1994-1997	TS Gordon, H. Erin, H. Opal	
1998	H. Earl, H. Georges	
1999	H. Irene	
2000	H. Gordon	
2001	TS Allison, TS Barry, H. Gabrielle	
2002	TS Edouard	
2003	TS Henri	
2004	H. Charley, H. Frances, H. Jeanne, H. Ivan	
2005	TS Arlene, H. Cindy, H. Dennis, H. Katrina, H. Rita, H. Wilma	
Total Incremental Intrastate Storm Expense for 1994 through 2005		

Note:

See RLH Exhibit 5 calculations of the incremental intrastate expense amounts shown above.

PROPRIETARY

BellSouth Telecommunications, Inc. - Florida
 Calculation of Intrastate Storm Costs
 \$ in 000s

RLH Exhibit 5
 Page 1 of 1

<u>Col A</u>	<u>Col B</u>	<u>Col C</u>	<u>Col D</u>	<u>Col E</u>	<u>Col F</u>	<u>Col G</u> (B * E)	<u>Col H</u> (C * F)	<u>Col I</u> (G + H)
<u>Storm Year</u>	<u>Incremental Expense</u>	<u>Capital</u>	<u>Total</u>	<u>Intra Exp Factor</u>	<u>Intra Plant Factor</u>	<u>Intra Exp</u>	<u>Intra Cap</u>	<u>Total Intra</u>
1994-1997								
1998								
1999								
2000								
2001								
2002								
2003								
2004								
2005								
Totals Thru 2005								

Notes:

1. Column E jurisdictional factors were computed from Florida ARMIS 43-01, Plant Specific and Non-Specific Operating Expenses.
2. Column F jurisdictional factors were computed from Florida ARMIS 43-01, Total Plant in Service.

1 **BELLSOUTH TELECOMMUNICATIONS, INC.**
2 **SURREBUTTAL TESTIMONY OF C. S. PENDERGRASS**
3 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
4 **DOCKET NO. 060598-TP**
5 **NOVEMBER 17, 2006**
6

7 Q. ARE YOU THE SAME C. S. (STEVE) PENDERGRASS WHO FILED
8 DIRECT TESTIMONY IN THIS PROCEEDING?

9
10 A. Yes. I filed direct testimony in this proceeding on behalf of BellSouth on
11 September 1, 2006.

12
13 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

14
15 A. The purpose of my surrebuttal testimony is to respond to testimony of Mr.
16 Charleston J. Winston of the Florida Public Service Commission Staff and
17 to the testimony of Mr. Don Wood filed on behalf of The Competitive
18 Carriers of the South, Inc. (hereinafter referred to as "CompSouth").
19 Specifically, I will address the audit report performed by the Florida Public
20 Service Commission Audit Staff ("Audit Staff") and explain why the
21 intrastate, incremental 2005 tropical system related costs and expenses
22 included in BellSouth's Petition should be recovered. Additionally, I will
23 address Mr. Winston's contentions that BellSouth did not provide certain
24 information to Audit Staff and that Audit Staff was unable to verify certain

1 costs incurred by BellSouth. Finally, I will provide evidence to support
2 Ron Hilyer's testimony regarding the amount of costs and expenses
3 BellSouth incurred to restore its facilities damaged from tropical systems
4 from 1998 to 2004.

5
6 ***Issue 2: What is the appropriate amount of intrastate costs and expenses***
7 ***related to damage caused during the 2005 tropical storm season, if any,***
8 ***that should be recovered by BellSouth, pursuant to Section 364.051(4),***
9 ***Florida Statutes?***
10

11 Q. COULD YOU PLEASE STATE HOW BELLSOUTH DETERMINED THE
12 INCREMENTAL COSTS AND EXPENSES THAT BELLSOUTH IS
13 SEEKING TO RECOVER IN THIS PROCEEDING?
14

15 A. Yes. As I explained in my direct testimony, BellSouth utilizes a detailed
16 planning and forecast model to assist in the budget setting process. This
17 model creates a baseline, is the basis for BellSouth's Network Field
18 Operations force and expense budget in Florida, and includes, among
19 other things, projections of product demand units, productivity ratios,
20 hours, force and dollars at various organizational levels. BellSouth then
21 captures the "actual" data relative to the variables in the model, along with
22 additional detail related to the labor force and vendor payments.
23 BellSouth retains at least two years' prior "actuals" data for comparison.
24 BellSouth routinely evaluates its planning and forecasting methods to
25 ensure that the model is an accurate predictor of actual incurred costs.

1 After a tropical system affects a geographic area, local senior network
2 managers assess the damage to the network and estimate the time and
3 resources necessary to repair the network. Using this information and the
4 model, Network Finance prices out the expected incremental expense
5 impact of:

- 6 • Increased overtime for local forces
- 7 • Internal loaned forces and associated overtime
- 8 • External loaned forces and expected overtime
- 9 • Additional safety managers, supervisors and engineers
- 10 • Increased material consumption
- 11 • Increased expenses related to work aids such as wireless data
12 transfer, GPS tracking and cellular and pager usage charges
- 13 • Rent for specific equipment, e.g. generators, lights, barricades
- 14 • Expected contract services, including increased utilization of normal
15 vendors for security, generator transport, temporary construction
16 and equipment protection as well as contracting of telephone
17 technicians.

18
19 BellSouth then estimates the incremental costs related to the tropical
20 system by comparing the actual incurred dollars (including storm damage
21 expenses) to the baseline plan (excluding storm damage expenses)
22 described above and to prior years' actual data. Personnel who are
23 experienced in the analysis of network operations then examine specific

1 expense categories and resource tracking codes by factors such as storm
2 track/path, responsibility, account and vendor, and compare the results to
3 normal and expected amounts from the baseline model. Consideration is
4 also given to variances in drivers unrelated to the storm, e.g. lower than
5 expected customer growth in a particular product might cause a variance
6 in the original model that would be unrelated to the storm.

7
8 Q. CAN YOU PLEASE GENERALLY DESCRIBE THE MAGNITUDE OF
9 BELL SOUTH'S EXPENSES FOR THE TIME PERIOD IN QUESTION
10 AND BELL SOUTH'S RESPONSES TO REQUESTS FOR
11 INFORMATION?

12
13 A. As described in my direct testimony, BellSouth's Network Field Operations
14 incremental costs and expenses resulting from the 2005 Storms were
15 massive – approximately \$202 million. BellSouth has captured these
16 costs and expenses in the ordinary course of business with processes and
17 procedures that have been audited and approved by BellSouth's internal
18 and external auditors. In fact, the information BellSouth used to calculate
19 the costs and expenses it is seeking to recover in the Petition is the same
20 financial information that I, in my duties, used to report to upper
21 management regarding the amount of costs and expenses BellSouth
22 Network incurred related to the 2005 Storms.

1 As to the Staff Audit, the audit began on or about September 14, 2006, a
2 full two weeks after BellSouth filed its Petition. From that date and
3 continuing today, Audit Staff served 34 audit requests, including
4 supplemental requests, upon BellSouth. A majority of the audit requests
5 asked that BellSouth file its response to the audit request within 2 days. In
6 total, BellSouth spent over 450 hours responding to Audit Staff's requests
7 and produced over 8,000 pages of documents. In addition, BellSouth
8 produced 8 CDs containing information requested by Audit Staff.
9 Furthermore, BellSouth met with Audit Staff in a properly noticed meeting
10 to address their questions and concerns. In sum, BellSouth produced in
11 response to requests from Audit Staff and discovery issued by other
12 parties the documents indicated on SP Exhibit 2.

13
14 Moreover, with this surrebuttal testimony, BellSouth is also producing a
15 DVD containing over 2.1 million ledger entries from June 2005 to March
16 2006. These ledger entries contain BellSouth's total network field
17 operations costs and expenses for the above-time period in Florida, were
18 created by Network Finance in the ordinary of course of business to track
19 network costs and expenses in Florida, and were used by BellSouth to
20 capture its incremental expenses by comparing budgeted amounts to
21 ledger amounts. Significantly, all of this information produced by BellSouth
22 reconciles as the these ledger entries (1) correspond to the calculations in
23 SP Exhibit 1; (2) correspond to the information produced to Audit Staff in

1 response to Audit Staff Request No. 1, which is the source information
2 used by BellSouth to create SP Exhibit 1; and (3) contain the randomly-
3 selected 283 invoices requested by Audit Staff and produced by BellSouth
4 (See BellSouth's Response to Audit Request Nos. 28, 29, 32, 33 and 34).

