

ORIGINAL  
FILE COPY

NANCY B. WHITE  
General Attorney

BellSouth Telecommunications, Inc.  
150 South Monroe Street  
Room 400  
Tallahassee, Florida 32301  
(404)335-0710

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,

*Nancy B. White*  
Nancy B. White (BW)

- ACK
- AFA  Enclosures
- APP  cc: All Parties of Record
- DAE  A. M. Lombardo
- CMU  R. G. Beatty
- W. J. Ellenberg
- CTR
- EM
- LE  2
- LI  stay
- C
- R
- SEC  1
- WAS
- OTH

RECEIVED & FILED  
*Lew*  
EPSC-BUREAU OF RECORDS

DOCUMENT NO  
09031-96

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  
(904)425-6364  
(904)425-6343 (fax)

Donna Canzano  
Florida Public Service  
Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399  
(904)413-6204

Robin D. Dunson, Esq.  
1200 Peachtree Street, NE  
Promenade I, Room 4038  
Atlanta, GA 30309  
(404)810-8689

Mark A. Logan, Esq.  
Brian D. Ballard, Esq.  
Bryant, Miller & Olive, P.A.  
201 S. Monroe Street  
Tallahassee, FL 32301  
(904)222-8611

Richard D. Melson, Esq.  
Hopping Green Sams & Smith  
123 South Calhoun Street  
Tallahassee, FL 32314  
(904)222-7500

Nancy B. White (bw)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

**BELLSOUTH TELECOMMUNICATIONS, INC.**  
**SUPPLEMENTAL TESTIMONY OF D. DAONNE CALDWELL**  
**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**  
**DOCKET NO. [REDACTED]**  
**AUGUST 23, 1996**

Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A. My name is D. Daonne Caldwell. My business address is 675 W. Peachtree St., N.E., Atlanta, Georgia. I am a manager in the Finance Department of BellSouth Telecommunications, Inc. ("BellSouth").

Q. ARE YOU THE SAME D. DAONNE CALDWELL WHO PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. My testimony provides information relative to the cost methodology specified in the FCC's First Report and Order in CC Docket No. 96-98 ("Order") released on August 8, 1996 and how that methodology compares to that used in the cost studies filed by BellSouth in this docket. I identify the differences in methodology that must be resolved in order to produce cost studies that

1           comply with the FCC's methodology, based on the presumption that the FCC's  
2           Order remains in effect as issued.

3

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?

9

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

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

25

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 A. 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

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.

25

- 1 Q. WHAT COSTS OVER AND ABOVE THOSE INCLUDED IN  
2 BELLSOUTH'S STUDIES MUST BE STUDIED TO ADDRESS BOTH THE  
3 ATTRIBUTION AND ALLOCATION OF FORWARD LOOKING JOINT  
4 AND COMMON COSTS IN A TELRIC METHODOLOGY?  
5
- 6 A. Once a determination can be made of the definition of forward looking joint  
7 and common costs, at a minimum the following areas of cost must be studied:  
8
- 9 - Common overheads associated with maintenance and labor
  - 10 - Various categories of support expenses and assets
  - 11 - Corporate overhead expenses
- 12
- 13 Q. WHAT OTHER AREAS OF THE FCC'S ORDER MUST BE ADDRESSED  
14 TO DETERMINE WHETHER BELLSOUTH'S UNBUNDLED ELEMENT  
15 AND INTERCONNECTION COST STUDIES ARE IN COMPLIANCE?  
16
- 17 A. FCC definitions of services and network elements must be fully evaluated to  
18 determine consistency. At a minimum, it is clear that the FCC's inclusion of  
19 vertical features with local switching is different from the service definition  
20 employed by BellSouth and has not been studied. Criteria and rate structure  
21 for geographic loop deaveraging must be determined.  
22
- 23 Q. IF BELLSOUTH'S STUDIES ARE REVISED TO COMPLY WITH THE  
24 FCC GUIDELINES, WHAT IS THE ANTICIPATED IMPACT ON THE  
25 COST LEVELS?

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

A. Because the areas of difference vary in direction, e.g. change in cost of money would move cost levels downward but attribution and allocation of joint and common costs would move them upward, it is impossible to predict the overall result on the cost levels. However, it is anticipated that, overall, costs will increase.

Q. WHEN COULD REVISIONS TO COMPLY WITH FCC GUIDELINES TO THE STUDIES FILED IN THIS DOCKET BE COMPLETED?

A. A timeline for study revisions cannot be determined at *this time*. It would depend on how rapidly resolution can be reached on all outstanding questions, methodology can be developed, all necessary inputs can be gathered, and additional data sources can be found.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.