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BELLSOUTH TELECOMMUNICATIONS, INC.  
REBUTTAL TESTIMONY OF WALTER S. REID  
BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET NOS. 960833-TP, 960846-TP, 960757-TP,  
960916-TP, 971140-TP  
DECEMBER 9, 1997

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

A. My name is Walter S. Reid and my business address is 675 West Peachtree Street N. E., Atlanta, Georgia. My position is Senior Director for the Finance Department of BellSouth Telecommunications, Inc. (hereinafter referred to as "BST", or "the Company").

Q. ARE YOU THE SAME WALTER S. REID WHO FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed direct testimony in this proceeding on behalf of BST on November 13, 1997, with certain revisions filed on December 9, 1997.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

1

2 A. The purpose of my rebuttal testimony is to respond to  
3 the comments of other parties in this proceeding  
4 regarding the appropriate amount of shared and common  
5 costs to include in the total cost of unbundled  
6 network elements (UNEs).

7

8 Q. PLEASE IDENTIFY THE WITNESSES IN THIS PROCEEDING TO  
9 WHOM YOUR REBUTTAL TESTIMONY WILL RESPOND.

10

11 A. My rebuttal testimony will respond to the positions  
12 which are presented in the testimonies of AT&T and  
13 MCI Witnesses Mr. John C. Klick and Mr. John P.  
14 Lynott regarding the appropriate level of shared and  
15 common (overhead) costs.

16

17 Q. WHAT WILL YOUR REBUTTAL TESTIMONY SHOW RELATIVE TO  
18 THESE WITNESSES POSITIONS?

19

20 A. My rebuttal testimony will show that even though  
21 these witnesses allege that the 10.4% overhead rate  
22 used in their cost models represents a competitive  
23 overhead rate, BST's shared and common costs  
24 methodology is an appropriate procedure which  
25 produces reasonable results. A simple analysis of

1 the shared and common cost factors which BST has  
2 utilized in determining its total costs for UNES  
3 clearly demonstrates that the amount of shared and  
4 common costs included are reasonable and  
5 representative of efficient, forward-looking costs.

6

7 Q. BASED ON THE TESTIMONIES WHICH HAVE BEEN FILED IN  
8 THIS PROCEEDING, PLEASE SUMMARIZE THE ISSUES RELATED  
9 TO THE LEVEL OF SHARED AND COMMON COSTS WHICH HAS  
10 BEEN PROPOSED.

11

12 A. Mr. Klick's testimony presents AT&T's and MCI's  
13 Collocation Model. In that model, he uses a 10.4%  
14 markup to estimate common overhead costs.  
15 Mr. Lynott's testimony presents AT&T's and MCI's Non-  
16 Recurring Cost (NRC) Model. In that model, he uses a  
17 10.4% variable overhead loading. In the Non-  
18 Recurring Cost Model Description, page 17, under item  
19 10, Variable Overhead, he states, "This input  
20 represents the loading variable overhead expenses not  
21 already captured in the model. The default is 10.4%  
22 and is derived from Hatfield Model support  
23 documentation."

24

25

1 This apparently is the same 10.4% used by Mr. Klick  
2 and presumably is also based on the Hatfield Model.  
3 Although the Hatfield Model was not filed in support  
4 of the 10.4% overhead rates used by Mr. Klick and Mr.  
5 Lynott, I am familiar with the calculation of the  
6 10.4%.

7  
8 Beginning on page 15 of 43 of Exhibit JCK-1, Mr.  
9 Klick claims that the 10.4% is based on the variable  
10 support expense in competitive industries (such as  
11 the interexchange industry). Based on my review of  
12 the Hatfield Model, the 10.4% is actually calculated  
13 from AT&T's 1994 expense and revenue data as reported  
14 to the Federal Communications Commission in its ARMIS  
15 reports. On page 8 of his testimony, beginning at  
16 line 20, Mr. Klick states that, "...it is important  
17 that ILECs prove the nature and magnitude of any  
18 forward-looking costs that they seek to impose on  
19 potential entrants." While my testimony does not  
20 address the methodologies used in either the  
21 Collocation Model or the NRC Model, I will  
22 demonstrate through a simple analysis that the  
23 "nature and magnitude" of BellSouth's shared and  
24 common cost are reasonable.

25

1 SIMPLE ANALYSIS OF SHARED AND COMMON COST FACTORS

2

3 Q. HOW IS BST'S SIMPLE ANALYSIS OF THE SHARED AND COMMON  
4 COST FACTORS STRUCTURED?

5

6 A. The simple analysis of the shared and common cost  
7 factors compares the level of the forward-looking  
8 factors which BST has proposed in this proceeding to  
9 the factors which would have been produced if BST had  
10 merely used historical data in its methodology. In  
11 addition, a comparison is made between BST's proposed  
12 common costs factor and the 10.4% variable overhead  
13 factors which Mr. Klick and Mr. Lynott have testified  
14 are reasonable.