5
6 In addition, the PeopleSoft General Ledger & Oracle General Ledger,
7 where the data is derived from, have been used by BellSouth's external
8 and internal auditors to validate BellSouth's network expense financials,
9 and are Sarbanes-Oxley compliant A copy of the DVD, which is
10 confidential, is attached hereto as SP Exhibit 3.

11
12 Q. HAS BELLSOUTH PRODUCED ALL OF THE INFORMATION USED BY
13 BELLSOUTH TO CALCULATE BELLSOUTH'S INCREMENTAL
14 EXPENSES RELATED TO THE 2005 STORMS?

15
16 A. Yes and more.

17
18 **Audit Finding 1**

19
20 Q. MR. WINSTON STATES THAT, BECAUSE BELLSOUTH DID NOT
21 PROVIDE BOARD OF DIRECTORS' MEETING MINUTES, EXECUTIVE
22 MANAGEMENT MEETING MINUTES, CONSTRUCTION BUDGETS AND
23 THE ANNUAL BUDGETED AMOUNTS FOR STORM/HURRICANE

1 DAMAGE, AUDIT STAFF COULD NOT VERIFY THE INCREMENTAL
2 AMOUNTS INCLUDED IN THE PETITION. DO YOU AGREE?

3
4 A. No. As stated above, BellSouth provided all information it used to
5 calculate its total incremental expenses related to the 2005 Storms.
6 Moreover, in order to respond to Staff's Audit Requests, BellSouth
7 provided information regarding costs and expenses that were irrelevant
8 because they were not included in BellSouth's Petition. Further, during
9 the audit process and in this case, BellSouth has produced thousands
10 upon thousands of pages of documents and millions of lines of code and
11 data, all of which reconcile to the amounts identified by BellSouth in its
12 Petition. See DVD of BellSouth's total network field operations costs and
13 expenses attached hereto as SP Exhibit 3. I will now address each of Mr.
14 Winston's statements to refute Audit Staff's finding that the alleged failure
15 to produce certain information prohibited Audit Staff from confirming that
16 BellSouth incurred the incremental expenses that are the subject of the
17 Petition.

18
19 First, in Audit Request No. 9, Audit Staff requested supporting
20 documentation for annual budgeted amounts for storm/hurricane damage
21 from 2003 to 2010. As stated by BellSouth in its response, BellSouth
22 could not produce the requested information because such documentation
23 does not exist. This is because BellSouth does not include funding for

1 future tropical storm/hurricane damage restoration in its budget setting
2 process.¹ Audit Staff's conclusion should not be based on the inability to
3 produce documents that do not exist.

4
5 Similarly, in Audit Request No. 7, Audit Staff requested copies of all
6 minutes from executive management meetings from 2003 to 2006. Audit
7 Staff further clarified that what they really wanted was BellSouth's network
8 budget meeting minutes. However, BellSouth does not keep minutes of
9 its network budget meetings and thus was unable to provide any
10 responsive documents. Nevertheless, BellSouth advised Audit Staff that it
11 has produced all information that BellSouth relies on, includes, and
12 reviews to report to upper management and in creating its network
13 budgets. Consequently, as with Audit Request No. 9, Audit Staff is relying
14 on the inability to produce documents that do not exist to support its
15 conclusion.

16
17 Moreover, in Audit Request No. 8, Audit Staff requested copies of all
18 construction budgets from 2005 to 2010. BellSouth initially objected to
19 this request because construction budgets are capital budgets, which are
20 irrelevant to this proceeding, because BellSouth is not seeking to recover

¹ This policy is appropriate, because BellSouth cannot predict when and where a tropical system will negatively impact its service territory. Nor does BellSouth have prior knowledge of the intensity (tropical depression to Category 5 hurricane) of these hypothetical, future storms. If BellSouth attempted to budget for hurricanes/tropical storms, it would cause its budget to be artificially inflated, inaccurate, and inefficient. Indeed, such a budget would be entirely incorrect in those years when there is a below average storm season, such as the 2006 storm season.

1 capital costs in the Petition. Further, BellSouth provided Audit Staff with
2 all information needed to review its 2005 expense budgets, including the
3 following expense budgets for Florida Network Field Operations: 2005
4 Commitment View, 2005 Current Tracking View, 2005 Projection View
5 (April, July), 2006 Commitment View, 2006 Current Tracking View, 2006
6 Projection View (April, July, Sept.), and 2007 Planning View.
7 Nevertheless, and even though BellSouth is not seeking to recover any
8 capital costs, BellSouth has provided Audit Staff with its 2005 and 2006
9 capital budgets, which includes any construction budgets. The 2007
10 capital budget is currently being developed and is not available at this
11 time. BellSouth has not begun the development of its 2008-2010 budgets.
12 Accordingly, although entirely irrelevant to this proceeding, BellSouth has
13 produced the construction budgets requested by Audit Staff.

14
15 Finally, in Audit Request No. 6, Audit Staff requested all of BellSouth's
16 Board of Directors' minutes from 2003 to 2006. BellSouth's Board of
17 Directors' meeting minutes are irrelevant to whether BellSouth properly
18 calculated its total incremental expenses related to the 2005 Storms.
19 Furthermore, Staff has never articulated a reason why this information is
20 necessary or otherwise could not be obtained from other sources. Finally,
21 the information does not appear to be integral to Staff's analysis as they
22 have not filed a Motion to Compel to obtain the information.

23

1 **Audit Finding 2**

2

3 Q. IN AUDIT FINDING 2, MR. WINSTON STATES THE INCREMENTAL
4 AMOUNTS INCLUDED IN THE COMPANY'S PETITION FOR THE
5 REPAIRED THIRTY-EIGHT SPANS OF CABLE COULD NOT BE
6 VERIFIED BECAUSE THE REQUESTED SAMPLE HAD NOT BEEN
7 PROVIDED. CAN YOU PLEASE RESPOND?

8

9 Yes. BellSouth has fully responded to all of Staff's Audit Request Nos. 10
10 and 18. And, the requested sample invoice requested does not exist but
11 is captured in other data BellSouth produced.

12

13 Specifically, on page 8 of its Amended Petition, BellSouth indicated that it
14 "had to repair and/or replace 75 spans of cable due to the storm." Audit
15 Request No. 18 asked for supporting documentation for the cost of the
16 replacement/repair of the 75 spans of cable and whether there were any
17 upgrades of the spans. BellSouth indicated in its response to Audit
18 Request No. 18 that it replaced a total of 37 spans of cable and repaired a
19 total of 38 spans and that the repair or replacement of the spans did not
20 involve an upgrade or betterment of the network. In addition, BellSouth
21 provided a spreadsheet and workprints (22 engineering/construction
22 drawings) indicating the areas where the repair and/or replacement of the
23 75 spans was performed. Furthermore, in its response to Audit Request

1 No. 18, as supporting documentation for the expenses incurred in
2 replacing the 38 spans, BellSouth provided a spreadsheet entitled
3 "D8932_dtf_actuals.xls". This spreadsheet includes a majority of
4 BellSouth's actual expenses incurred in restoring service after Hurricane
5 Rita, including all charges related to the replaced cable spans. As to the
6 specific invoices associated with the spans that were replaced, all of the
7 work for these spans was done on authority D8932 and was entered into
8 BellSouth's Outside Plant Construction Module system ("OSPCM2"). (The
9 OSPCM2 process is described in more detail below). No paper invoice
10 would have been generated by the Master Contractor for work completed
11 on this authority.

12

13 In addition, in response to a follow-up question to BellSouth's response to
14 Audit Request No. 18, BellSouth provided an explanation as to how the
15 \$37,000 intrastate incremental amount provided on SP Exhibit 1 for
16 Hurricane Rita was derived. BellSouth advised that the \$37,000 was
17 derived as follows:

18	Contract Services	\$42,450
19	Non-Management Overtime	\$15,450
20	FICA at 7.65%	\$ 1,182
21	Fuel	\$ 1,400
22	Meals, Lodging, Comm	\$ 399
23		
24	X Intrastate Jurisdictional Factor	0.612144
25	Amount Requested in Petition	\$37,268

1 Based upon the foregoing, BellSouth has provided all documentation and
2 information for Audit Staff to verify that the incremental intrastate amounts
3 incurred by BellSouth in repairing the damage by Hurricane Rita.

