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BELLSOUTH TELECOMMUNICATIONS, INC.
DIRECT TESTIMONY OF D. DAONNE CALDWELL
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. ~~960846~~-TP
SEPTEMBER 9, 1996

Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A. My name is D. Daonne Caldwell. My business address is 675 W. Peachtree St., NE, Atlanta, Georgia. I am a manager in the Finance Department of BellSouth Telecommunications, Inc. (hereinafter referred to as "BellSouth" or "the Company"). My area of responsibility relates to economic service costs.

Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I attended the University of Mississippi, graduating with a Master of Science Degree in mathematics. I have attended numerous Bell Communications Research, Inc. (Bellcore) courses and outside seminars relating to service cost studies and economic principles.

My initial employment was with South Central Bell in 1976 in the Tupelo, Mississippi, Engineering Department where I was responsible for Outside Plant Planning. In 1983, I transferred to BellSouth Services, Inc. in Birmingham, Alabama, and was responsible for the Centralized Results System Database. I

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1 moved to the Pricing and Economics Department in 1984 where I developed
2 methodology for service cost studies until 1986 when I accepted a rotational
3 assignment with Bell Communications Research, Inc. While at Bellcore, I was
4 responsible for development and instruction of the Service Cost Studies
5 Curriculum including courses such as "Concepts of Service Cost Studies",
6 "Network Service Costs", "Nonrecurring Costs", and "Cost Studies for New
7 Technologies". In 1990, I returned to BellSouth and was appointed to a position in
8 the cost organization, which is now a part of the Finance Department, with the
9 responsibility of managing the development of cost studies for transport facilities,
10 both loop and interoffice.

11

12 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

13

14 A. The purpose of my testimony is to describe the cost methodology used in the Long
15 Run Incremental Cost (LRIC) and Total Service Long Run Incremental Cost
16 (TSLRIC) studies for the unbundled network elements that BellSouth will provide
17 to the Alternative Local Exchange Companies (ALECs) in Florida. Specifically, I
18 will address the cost studies for the following network elements:

19

- Unbundled Loops (2-Wire Analog, 4-Wire Analog and 2-Wire ISDN
20 Digital)

21

- Unbundled Ports and Associated Local Usage

22

- Unbundled Loop Channelization Systems and Central Office

23

- Channel Interfaces (located in the BellSouth central office buildings)

24

- Special Access Voice Grade Service Interoffice Channel Voice -

25

- Unbundled Exchange Access

- 1 • Operator Services
- 2 • Directory Assistance
- 3 • Common Channel Signaling
- 4 • Database Services

5 The cost studies include all the volume sensitive and volume insensitive long run
6 incremental costs associated with the provision of these unbundled elements.

7

8 Since the cost issues raised in MCI's petition for arbitration have been previously
9 addressed in earlier testimony, I would like to adopt by reference my Direct
10 Testimony filed August 12, 1996, in Florida Docket No. 960833-TP which
11 included the cost studies (Exhibits DDC-7 through DDC-22) for the afore-
12 mentioned unbundled network elements.

13

14 Q. DO YOU HAVE ANYTHING TO ADD TO YOUR TESTIMONY?

15

16 A. Yes. The cost studies provided by BellSouth are based on a forward looking long
17 run economic cost methodology. BellSouth's cost studies identify both the Long
18 Run Incremental Costs and the Total Service Long Run Incremental Costs as
19 appropriate. These studies include only the direct costs caused by providing the
20 particular network element being studied.

21

22 The purpose of the cost methodology established by the FCC's First Report and
23 Order in CC Docket 96-98 (FCC Order) released August 8, 1996, is to set the rates
24 for interconnection and unbundled network elements. The basis for a Total
25 Element Long Run Incremental Cost (TELRIC) study is also a forward looking

1 long run economic cost methodology. However, TELRIC methodology
2 anticipates pricing of elements in a wholesale network company; hence, many
3 costs regarded as common or shared and, therefore, excluded from BellSouth's
4 LRIC and TSLRIC methodology would be included as directly attributable in a
5 TELRIC study. The FCC pricing methodology also specifies that, over and above
6 TELRIC, the additional portion of forward looking common costs that cannot be
7 directly attributed to any particular network element will be allocated among the
8 cost elements.

9
10 BellSouth is currently developing the methodology to support TELRIC studies.
11 As soon as TELRIC studies are completed, they will be provided. The initial
12 TELRIC studies that BellSouth will provide will be representative of a statewide
13 average. BellSouth is currently looking at several alternatives that will enable the
14 development of a reasonable approach to geographic deaveraging of the costs.
15 Once the methodology is determined, geographically deaveraged TELRIC studies
16 will be produced and provided.

17
18 By definition, TELRIC results should be higher than the LRIC/TSLRIC results.

19 For example:

20 - BellSouth's LRIC/TSLRIC studies do not include any shared or common
21 costs that would be considered directly attributable using the TELRIC
22 methodology specified in the FCC Order and

23 - BellSouth's LRIC/TSLRIC studies do not include an allocation of forward
24 looking common costs that cannot be directly attributed to any particular network
25 element.

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It would be inappropriate to set rates below the costs identified by these LRIC/TSLRIC studies. Until TELRIC studies are available, the Commission should use BellSouth's LRIC/TSLRIC results as the price floor for establishing rates for unbundled network elements.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.