15

16 Q. DO YOU HAVE AN EXHIBIT WHICH DISPLAYS THE COMPANY'S  
17 ANALYSIS?

18

19 A. Yes. My rebuttal Exhibit WSR-6, pages 1 through 4,  
20 displays BST's analysis. The first three pages of  
21 this exhibit compare BST's proposed shared and common  
22 cost factors in this proceeding to factors which  
23 would have been produced if BST had used historical  
24 data to calculate these factors. These historical  
25 factors were computed by replacing all of the expense

1 and investment development factors (factors used to  
2 convert the historical data to projected amounts) in  
3 BST's Shared and Common Costs Model with the number 1  
4 (one). The resulting output reports from this  
5 computation are the factors which would have resulted  
6 from the use of 1995 historical results to compute  
7 the shared and common costs factors.

8  
9 Also, shown on these pages is the percent change  
10 between the historical factors and the proposed  
11 forward-looking factors. This percent change  
12 demonstrates the significant reductions in shared and  
13 common costs which BST has incorporated in its  
14 forward-looking methodology.

15  
16 Page 4 of the analysis provides three separate  
17 calculations of the common cost factor using the  
18 Hatfield formula. The first calculation illustrates  
19 the common cost factor calculated in the Hatfield  
20 Model using AT&T's historic data for 1994. This  
21 results in the 10.4% common cost factor adopted by  
22 AT&T/MCI witnesses. The second calculation uses the  
23 Hatfield formula to calculate a common cost factor  
24 with BST's historic data for 1994 as the input  
25 values. The third calculation uses the Hatfield

1 formula to calculate a common cost factor with BST's  
2 projected data as the input values.

3

4 Q. PLEASE SUMMARIZE THE RESULTS OF BST'S ANALYSIS.

5

6 A. The analysis shown on Rebuttal Exhibit WSR-6 clearly  
7 demonstrates that BST's shared and common cost  
8 factors are forward-looking and reflect significant  
9 operational improvements. The comparison of BST's  
10 proposed shared and common cost factors to historical  
11 based factors shows that: BST's forward-looking  
12 shared cost factors are on average approximately 32%  
13 lower than historical levels; BST's proposed common  
14 cost factor is 31% lower than historical levels; and  
15 BST's shared labor factors are on average  
16 approximately 10% higher than historical levels. The  
17 shared labor factors are higher due to the fact that  
18 operational improvements significantly impact the  
19 denominator of the equation (i.e., salaries and  
20 wages) as well as the shared costs which constitute  
21 the numerator. It is clear from this comparison that  
22 BST has incorporated significant operational  
23 improvements in its forward-looking factors.

24

25

1 With regard to the analysis of the Hatfield Model's  
2 common cost factor, the analysis shows that the  
3 common cost factor included in BST's cost studies is  
4 actually significantly lower than the 10.4% rate used  
5 in the Hatfield Model. BST's analysis shows that a  
6 common cost factor calculated using the Hatfield  
7 Model's formula and BST's forward-looking projections  
8 of expense underlying its shared and common cost  
9 factors, produces an equivalent factor of only 6.4%.

10

11 This factor differs from the 5.30% common cost factor  
12 shown on Revised Exhibit WSR-4 of my direct testimony  
13 because some of the expense accounts which BST has  
14 treated as shared costs are treated as common costs  
15 in the Hatfield Model's formula. The calculations  
16 for the 6.4% comparative common cost factor treats  
17 all expense accounts as they are treated by the  
18 Hatfield Model's formula. This allows an apples to  
19 apples comparison between BST's and the Hatfield  
20 Model's common cost relationships.

21

22 Q. WHAT CONCLUSION HAVE YOU DRAWN FROM THIS COMPARISON?

23

24 A. The Hatfield Model's calculation of the 10.4% common  
25 cost factor is developed from 1994 AT&T embedded

1 operating data. According to AT&T and MCI Witness  
2 Mr. Klick at page 10 of his direct testimony;  
3 "Insofar as the 10.4% markup captures all of the  
4 relevant overhead costs, it includes any element-  
5 specific costs and a reasonable share of any common  
6 overhead costs." If Mr. Klick's contention is true,  
7 then BST's common cost markup included in its cost  
8 studies is, if anything, too low.

9

10 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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12 A. Yes.