4

5 **Audit Finding 3**

6

7 Q. IN AUDIT FINDING 3, MR. WINSTON STATES THAT BECAUSE
8 BELLSOUTH DID NOT PROVIDE 283 RANDOMLY-SELECTED
9 INVOICES, AUDIT STAFF COULD NOT PROVIDE ASSURANCE THAT
10 THE PETITION AMOUNTS ARE CORRECTLY STATED. CAN YOU
11 RESPOND TO THIS ASSERTION?

12

13 A. BellSouth has produced all invoices and invoice equivalents requested by
14 Staff.

15

16 Mr. Winston states that BellSouth should have been ready to support its
17 petition and provide copies of invoices. As indicated in his audit finding,
18 the invoices were requested on October 10 and 11, 2006 and Audit Staff
19 expected BellSouth to provide the invoices within two to four days. This
20 turnaround time is unreasonable. As previously indicated, BellSouth's
21 Network Field Operations incurred over \$202.4 million in incremental costs
22 (capital and expense) -- \$156.0 million in incremental expenses -- as a
23 result of the 2005 Storms. In total, Staff requested 283 invoices. These

1 invoices (or invoice equivalents) were pulled as a sample from the
2 ****BEGIN PROPRIETARY**** \$ [REDACTED] **** END PROPRIETARY****
3 million in total network field operations expense incurred in Florida from
4 June 2005 to March 2006. Therefore, the requested invoices were for
5 both incremental expenses (storm related) and business as usual
6 expenses (not storm related). Indeed, some of the invoices requested
7 were for expenses which BellSouth had specifically excluded from its
8 Petition, such as Securitas Security Services USA Inc expense (Audit
9 Request No. 28, Sep-05 Katrina, sample # 12).

10
11 In addition, these invoices are not kept in a central repository, as the
12 paper invoices are kept at the numerous work centers throughout the state
13 of Florida. With regard to non-paper invoices, a significant portion of
14 BellSouth's Network Operating expense is incurred, "billed",
15 certified/approved, and paid without a paper invoice ever being generated.
16 As such, several of the items selected by the Audit Staff through the
17 sampling process do not have original paper invoices available. In these
18 cases, BellSouth printed and provided to Audit Staff an invoice equivalent
19 from BellSouth's mechanized system.

20
21 As an example, most of BellSouth's Master Contractor work effort is
22 handled this way. The work designed by our Outside Plant Engineering
23 force is coded into OSPCM (Outside Plant Construction Module) and

1 made available to the appropriate Master Contractor ("MC"). The MC
2 accesses the work print electronically, prints a copy if desired, completes
3 the work on the design in the field, logs back into OSPCM, and marks the
4 work item complete. A Plant Contract Supervisor (BellSouth employee)
5 will then check the work performed - either through a sample process or
6 by a review of the actual work – and certify that the work is complete. The
7 system then pays the MC (usually within 30 days) based on previously
8 agreed-to prices in the Master Contract. At no time does the MC issue a
9 paper invoice or bill to BellSouth.

10
11 Finally, each of the 283 invoices requested by the Audit Staff has a
12 corresponding ledger entry contained in Proprietary SP Exhibit 3.

13
14 **Audit Finding 6**

15
16 Q. MR. WINSTON STATES THAT AUDIT STAFF WAS UNABLE TO
17 VERIFY THE TOTAL AMOUNT OF EXEMPT MANAGEMENT
18 OVERTIME INCLUDED IN THE STORM COST RECOVERY REQUEST.
19 CAN YOU PLEASE RESPOND?

20
21 A. Yes, BellSouth provided all information requested by Audit Staff.
22 Specifically, BellSouth provided Audit Staff with documentation explaining
23 its policies and procedures regarding employee overtime, and a number of

1 spreadsheets identifying the employees that received overtime, the date
2 the employees worked the overtime, and the amount of overtime worked
3 by each of the employees. Furthermore, and as stated in BellSouth's
4 response to question No. 2 on Supplement to Item No. 27, the first tab in
5 the workbook produced– "Summary Management OT \$ & Hr" – shows the
6 total incremental management overtime by month by storm, with
7 breakouts for exempt and non-exempt management. (All numbers on this
8 spreadsheet are prior to applying the Intrastate Jurisdictional Factor.)
9 BellSouth notes that exempt management overtime is only approximately
10 4.1% of the \$95.5 million incremental intrastate expense incurred by
11 BellSouth.

12

13 ***Issue 1: What amount of any storm damage reserve fund should be***
14 ***considered when determining the amount of tropical-system related***
15 ***intrastate costs and expenses to be recovered?***

16

17 Q. HAVE YOU REVIEWED RONALD HILYER'S SURREBUTTAL
18 TESTIMONY FILED IN RESPONSE TO DON WOOD'S TESTIMONY
19 REGARDING A HYPOTHETICAL STORM RESERVE?

20

21 A. Yes.

22

23 Q. WHAT WAS THE SOURCE OF THE INCREMENTAL EXPENSE
24 AMOUNTS FOR 1998-2005 SHOWN IN MR. HILYER'S EXHIBITS RLH-
25 3, RLH-4 AND RLH-5?

1

2 A. My organization supplied the incremental expense amounts that Mr. Hilyer
3 relied on for 1998-2005. I explained the 2005 incremental expenses of
4 \$95.5 million in my direct testimony and in SP Exhibit 1. Although
5 supporting data for the earlier years has already been provided in various
6 data requests,² I am providing BellSouth's estimate of the 2004
7 incremental expenses of \$75.0 million in SP Exhibit 4. Together, the
8 \$95.5 in 2005 and \$75.0 in 2004 total \$170.5 million and comprise 87% of
9 the total charges against the hypothetical reserve balance in Mr. Hilyer's
10 exhibits to his surrebuttal testimony.

11

12 Q. PLEASE DESCRIBE AND DISCUSS THE INFORMATION IN SP
13 EXHIBIT 4.

14

15 A. The purpose of SP Exhibit 4 is to present the incremental expenses
16 incurred by BellSouth as a result of the 2004 Storms detailed by type of
17 expenditure (i.e. salary and wages, contract labor and services, etc.) and
18 by month. These costs are contained in Lines 1 through 7 of SP Exhibit 4.
19 As such, these costs only include those costs over and above the
20 expected or budgeted levels of costs under normal operating conditions.
21 Furthermore, the expenses on Lines 1 through 7 of SP Exhibit 4 consist

² Citizens' First Request for Production of Documents, Item 2 (Proprietary); CompSouth's First Request for Production of Documents, Item 12.

1 entirely of Network Operations expense related directly to restoring and
2 repairing plant damaged by the 2004 storms.

3
4 Finally, an intrastate jurisdictional factor is applied to estimate the
5 intrastate incremental storm recovery expense for 2004.

6
7 In addition, BellSouth is also producing a DVD containing ledger entries
8 from August 2004 to March 2005, which is attached hereto as Proprietary
9 SP Exhibit 5. These ledger entries contain BellSouth's total network field
10 operations expenses for the above-time period in Florida, were created by
11 Network Finance in the ordinary of course of business to track network
12 costs and expenses in Florida, and were used by BellSouth to capture its
13 incremental expenses by comparing budgeted amounts to ledger
14 amounts. All of the ledger entries on this DVD reconciles and directly
15 corresponds to the calculations in SP Exhibit 4

16
17 Q. WERE THE INCREMENTAL EXPENSES FOR THE YEARS 1998 – 2003
18 INCLUDED IN MR. HILYER'S TESTIMONY DETERMINED IN A
19 MANNER THAT IS CONSISTENT WITH THE METHOD YOU HAVE
20 ALREADY DESCRIBED ABOVE FOR 2004 AND 2005?

21
22 A. Yes.

23

1 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

2

3 A. Yes.

4

5

Exhibit SP-3

Proprietary

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Exhibit SP-5

Proprietary

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BELLSOUTH TELECOMMUNICATIONS, INC.
SURREBUTTAL TESTIMONY OF KATHY K. BLAKE
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 060598-TL
NOVEMBER 17, 2006

Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC. ("BELLSOUTH"), AND YOUR BUSINESS ADDRESS.

