Legal Department



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August 23, 1996

Mrs. Blanca S. Bayo Director, Division of Records and Reporting Florida Public Service Commission 2540 Shumard Oak Boulevard Tallahassee, Florida 32399

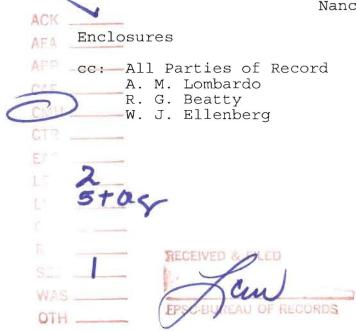
RE: Docket No. 960833-TP

Dear Mrs. Bayo:

Enclosed are an original and fifteen copies of BellSouth Telecommunications, Inc.'s Supplemental Testimony of D. Daonne Caldwell, Walter S. Reid, and Alphonso J. Varner. Please file these documents in the captioned docket.

A copy of this letter is enclosed. Please mark it to indicate that the original was filed and return the copy to me. Copies have been served on the parties shown on the attached Certificate of Service.

Sincerely, ancy B. WI Nancy B. White





CERTIFICATE OF SERVICE DOCKET NO. 960833-TP DOCKET NO. 960846-TP

I HEREBY CERTIFY that a true and correct copy of the foregoing was served via Federal Express this 23rd day of August, 1996 to the following:

Tracy Hatch
AT&T Communications of the
Southern States, Inc.
101 North Monroe Street
Suite 700
Tallahassee, FL 32301
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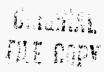
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Nancy\_B. White (pw)



1		BELLSOUTH TELECOMMUNICATIONS, INC.
2		SUPPLEMENTAL TESTIMONY OF D. DAONNE CALDWELL
3		<b>BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION</b>
4		DOCKET NO.
5		AUGUST 23, 1996
6		
7	Q.	PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.
8		
9	A.	My name is D. Daonne Caldwell. My business address is 675 W. Peachtree
10		St., N.E., Atlanta, Georgia. I am a manager in the Finance Department of
11		BellSouth Telecommunications, Inc. ("BellSouth").
12		
13	Q.	ARE YOU THE SAME D. DAONNE CALDWELL WHO PREVIOUSLY
14		FILED TESTIMONY IN THIS PROCEEDING?
15		
16	A.	Yes.
17		
18	Q.	WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?
19		
20	А.	My testimony provides information relative to the cost methodology specified
21		in the FCC's First Report and Order in CC Docket No. 96-98 ("Order")
2 <b>2</b>		released on August 8, 1996 and how that methodology compares to that used in
23		the cost studies filed by BellSouth in this docket. I identify the differences in
24		methodology that must be resolved in order to produce cost studies that
25		

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DOCUMENT REMOREDATE 09031 AUG 23 % FPSC-RECIEDE/REPORTING comply with the FCC's methodology, based on the presumption that the FCC's
 Order remains in effect as issued.

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4 Q. THE FCC'S ORDER SPECIFIES A FORWARD LOOKING LONG RUN
5 COST METHODOLOGY FOR ESTABLISHING INTERCONNECTION
6 AND UNBUNDLED NETWORK ELEMENT RATES. IS THE FCC'S
7 METHODOLOGY CONSISTENT WITH THE METHODOLOGY USED IN
8 THE COST STUDIES THAT BELLSOUTH FILED IN THIS DOCKET?

10 A. BellSouth used a forward looking long run economic cost methodology.
11 BellSouth's studies identified both the Long Run Incremental Cost (LRIC) and
12 the Total Service Long Run Incremental Cost (TSLRIC), as appropriate, as
13 ordered by the Commission. These studies included only the direct costs
14 caused by providing the particular service or network element being studied.
15 The LRIC appropriately establishes the price floor for the cost element studied.

16

The purpose of the cost methodology established by the FCC, Total Element 17 Long Run Incremental Cost (TELRIC), is to set the rates for interconnection 18 and unbundled network elements. All three methodologies are forward 19 looking, long run and are based on the most efficient technology available. 20 There are no common, shared or joint costs in BellSouth's LRIC or TSLRIC 21 studies. TELRIC methodology, however, anticipates that many costs regarded 22 as common or shared in BellSouth's LRIC and TSLRIC methodology would 23 be included as directly attributable costs and the resultant smaller forward 24