A. My name is Kathy K. Blake. I am employed by BellSouth as Director – Retail Markets and Policy Implementation for the nine-state BellSouth region. My business address is 675 West Peachtree Street, Atlanta, Georgia 30375.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed direct testimony on September 1, 2006 and amended direct testimony on September 20, 2006.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to portions of the direct testimony of Don J. Wood, filed on behalf of The Competitive

1 Carriers of the South, Inc. ("CompSouth"), and Charleston J. Winston,
2 filed on behalf of the Staff of the Florida Public Service Commission
3 ("Commission Staff"). My responses to their testimony will be provided
4 pursuant to the list of issues set forth in Appendix A of the
5 Commission's Second Order on Procedure, issued on November 8,
6 2006.

7

8 **Issue 3(a)**

9 ***What is the appropriate type and number of retail access lines, basic***
10 ***and nonbasic, to which any storm damage recovery may be***
11 ***assessed?***

12

13 Q. WHAT IS BELL SOUTH'S POSITION REGARDING THIS ISSUE?

14

15 A. As set forth in Florida Statute § 364.051(4)(b)(6), it is appropriate to
16 assess the line-item surcharge for storm recovery on a per access line
17 basis to the billing statement of BellSouth's retail basic
18 telecommunications service customers and retail nonbasic
19 telecommunications service customers. Customers that subscribe to
20 flat-rate residential services (i.e., 1FR) or flat-rate single line business
21 services (i.e., 1FB) are considered retail basic telecommunications
22 service customers. Customers that subscribe to multi-line business
23 services, package offerings (i.e., Complete Choice[®], Area Plus
24 Service), payphone access lines, PBX trunk lines, Network Access
25 Registers ("NARs") (including NARs used in conjunction with BellSouth

1 ESSX[®] Service and MultiServ[®] Plus Service), and B channels of both
2 Basic-Rate ISDN and ISDN PRI are considered retail nonbasic
3 telecommunication service customers. Customers that subscribe to
4 access lines associated with the basic and nonbasic retail
5 telecommunications services identified above would be assessed a
6 \$.50 line-item storm recovery charge per month for a 12-month period.
7 The total amount that BellSouth can recover from the line-item charge
8 should be determined pursuant to the quantity of each qualifying access
9 line that is in service at the time the charge is being assessed.

10

11 Given that the assessment of the line-item charge is not expected to
12 begin until early 2007 and that the number of qualifying access lines
13 fluctuates on a daily basis, it is not possible to determine the exact
14 number of access lines that will be assessed the line-item charge
15 during the 12 month assessment period. However, in an effort to
16 demonstrate that BellSouth is entitled to assess the maximum line-item
17 charge allowed by the statute (\$.50 per month), BellSouth provided an
18 estimate of the total amount it can recover as a result of the 2005
19 Storms. Using in service quantities as of June 2006 for each type of
20 qualifying retail access line, BellSouth estimated that it would recover
21 approximately \$29.8 million (or less than a third of its total incremental,
22 intrastate expenses of \$95.5 million) from its retail customers. The
23 chart attached to my surrebuttal testimony as Confidential Exhibit KKB-
24 1 identifies the number of retail access lines in service as of June 2006,
25 segmented into the access line service categories that would be

1 assessed the maximum line-item charge of \$.50 per month under
2 BellSouth's proposal.

3
4 Q. IT APPEARS THAT THE NUMBER OF RETAIL LINES THAT WOULD
5 BE ASSESSED THE LINE-ITEM CHARGE HAS BEEN REVISED.
6 PLEASE EXPLAIN WHY.

7
8 A. During the process of preparing my surrebuttal testimony, it was
9 discovered that a category of retail access lines was not included and
10 the number of access lines reflected in another category of retail access
11 lines was overstated. Specifically, 33,339 ****BEGIN
12 **PROPRIETARY****** [REDACTED] ******END PROPRIETARY******
13 should have been included as a category of retail lines to be assessed
14 the line-item charge. In addition, the number of ****BEGIN
15 **PROPRIETARY****** [REDACTED] ******END PROPRIETARY****** should
16 be reduced by 28,900 Official Lines (from 90,392 to 61,492). Official
17 Lines are lines used by BellSouth for administrative purposes and
18 should not have been included. The net effect of these changes is an
19 increase of 4,439 retail access lines.

20
21 Q. ON PAGE 5 OF HIS DIRECT TESTIMONY AND ON PAGES 7-8 OF
22 HIS EXHIBIT CJW-1, MR. WINSTON EXPRESSED AN OPINION
23 ABOUT BELLSOUTH'S METHODOLOGY FOR DETERMINING THE
24 NUMBER OF ACCESS LINES TO APPLY THE STORM RECOVERY
25 CHARGE TO. DID HE AGREE WITH BELLSOUTH'S CALCULATION?

1 A. Not entirely. Mr. Winston took no issue with the different types of retail
2 services that would be subject to the line-item charge under BellSouth's
3 proposal. However, Audit Staff did not agree with the data source
4 BellSouth used for determining the number of access lines to be
5 assessed the line-item storm recovery charge.

6

7 Q. DID HE EXPLAIN WHY HE DID NOT AGREE WITH BELLSOUTH'S
8 DATA SOURCE?

9

10 A. No. In their analysis of Audit Finding No. 4, Audit Staff quotes a large
11 section of BellSouth's response to Audit Request No. 11, wherein
12 BellSouth was asked to explain why the retail access line counts in
13 BellSouth's Petition differed from the line count totals reported by
14 BellSouth to the Commission on Schedule 8. Audit Staff then states
15 that they do not understand why the two data sources should be
16 different and that BellSouth should use the data included in Schedule 8
17 instead of using a different data source for this specific docket. Mr.
18 Winston, on behalf of Audit Staff, does not explain why he disagrees
19 with the line count used in BellSouth's Petition or why he believes the
20 line count in Schedule 8 is more appropriate.

21

22 Q. DO YOU AGREE WITH MR. WINSTON'S CONCLUSIONS?

23

24 A. No. I believe Mr. Winston and Audit Staff are incorrect because the
25 Schedule 8 data is not appropriate for use in this docket.

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1 Q. PLEASE EXPLAIN WHY BELLSOUTH FILES SCHEDULE 8 AND THE
2 DATA INCLUDED IN IT.

3

4 A. BellSouth is required by Commission Rule 25-4.0185 to file information
5 requested by Commission Form PSC/CMP 28, entitled "Engineering
6 Data Requirements". This form includes Schedule 8. The information
7 required by Schedule 8 must be reported on a quarterly basis and is
8 required to be filed on or before the end of the month following the
9 reporting period. Pursuant to the instructions for Schedule 8, access
10 line data is provided for each exchange in BellSouth's serving area in
11 Florida and is segmented into the following categories: Retail Lines
12 (total number of retail lines, number of residential line, number of
13 business lines), Resale Lines (total number of resale lines, number of
14 residential resale lines, number or business resale lines), UNE-P (total
15 number of unbundled network element-platforms (UNE-P), number of
16 residential UNE-P, number of business UNE-P), Pay Phones (total
17 number of pay phone access lines) and Total Lines (total number of
18 access lines from each of the reported category totals).

19

20 Q. WHAT ARE SOME OF BELLSOUTH'S CONCERNS ABOUT USING
21 SCHEDULE 8 DATA?

22

23 A. As explained in BellSouth's response to Audit Request No. 11, the line
24 count data reported in Schedule 8 is pulled from a network planning
25 resource tool and has no connection with BellSouth's billing systems,

1 which is the appropriate data source to be used to assess the line-item
2 charge. The billing system provides a direct link to our customers and
3 the services they are receiving from BellSouth, better ensuring that the
4 line-item charge will be assessed in a manner consistent with the
5 services being billed to the customer. In contrast, the data contained in
6 Schedule 8 originates from a network planning tool and can not be
7 directly linked to a customer's billing record.

8
9 In addition, Schedule 8 includes retail and wholesale lines that are not
10 at issue here and counts business and wholesale lines differently than
11 how BellSouth proposes to count them in this proceeding. For
12 instance, Schedule 8 includes resold lines, which were not included in
13 BellSouth's Petition. Likewise, Schedule 8 does not include line counts
14 for wholesale unbundled loops; instead, it requests information for
15 unbundled loop/port combinations (previously known as UNE-P).

16
17 Further, as to retail business lines, Schedule 8 counts each *station line*
18 from ESSX[®] Service, MultiServ[®] Service, MultiServ[®] Plus Service and
19 Centrex service, and counts each PBX trunk as well as other business
20 lines. Under BellSouth's proposed methodology, which is consistent
21 with approaches taken by this Commission in other line assessment
22 circumstances, only the *NARS* would be counted, resulting in a
23 **decrease** in the number of lines to be assessed the line-item charge.

24
25

1 In addition, Schedule 8 counts each ISDN line as a *single line*, while
2 under BellSouth's proposal for storm recovery, each *activated voice*
3 *channel provisioned* on the ISDN line would be counted. Audit Staff's
4 proposal to use Schedule 8 data thus results in an inaccurate
5 application of the line-item charge, because it over or under-counts the
6 number of lines to be assessed the line-item charge.

7
8 Q. DOES BELLSOUTH'S DATA SOURCE AND METHODOLOGY HAVE
9 THE SAME PROBLEMS THAT EXISTS WITH USING THE
10 SCHEDULE 8 DATA?

11
12 A. No. In accordance with Florida Statute § 364.051(4), the line-item
13 charge can be assessed "***per access line to the billing statement*** of
14 the company's retail basic local telecommunications customers, its
15 retail nonbasic telecommunications service customers, and, to the
16 extent the commission determines appropriate, its wholesale loop
17 unbundled network element customers." (emphasis added). Part of the
18 reason that BellSouth used the general billing database to determine
19 the appropriate line count totals instead of the Schedule 8 data is that
20 the billing database contains the uniform service ordering codes
21 ("USOCs") that BellSouth will use in order to apply the recovery line-
22 item charge. Accordingly, using this data, the monthly billing statement
23 of those customers that subscribe to the identified access lines will be
24 assessed the line-item charge in accordance with the statute.

25

1 As previously discussed, Schedule 8 data has no relation to the billing
2 system. Accordingly, utilizing BellSouth's billing system data to assess
3 the line-item charge on the basis of counting activated voice
4 channels/access lines represents a more accurate methodology for
5 determining an assessment than using access line data reported in
6 Schedule 8.

7

8 Q. HAS THIS COMMISSION EVER ACCEPTED A METHODOLOGY TO
9 APPLY A LINE ITEM CHARGE ON RETAIL ACCESS LINES THAT
10 DIFFERED FROM SCHEDULE 8 DATA? IF SO, IN WHAT
11 INSTANCES?

12

13 A. Yes. There have been instances where BellSouth did not use Schedule
14 8 data and instead utilized a different data source in order to determine
15 the appropriate line count totals to apply a particular line-item charge.
16 One example is the assessment of the 911 surcharge. BellSouth
17 applies a 911 surcharge on retail and resold access lines based upon
18 the specific tax codes that appear on the customers billing record.
19 Additionally, in accordance with a Miami-Dade County Ordinance,
20 BellSouth applies a Miami Manhole surcharge on Miami-Dade County
21 customers to recover costs BellSouth incurs as a result of complying
22 with the Ordinance. The assessment of the line-item charges in both of
23 these instances relies upon data obtained from BellSouth's billing
24 system, just as BellSouth is proposing to use in this proceeding.

25

1 Q. ARE YOU AWARE OF ANY INSTANCES WHERE SCHEDULE 8 LINE
2 COUNT DATA ARE USED IN DETERMINING THE NUMBER OF
3 LINES THAT A LINE-ITEM CHARGE SHOULD BE ASSESSED?

4
5 A. No. As discussed above, BellSouth provides Schedule 8 data to the
6 Commission as required by Rule 25-4.0185.

7
8 **Issue 3(b):**

9 ***Is a line item charge on BellSouth's wholesale UNE loop appropriate***
10 ***pursuant to Section 364.051(4)(b)(6), Florida Statutes and Federal***
11 ***Law? If yes, on which types of lines should the charge be assessed***
12 ***and how should the lines be counted? What is the total number of***
13 ***UNE loops to be assessed, if any?***

14
15 Q. WHAT IS BELLSOUTH'S POSITION REGARDING THE
16 APPROPRIATENESS OF ASSESSING A LINE-ITEM CHARGE TO
17 WHOLESALE UNE LOOPS?

18
19 A. BellSouth believes that wholesale loop unbundled network element
20 customers should be included in the assessment of the line-item charge
21 pursuant to Section 364.051(4)(b)(6). Since I am not an attorney,
22 BellSouth's position with respect to whether federal law is applicable in
23 the assessment of the line-item charge to UNE loops will be addressed
24 by its attorneys in BellSouth's Pre-Hearing Legal Memoranda to be filed
25 on November 30, 2006. However, from a public policy perspective, the

1 application of the line-item charge to UNE loops is not only appropriate
2 but to do otherwise would possibly result in reducing the amount of cost
3 recovery that the Legislature obviously contemplated a Petitioning
4 carrier was entitled to recover. Simply put, BellSouth experienced
5 substantial costs in repairing and restoring facilities, which includes the
6 wholesale unbundled loop facilities leased by our CLEC customers as
7 well as those facilities used by our retail customers. Given the wording
8 of the statute, it is not appropriate policy for one group to be assessed
9 and another group to be exempted.

10

11 Q. WITH REGARD TO AUDIT FINDING NUMBER 5, MR. WINSTON
12 STATES THAT THE NUMBER OF UNBUNDLED LOOP ACCESS
13 LINES COULD NOT BE VERIFIED TO SCHEDULE 8 DATA. IS HE
14 CORRECT?

15

16 A. Yes. As discussed above, Schedule 8 includes the total number of
17 unbundled network element platforms (UNE-P) lines, separated by
18 residential UNE-Ps and business UNE-Ps.¹ The number of UNE-Ps
19 reported on Schedule 8 does not include stand-alone unbundled loops
20 or unbundled loops provided as part of an Enhanced Extended Loop
21 combinations (unbundled loop-transport combination). As such,
22 Schedule 8 cannot be used to determine the number of wholesale loop

¹ As the Commission is aware, BellSouth is no longer obligated to provide the UNE-Platform (UNE loop-port combinations) to CLECs pursuant to the FCC's TRRO and this Commission's Change of Law decision in Docket No. 041269-TP. The UNE-P access line data reported on Schedule 8 reflects the number of Wholesale Local Platform services sold to CLECs under their Commercial Agreement with BellSouth.

1 unbundled network element customer loops that would be assessed the
2 line-item charge. This explains why Audit Staff could not verify the
3 unbundled loop calculation with Schedule 8 and further supports
4 BellSouth's position that Schedule 8 should not be used to determine
5 the number access lines to which the line-item charge should apply.

6

7 Q. BECAUSE SCHEDULE 8 DOES NOT CONTAIN DATA REGARDING
8 UNBUNDLED LOOPS, HOW DID BELL SOUTH DETERMINE THE
9 NUMBER OF UNBUNDLED LOOPS THAT WOULD BE ASSESSED
10 THE LINE-ITEM CHARGE?

11

12 A. Information regarding the number of unbundled loops that would be
13 assessed the line-item charge was obtained from BellSouth's wholesale
14 data warehouse, which is fed by the systems used to bill the CLEC for
15 the loops. Using the USOCs assigned to each type of unbundled loop,
16 BellSouth extracted aggregate information from its wholesale data
17 warehouse and determined the number of loops in-service as of June
18 2006. This information formed the basis of the estimated number of
19 unbundled loops that would be assessed the line-item charge.

20

21 Q. BEGINNING ON PAGE 7 OF HIS TESTIMONY, MR. WOOD SETS
22 FORTH SEVERAL REASONS WHY THE LINE-ITEM CHARGE
23 SHOULD NOT APPLY TO WHOLESALE LOOPS. PLEASE
24 COMMENT.

25

1 A. Mr. Wood's first contention is that BellSouth should not be allowed to
2 assess the line-item charge to wholesale loops because "CLECs were
3 required to repair and replace network facilities just as BellSouth was,
4 and were likewise required to purchase new equipment, pay overtime
5 wages, and do all of the other things necessary to restore their
6 networks." Mr. Wood's argument misses the mark. Any costs to
7 repair or restore the wholesale loop, which is what the CLEC leases
8 from BellSouth, were borne by BellSouth, not by the CLEC.
9 Furthermore, as Mr. Hilyer and Mr. Pendergrass fully address in their
10 direct testimony, BellSouth is not seeking recovery of costs associated
11 with "purchas[ing] new equipment."
12

13 Mr. Wood further contends that "CLECs have no practical market
14 mechanism to impose such a surcharge on their own end user
15 customers." Mr. Wood is incorrect. CLECs clearly have the ability to
16 pass on their costs, including the line-item surcharge, to their end
17 users. They can also choose not to pass on such charges in order to
18 gain a perceived competitive advantage over BellSouth.