25

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1		looking common costs that cannot be attributed will be allocated among the
2		cost elements.
3		
4	Q.	IN WHAT SPECIFIC AREAS DOES THE FCC METHODOLOGY DIFFER
5		FROM THAT USED IN THE BELLSOUTH FILED COST STUDIES?
6		
7	А.	The FCC Order contained several requirements that will have a bearing on the
8		previously filed cost studies. Some of the FCC specifications currently being
9		analyzed include:
10		- Cost of Capital
11		- Depreciation
12		- Geographic Loop Deaveraging
13		- Direct Attribution of Forward Looking Joint and Common Costs
14		- Allocation of Forward Looking Joint and Common Costs
15		
16	Q.	WHAT DOES THE FCC ORDER STATE REGARDING COST OF
17		CAPITAL?
18		
19	A.	The FCC Order states that TELRIC should include a cost of money element
20		that results in "normal" profit. The FCC proposes the authorized FCC rate of
21		return, 11.25% or a state authorized rate of return, as a reasonable starting
22		point for cost of money in TELRIC calculations. The FCC Order also states
23		that a TELRIC "will include a cost of capital that appropriately reflects the
24		risks incurred by an investor" (paragraph 703) and that the "LECs bear the
25		burden of demonstrating with specificity that the business risks that they face

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1		in providing unbundled network elements and interconnection services would
2		justify a different risk-adjusted cost of capital" (paragraph 702). BellSouth's
3		studies use a long run forward-looking cost of money, 13.2%, which may be
4		low considering the risk inherent in BellSouth's future.
5		
6	Q.	THE FCC ORDER STATES THAT TELRIC "WILL INCLUDE A
7		DEPRECIATION RATE THAT REFLECTS THE TRUE CHANGES IN
8		ECONOMIC VALUE OF AN ASSET" (PARAGRAPH 703). IS THIS
9		CONSISTENT WITH THE STUDIES FILED BY BELLSOUTH?
10		
11	A.	BellSouth's cost studies reflect the projected economic lives for new
12		placements of facilities. These are the same economic lives as used in
13		financial reporting for major plant accounts. As with cost of capital, the
14		forward looking depreciation used in BellSouth's filed studies may warrant
15		risk adjustment reflective of our new environment. As with cost of capital, the
16		LECs must justify a risk-adjusted depreciation rate.
17		
18	Q.	WHAT DOES THE FCC ORDER SPECIFY WITH REGARD TO
19		GEOGRAPHIC LOOP DEAVERAGING?
20		
21	A.	The FCC specifies geographic loop deaveraging into at least three geographic
22		zones. BellSouth's unbundled loop cost studies were performed on a statewide
23		average basis. BellSouth is looking at several alternatives that will enable the
24		development of a reasonable approach to geographic loop deaveraging.
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Q.	WHAT COSTS OVER AND ABOVE THOSE INCLUDED IN
	BELLSOUTH'S STUDIES MUST BE STUDIED TO ADDRESS BOTH THE
	ATTRIBUTION AND ALLOCATION OF FORWARD LOOKING JOINT
	AND COMMON COSTS IN A TELRIC METHODOLOGY?
А.	Once a determination can be made of the definition of forward looking joint
	and common costs, at a minimum the following areas of cost must be studied:
	- Common overheads associated with maintenance and labor
	- Various categories of support expenses and assets
	- Corporate overhead expenses
Q.	WHAT OTHER AREAS OF THE FCC'S ORDER MUST BE ADDRESSED
	TO DETERMINE WHETHER BELLSOUTH'S UNBUNDLED ELEMENT
	AND INTERCONNECTION COST STUDIES ARE IN COMPLIANCE?
A.	FCC definitions of services and network elements must be fully evaluated to
	determine consistency. At a minimum, it is clear that the FCC's inclusion of
	vertical features with local switching is different from the service definition
	employed by BellSouth and has not been studied. Criteria and rate structure
	for geographic loop deaveraging must be determined.
Q.	IF BELLSOUTH'S STUDIES ARE REVISED TO COMPLY WITH THE
	FCC GUIDELINES, WHAT IS THE ANTICIPATED IMPACT ON THE
	COST LEVELS?
	A. Q.

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1		
2	A.	Because the areas of difference vary in direction, e.g. change in cost of money
3		would move cost levels downward but attribution and allocation of joint and
4		common costs would move them upward, it is impossible to predict the overall
5		result on the cost levels. However, it is anticipated that, overall, costs will
6		increase.
7		
8	Q.	WHEN COULD REVISIONS TO COMPLY WITH FCC GUIDELINES TO
9		THE STUDIES FILED IN THIS DOCKET BE COMPLETED?
10		
11	А.	A timeline for study revisions cannot be determined at this time. It would
1 <b>2</b>		depend on how rapidly resolution can be reached on all outstanding questions,
13		methodology can be developed, all necessary inputs can be gathered, and
14		additional data sources can be found.
15		
16	Q.	DOES THIS CONCLUDE YOUR TESTIMONY?
17		
18	А.	Yes.
19		
20		
21		
2 <b>2</b>		
23		
24		
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