19
20 On page 8 and again on page 10, Mr. Wood contends that BellSouth is
21 proposing to assess the line-item charge in a manner that is contrary to
22 the statute. Mr. Wood is incorrect. The statute allows BellSouth to
23 assess a line-item charge per access line for wholesale unbundled loop
24 customers. In the wholesale world, one unbundled loop could be used
25 to provide services that are equivalent to more than a single access

1 line. For instance, a DS0 loop is equivalent to one voice grade loop; a
2 DS1 loop is equivalent to 24 voice grade equivalent loops; and a DS3
3 loop is equivalent to 672 voice grade equivalent loops. Mr. Wood is
4 under the misimpression that BellSouth is using the term "per-DS0" to
5 mean something different than "per access line".

6

7 Q. HAS THIS COMMISSION PREVIOUSLY ADDRESSED HOW MANY
8 VOICE GRADE EQUIVALENT LOOPS A DS1 LOOP EQUATES TO?

9

10 A. Yes. While in a somewhat different context, this Commission found in
11 the Change of Law proceeding,² that a DS1 unbundled loop equates to
12 and should be counted as 24 DS0s or 24 voice grade equivalents
13 loops. Accordingly, under this same rationale, a DS3 unbundled loop
14 equates to and should be counted as 672 DS0s or 672 voice grade
15 equivalent loops. Consequently, and contrary to Mr. Wood's testimony,
16 this Commission has already determined (albeit in a different
17 proceeding) that the bandwidth capability of a wholesale unbundled
18 loop determines the equivalent number of access lines.

19

20 Q. HOW DO YOU RESPOND TO MR. WOOD'S CONTENTION (PAGE 8)
21 THAT BELLSOUTH'S PROPOSED APPLICATION OF THE LINE-ITEM
22 SURCHARGE IS NOT COMPETITIVELY NEUTRAL AND THAT
23 BELLSOUTH IS SUBSCRIBING A DIFFERENT MEANING OF

² PSC Order No. 06-0172-FOF-TP at 37.

1 "ACCESS LINE" TO RETAIL AND WHOLESALE CUSTOMERS (PAGE
2 10)?

3

4 A. Mr. Wood is misinformed. If a retail customer and wholesale loop
5 customer both have only a single access line or a single loop, both
6 will be charged the \$.50 line-item charge for the line/loop. If a retail
7 customer has more than a single line, BellSouth will assess the line-
8 item charge to its retail customers for each activated voice
9 channel/access line. Based on the fact that BellSouth is unable to
10 determine the number of loops of a high capacity loop that a CLEC is
11 using to provide services to its end users, BellSouth relied upon the
12 fair reading of the FCC's definition of "access line", this Commission's
13 decision in the Change of Law proceeding as to how DS1 and DS3
14 unbundled loops should be counted, as discussed above, and the
15 definition of "access line" set forth in Florida Administrative Code 25-
16 4.003 to develop its position. As such, it was appropriate for
17 BellSouth to count the full capacity of such loops to determine the
18 appropriate number of potential loops that a CLEC is providing
19 service across.

20

21 Under Mr. Wood's theory, a DS1 loop customer would only be
22 charged \$.50 for that loop even though that DS1 loop contains 24
23 voice grade equivalent loops; however, if that same customer
24 purchased 24 single loops, they would be assessed 24 \$.50 line-item
25 charges.

1 Q. ARE YOU PROPOSING THAT WHOLESALE LOOP CUSTOMERS
2 THAT PURCHASE HIGH CAPACITY LOOPS PAY A LINE-ITEM
3 CHARGE BASED ON THE FULL CAPACITY OF THE LOOP?
4

5 A. Because BellSouth is unable to determine the number of loops a CLEC
6 is using of a high capacity loop to provide services to its end users,
7 BellSouth had initially proposed to assess the line-item charge based
8 on the full capacity of the unbundled loop. However, in an effort to
9 address the CLECs' concerns, BellSouth is not opposed to applying an
10 alternative methodology for assessing the line-item charge to high
11 capacity wholesale unbundled loops. Under this alternative
12 methodology, BellSouth would apply its utilization percentage for high-
13 capacity level retail services to the CLECs' high-capacity unbundled
14 loops.
15

16 Q. PLEASE EXPLAIN THE "UTILIZATION PERCENTAGE" THAT
17 BELLSOUTH IS PROPOSING TO USE TO ASSESS THE LINE-ITEM
18 CHARGE ON HIGH CAPACITY UNBUNDLED LOOPS AND HOW IT
19 WAS DERIVED.
20

21 A. BellSouth's current utilization factor is 47%. That is, on average, 47%
22 of the available bandwidth (or channels) associated with high-capacity
23 retail services is currently being used by BellSouth's retail customers.
24 To determine this percentage, BellSouth obtained data from its billing
25 systems that identified, by Florida wire center, the maximum system

1 channel capacity for high capacity retail services, such as MegaLink[®]
2 Channel Service and LightGate[®] Service, that BellSouth provides to its
3 retail customers ("maximum capacity"). Data was also obtained that
4 identified the quantity of retail services ("utilized capacity") being
5 provided to BellSouth's retail customers over these high capacity retail
6 arrangements. The utilization percentage (47%) was then calculated by
7 dividing the total utilized capacity for the high capacity retail
8 arrangements in each qualifying Florida wire center by the total
9 maximum capacity for these same retail services in the same Florida
10 wire centers.

11
12 Accordingly, BellSouth's alternative proposal is to apply this 47%
13 utilization factor to the maximum capacity of DS1 and DS3 unbundled
14 loops to determine the number of line-item charges to be assessed to
15 CLECs that purchase these high capacity wholesale unbundled loops.
16 As such, each DS1 unbundled loop would be assessed 11 line-item
17 charges (DS1 capacity is 24, $24 \times 47\% = 11$), and each DS3 unbundled
18 loop will be assessed 315 line-item charges (DS3 capacity is 672; $672 \times$
19 $47\% = 315$). Such an approach addresses all of Mr. Wood's concerns,
20 because it ensures that all BellSouth customers (retail and wholesale)
21 that purchase high-capacity services/loops are assessed the line-item
22 charge in the same manner. In fact, applying the utilization factor will
23 actually financially benefit those CLEC customers that use the entire
24 capacity of these high-capacity loops.

25

1 Q. WHAT IS THE IMPACT ON THE RECOVERY AMOUNT AND
2 NUMBER OF WHOLESALE UNBUNDLED LOOP COUNT WHEN THE
3 47% UTILIZATION FACTOR IS APPLIED TO DS1 AND DS3
4 UNBUNDLED LOOPS?

5
6 A. Based on June 2006 data, the impact of applying the 47% utilization
7 factor to DS1 and DS3 wholesale unbundled loops results in assessing
8 the line-item charge to 477,648 wholesale unbundled loops, a decrease
9 of 319,653 loops, reducing the anticipated recovery amount by nearly
10 \$2 million. Exhibit KKB-2 reflects the type and number of wholesale
11 unbundled loops that should be subject to the line-item charge.

12
13 Q. CAN YOU PROVIDE SOME EXAMPLES OF HOW BELLSOUTH WILL
14 ASSESS THE LINE-ITEM CHARGE ON ITS RETAIL CUSTOMERS
15 THAT OBTAIN HIGH CAPACITY SERVICES FROM BELLSOUTH?

16
17 A. Certainly. Attached to my testimony as Exhibit KKB-3 is a
18 representative sample of a typical MegaLink[®] Channel Service
19 ("MLCS") customer account (DS1 level service). As indicated on the
20 exhibit, the line-item charge will be assessed based on the presence of
21 the initial mileage USOC (e.g., 1LDPZ) for the local channel element
22 and for each specific service or access line that is being provided over
23 the MLCS (i.e., NMQ, TFBCX, TTTXB).

24

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1 Contrary to Mr. Wood’s contention, it is clear from the information
2 provided above that BellSouth’s proposal for assessing the line-item
3 charge to its retail and wholesale customers is not only consistent with
4 Commission precedent, it also ensures that the line-item charge is
5 applied on a consistent and competitively neutral basis.

6

7 Q. ON PAGE 11, MR. WOOD ARGUES THAT “BELLSOUTH’S
8 PROPOSAL IS AT ODDS WITH THE WAY IN WHICH COSTS ARE
9 INCURRED.” PLEASE RESPOND.

10

11 A. Mr. Hilyer will address Mr. Wood’s contention that BellSouth’s TELRIC
12 rates already include storm related costs; however, it should be stated
13 that the statute does not require that the proposed recovery amount be
14 based upon BellSouth’s costs for repairing specific loops or lines. As
15 Mr. Pendergrass and Mr. Hilyer discuss fully in their direct testimony,
16 the amount of recoverable storm related costs is based on the total
17 amount of eligible storm-related expenses.

18

19 Q. ON PAGE 12 MR. WOOD STATES THAT THE DIFFERENCE IN THE
20 NUMBER OF UNBUNDLED LOOPS REFLECTED IN MY
21 SEPTEMBER 1, 2006 DIRECT TESTIMONY AND THE NUMBER OF
22 UNBUNDLED LOOPS REFLECTED IN MY SEPTEMBER 20, 2006
23 AMENDED DIRECT TESTIMONY “MUST BE A RESULT OF A
24 CHANGE IN HOW BELLSOUTH DEFINES THE TERM ‘UNBUNDLED
25 LOOPS’.” IS HE CORRECT?

1 A. No. After I filed my direct testimony on September 1, 2006, two errors
2 were discovered in the number of unbundled loops that should be
3 assessed the line-item charge. As explained in BellSouth's response to
4 CompSouth discovery³, one of the errors was caused by a spreadsheet
5 calculation error and the other error was attributed to the omission of
6 the DS1 and DS3 loop portion of Enhanced Extended Loops ("EELs").
7 Specifically, the spreadsheet calculation error occurred because the
8 original number of reported DS1 loops was multiplied by 12 instead of
9 24 to determine the number of loop equivalents, causing the DS1 loop
10 equivalents to be understated by 196,236. In addition, BellSouth failed
11 to include the DS1 and DS3 loop portion of enhanced extended loops
12 causing the DS1 loop equivalent number to be understated by 192,384
13 and the DS3 loop equivalent number to be understated by 2,688. Thus,
14 the difference between the approximately 406,000 unbundled loops
15 reflected in my direct testimony and the approximately 797,300
16 unbundled loops reflected in my amended direct testimony can be
17 attributed to these errors (196,236 + 192,384 + 2688 = 388,888) and
18 were not as "a result of a change in how BellSouth defines the term
19 'unbundled loops'" as Mr. Wood contends.
20

³ See BellSouth's response, filed October 5, 2006, to CompSouth's 1st Set of Interrogatories, Item Nos. 1 and 2. See also BellSouth's response, filed October 25, 2006, to CompSouth's 2nd Set of Interrogatories, Item No. 21 which further explains the specific errors in detail.

1 Q. ON PAGE 12 MR. WOOD ASSERTS THAT BELLSOUTH IS SEEKING
2 TO INCREASE THE COSTS OF ITS COMPETITORS BY
3 REDEFINING ACCESS LINES. PLEASE COMMENT.

4

5 A. Mr. Wood is wrong and the facts belie his assertions. As discussed
6 above, through the application of the utilization factor to high capacity
7 unbundled loops, coupled with the consistent application of the line-item
8 charge to BellSouth retail customers that subscribe to high capacity
9 services, BellSouth is treating all customers in a consistent manner and
10 on a competitively neutral basis.

11

12 Q. ON PAGES 9 AND 13-16 OF HIS TESTIMONY, MR. WOOD
13 CONCLUDES THAT "BELLSOUTH'S PROPOSAL TO EFFECTIVELY
14 RE-PRICE UNE LOOPS IS DIRECTLY AT ODDS WITH THE
15 REQUIREMENTS OF THE FEDERAL TELECOMMUNICATIONS
16 ACT." DO YOU AGREE WITH HIS STATEMENT? PLEASE EXPLAIN.

17

18 A. No, I do not agree with Mr. Wood. BellSouth is not seeking to re-price
19 UNE loops or to change the UNE loop rates established by this
20 Commission. The line-item charge is a temporary charge that will only
21 be assessed for a 12-month period. Further, the line-item charge is a
22 mechanism under Florida law for BellSouth to recover a portion of its
23 incremental intrastate costs and expenses incurred as a result of the
24 2005 tropical storm season. The line-item charge has nothing to do
25 with BellSouth's obligations pursuant to § 251 of the

1 Telecommunications Act of 1996 (the "Act") or the FCC's UNE pricing
2 rules.

3

4 **Q.** **WHY IS THE LINE-ITEM CHARGE NOT RELATED TO BELLSOUTH'S**
5 **OBLIGATIONS PURSUANT TO § 251 OF THE ACT OR THE FCC'S**
6 **PRICING RULES?**

7

8 **A.** To begin with, the line-item charge has nothing to do with BellSouth's
9 provisioning of an unbundled network element pursuant to federal law.
10 Rather, the storm recovery line-item surcharge is being assessed
11 pursuant to Florida law.

12

13 Mr. Wood's suggestion that such a line-item charge is an increase in
14 the rate for the specific unbundled network element is also incorrect.
15 Under Mr. Wood's theory, the Commission's assessment under state
16 law of the Regulatory Assessment Fee on CLECs would be improper,
17 because it constitutes an increase in the CLEC's cost of doing business
18 in Florida; similarly, pursuant to the same rationale, 911 surcharges
19 imposed under Florida law would also be improper. The line-item storm
20 recovery charge available here under state law is no different.

21

22 Finally, Mr. Wood's argument renders the statute meaningless. This is
23 so because it results in a finding that, in no event could the Commission
24 find that it would be appropriate to apply the line-item charge on

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1 BellSouth's wholesale loop UNE customers, notwithstanding Section
2 364.051(4)'s clear language to the contrary.

3

4 Q. IN SEVERAL PLACES IN HIS TESTIMONY (PAGES 4, 5, 9, 20-21),
5 MR. WOOD SUGGESTS THAT BELLSOUTH IS PROPOSING TO
6 APPLY THE STORM RECOVERY LINE-ITEM CHARGE TO
7 WHOLESALE LINES OTHER THAN WHOLESALE UNBUNDLED
8 LOOPS. IS THAT TRUE?

9

10 A. No. As stated in BellSouth's response to discovery,⁴ "BellSouth is not
11 proposing to apply the line item charge on resale, special access or
12 commercial agreement customers."

13

14 Q. ON PAGE 21 MR. WOOD TAKES ISSUE WITH BELLSOUTH'S
15 POSITION THAT FAILING TO ASSESS THE LINE-ITEM CHARGE ON
16 WHOLESALE CUSTOMERS WOULD RESULT IN BELLSOUTH'S
17 RETAIL CUSTOMERS MAKING UP THE SHORTFALL. PLEASE
18 RESPOND.

19

20 A. In the context of this proceeding, Mr. Wood is incorrect. As an initial
21 matter, the policy implications that result in not imposing the line-item
22 charge on wholesale unbundled loops are not applicable in this current
23 proceeding, because BellSouth is entitled to apply the maximum

⁴ See BellSouth's response to CompSouth 2nd Set of Interrogatories, Item No. 16, filed October 25, 2006.

1 amount of recovery due to the massive damages incurred with the 2005
2 Storms. It is appropriate, however, to consider this policy argument
3 because of the possibility that the assessment established in future
4 years may not reach the maximum allowed amount (\$.50 per access
5 line). For instance, if wholesale unbundled loop customers were not
6 included in the assessment of the line-item charge in a future
7 proceeding where BellSouth was not entitled to collect the maximum
8 amount allowed, then BellSouth's retail customers would be making up
9 the shortfall. For example, if the Commission determined that the
10 amount of the storm related expenses was \$25 million and could only
11 be recovered from BellSouth's 5 million retail access line customers,
12 then a per line-item charge of \$.42 per access line per month would be
13 assessed. However, if the line-item charge is also assessed to 500,000
14 unbundled loops, then the line-item charge to be assessed to both retail
15 lines and wholesale loops would be reduced to \$.39 per access line per
16 month. In the above example, not assessing the line-item charge to
17 unbundled loop customers results in only BellSouth's retail end users
18 being responsible for charges that both BellSouth end users and CLEC
19 end users received benefit from.

20
21 Q. ON PAGE 23 MR. WOOD ASSERTS THAT THERE IS NO PUBLIC
22 POLICY REASON FOR "A PRICE-REGULATED COMPANY, HAVING
23 MADE THESE DECISIONS" OF NOT HAVING A STORM RESERVE
24 OR INSURANCE "SHOULD NOT BE REQUIRED TO LIVE WITH THE
25 CONSEQUENCES OF ITS ACTIONS." PLEASE COMMENT.

1 A. Mr. Wood's assertion is misplaced. The Florida Legislature expressly
2 recognized that companies subject to price-cap regulation can recover
3 these storm-related costs, notwithstanding the fact that they are price-
4 cap regulated. Although Mr. Wood asserts that he can think of no
5 public policy reasons, the Legislature has deemed it appropriate for
6 BellSouth to recover these unique and extraordinary expenses. Under
7 his theory, no local exchange carrier ("LEC") could qualify under
8 §364.051(4) unless it maintained insurance for its outside plant facilities
9 or a storm reserve fund. Neither of these requirements, however, is
10 required under the law. Rather, the law simply provides that to the
11 extent a company has a storm reserve fund, that fund has to be taken
12 into account in determining the amount a LEC can recover. Finally, as
13 Mr. Hilyer discusses in his testimony, even if BellSouth had insurance
14 coverage and a storm reserve fund, BellSouth would still be seeking
15 recovery of its storm related costs in this proceeding.

16

17 Q. MR. WOOD CLAIMS, ON PAGE 24 OF HIS TESTIMONY, THAT
18 BELL SOUTH IS SEEKING THE PROTECTION OF RATE OF RETURN
19 REGULATION WITH THIS FILING. IS THIS CLAIM APPROPRIATE?

20

21 A. No, it is not. BellSouth is making this filing under the provisions of
22 Florida Statutes § 364.051(4)(b), a section of Florida law that applies to
23 local exchange telecommunications companies that are subject to
24 carrier-of-last-resort obligations and operating under price regulation.
25 On page 23 of his testimony, Mr. Wood states that he "do[es] not take

1 issue with BellSouth's ability to operate pursuant to §364.051...,” yet
2 that is exactly what he is doing when he attempts to characterize
3 BellSouth's request for recovery as rate of return regulation. Florida
4 Statute § 364.051(4)(b) gives BellSouth the opportunity to recover from
5 its customers a limited portion (approximately 16%) of the incremental
6 amount BellSouth expended on 2005 storm damage recovery.

7
8 Q. ON PAGE 27 MR. WOOD STATES “BEFORE A COMPANY COMES
9 TO THE COMMISSION SEEKING TO IMPOSE A SURCHARGE ON
10 FLORIDA RATEPAYERS AND WHOLESALE CUSTOMERS, IT
11 OUGHT TO HAVE EXHAUSTED A REASONABLE STORM RESERVE
12 FUND, APPLICABLE INSURANCE COVERAGE, OR BOTH.” PLEASE
13 RESPOND.

14
15 A. Mr. Wood is creating requirements that do not exist. The statute does
16 not require a price-regulated LEC to maintain a storm reserve fund nor
17 does it require insurance coverage. Again, however, even if BellSouth
18 had both insurance coverage and a storm reserve fund, BellSouth
19 would still be seeking to recover its expenses under the statute, as
20 further described by Mr. Hilyer.

21
22
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24
25

1 **Issue 4:**

2 ***What is the appropriate line item charge per access line, if any?***

3

4 Q. WHAT AMOUNT IS BELLSOUTH PROPOSING FOR THE LINE-ITEM
5 CHARGE PER ACCESS LINE?

6

7 A. As I stated in my direct testimony, pursuant to Florida Statute
8 § 364.051(4), BellSouth is proposing to apply a \$0.50 charge on certain
9 retail and wholesale access lines to recover a portion of its intrastate,
10 incremental expenses incurred due to the damage caused by the 2005
11 Storms.

12

13 Q. WHY IS BELLSOUTH PROPOSING TO APPLY \$0.50 PER ACCESS
14 LINE?

15

16 A. BellSouth incurred approximately \$202.4 million in storm related
17 damage as a result of the 2005 Storms. Of the \$202.4 million,
18 approximately \$95.5 million is attributable to incremental, intrastate
19 storm related expenses. Pursuant to the statute, BellSouth is permitted
20 to petition this Commission to recover its incremental, intrastate costs
21 for damage caused by tropical storms up to a maximum of \$0.50 per
22 access line. BellSouth is proposing to charge the \$0.50 line-item
23 charge, which will recover only a small portion of the intrastate,
24 incremental costs it incurred due to the 2005 Storms.

25

1 **Issue 5:**

2 ***If a line item charge is approved in Issue 4, on what date should the***
3 ***charge become effective and on what date should the charge end?***

4
5 Q. WHAT IS BELLSOUTH'S POSITION REGARDING THIS ISSUE?

6
7 A. BellSouth's proposal is that the assessment of the storm recovery line-
8 item charge should begin approximately 60 days following a final order
9 of the Commission. BellSouth has begun the process of developing a
10 mechanism to access the line-item charge as it believes will be
11 ultimately ordered by this Commission. However, absent some
12 unforeseen systems modifications, completion of the necessary
13 implementation activities may take 30-60 days from the Commission's
14 final order. With respect to when the assessment of the line-item
15 charge should end, BellSouth's position is that will stop applying the
16 line-item charge after it has been billed for a 12 month period.

17
18 Q. IS IT NECESSARY FOR BELLSOUTH TO AMEND ITS CLEC
19 INTERCONNECTION AGREEMENTS BEFORE IT CAN ASSESS THE
20 LINE-ITEM CHARGE TO WHOLESALE UNBUNDLED LOOP
21 CUSTOMERS?

22
23 A. Not unless the Commission specifically orders BellSouth to do so. It is
24 BellSouth's position that, because the line-item charge is totally
25 unrelated to BellSouth's Section 251 obligations under the Act, the

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Confidential Data identified as *** _____ *******

1 Commission's order resulting from this proceeding will provide
2 BellSouth with the necessary authority to assess the line-item charge to
3 its CLEC wholesale loop customers. As such, the administrative
4 process of amending the Interconnection Agreement of 30 CLECs
5 should not be required.

6

7 Q. IS THERE ANY EXISITING LANGUAGE IN THE INTERCONNECTION
8 AGREEMENT THAT OBIATES THE NEED TO AMEND THE
9 AGREEMENTS?

10

11 A. Yes. In addition to the above argument, once the Commission issues
12 its Order providing BellSouth with the necessary authority to assess the
13 line-item charge to its CLEC loop customers, BellSouth's standard
14 agreement and the agreements of CompSouth members I reviewed,
15 state that the purchasing party (in this case, the CLEC purchasing
16 wholesale loops from BellSouth) is obligated to pay taxes and fees or
17 tax-like fees. The term, "taxes and fees" or "tax-like fees" encompasses
18 fees and surcharges that may be imposed by the State or by the
19 Commission. This language is an additional reason why there is no
20 need to amend interconnection agreements to assess the line-item
21 charge authorized by the Commission's order in this proceeding.

22

23 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

24

25 A. Yes.

Florida Storm Cost Recovery

BellSouth Telecommunications, Inc.
FPSC Docket No. 060598-TL
CONFIDENTIAL Exhibit KKB-1

Estimated Florida Storm Cost Recovery Amount				
Retail Basic and Nonbasic Services				
(Access Line data as of June 2006)				
State		Line Equiv.	Monthly Revenue	Annual Revenue
FL	Residence Lines	3,413,192	\$1,706,596.00	\$20,479,152
FL		1,149,266	\$574,633.00	\$6,895,596
FL		27,445	\$13,722.50	\$164,670
FL		39,765	\$19,882.50	\$238,590
FL		33,339	\$16,669.50	\$200,034
FL	COCOTS Lines	4,131	\$2,065.50	\$24,786
FL		243,529	\$121,764.50	\$1,461,174
FL		468	\$234.00	\$2,808
FL		2,436	\$1,218.00	\$14,616
FL		61,492	\$30,746.00	\$368,952
Total		4,975,063	\$2,487,531.50	\$29,850,378

Highlighting denotes Proprietary.