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**BellSouth Telecommunications, Inc.**  
**FPSC Docket Nos. 960833-TP, 960846-TP, 960757-TP, 96096-TP, 971140-TP**  
**Rebuttal Exhibit WSR-6**  
**Page 1 of 4**

		<u>BST Common Cost Factor in TELRIC Study</u>	<u>Common Cost Factor Using Historical BST Data</u>	<u>Difference</u>
COSTS COMMON TO BOTH WHOLESALE & RETAIL OPERATIONS		840,416,637	1,000,050,187	
TOTAL COSTS @ 11.25%		18,660,705,137	15,404,131,434	
TOTAL COSTS EXCLUDING COSTS COMMON TO BOTH WHOLESALE & RETAIL	Ln2 - Ln1	17,820,288,500	14,404,081,247	
DIRECTLY ASSIGNED AND DIRECTLY ATTRIBUTED RETAIL COSTS		1,839,824,540	1,837,702,486	
RETAIL PORTION OF ALLOCATED COMMON COSTS	Ln1 * (Ln4 / Ln3)	86,767,347	127,588,472	
TOTAL RETAIL COSTS	Ln 4 + Ln5	1,926,591,887	1,965,290,958	
WHOLESALE PORTION OF ALLOCATED COMMON COSTS	Ln1 - Ln5	753,649,290	872,461,715	
DIRECTLY ASSIGNED & ATTRIBUTED WHOLESALE COMMON COSTS		88,399,885	87,316,352	
TOTAL WHOLESALE COMMON COSTS	Ln7 + Ln8	842,049,175	959,778,067	
TOTAL DIRECTLY ASSIGNED & DIRECTLY ATTRIBUTED WHOLESALE COSTS	Ln2 - (Ln6 + Ln9)	15,892,064,075	12,479,062,409	
WHOLESALE COMMON COST FACTOR	Ln9 / Ln10	5.30%	7.69%	-2.39%
PERCENT CHANGE				-31.11%

## Shared Cost Comparison

		BST SHARED COST FACTOR		
Acct	Description	In TELRIC	Using Historical	Percent
		Study	BST Data	Reduction
2121	Buildings	0.0006	0.0016	-62.50%
2211	Analog Elect Sw	0.0458	0.0612	-25.16%
2212	Digital Elect Sw	0.0330	0.0462	-28.57%
2215	Electromechanical Sw	0.0359	0.0476	-24.58%
2220	Operator Systems	0.0378	0.0543	-30.39%
2231	Radio Systems	0.0262	0.0341	-23.17%
2232	Circuit Eqpt	0.0357	0.0466	-23.39%
2232	Circuit Eqpt	0.0313	0.0413	-24.21%
2232	Circuit Eqpt	0.0282	0.0392	-28.06%
2232	Circuit Eqpt	0.0285	0.0388	-26.55%
2232	Circuit Eqpt	0.0978	0.0392	149.49%
2311	Station Apparatus	0.8280	1.2592	-34.24%
2341	Large PBX	0.0549	0.0722	-23.96%
2362	Other Terminal Equipment	0.1140	0.1613	-29.32%
2411	Poles	0.0157	0.0320	-50.94%
2421	Aerial Cable	0.0376	0.0595	-36.81%
2421	Aerial Cable	0.0225	0.0325	-30.77%
2422	Underground Cable	0.0238	0.0367	-35.15%
2422	Underground Cable	0.0170	0.0244	-30.33%
2423	Buried Cable	0.0295	0.0438	-32.65%
2423	Buried Cable	0.0179	0.0268	-33.21%
2424	Submarine Cable	0.0134	0.0214	-37.38%
2424	Submarine Cable	0.0135	0.0217	-37.79%
2426	Intrbldg Network Cable	0.0161	0.0247	-34.82%
2426	Intrbldg Network Cable	0.0180	0.0286	-37.06%
2441	Conduit Systems	0.0122	0.0195	-37.44%
Weighted Averages		0.0337	0.0497	-32.17%

## Shared Labor Comparison

		<b>BST SHARED LABOR FACTOR</b>		
		In TELRIC Study	Using Historical BST Data	Percent Increase
ADDRESS & FACILITY INVENTORY (AFIG)	S&W 24XX, 64XX	0.4813	0.4322	11.36%
INSTALLATION & MAINTENANCE CENTER (IMC)	S&W 23XX, 24XX, 63XX, 64XX	0.4813	0.4322	11.36%
INSTALLATION & MAINTENANCE SPEC SVCS	S&W 23XX, 24XX, 63XX, 64XX	0.4813	0.4322	11.36%
CO INSTALLATION & MAINTENANCE - CIRC. & FAC	S&W 22XX, 62XX	0.2734	0.2860	-4.41%
TRUNK & CARRIER GROUP (TCG)	S&W 2232, 24XX, 6232, 64XX	0.4528	0.4100	10.44%
CIRCUIT PROVISIONING GROUP (CPG)	S&W 2232, 6232	0.2734	0.2860	-4.41%
ACCESS CUSTOMER ADVOCATE CENTER (ACAC)	S&W 22XX, 24XX, 62XX, 64XX	0.4243	0.3883	9.27%
WORK MANAGEMENT CENTER (WMC)	S&W 22XX-24XX, 62XX-64XX	0.4266	0.3904	9.27%
NETWORK PLUG-IN ADMINISTRATION (PICS)	S&W 22XX, 62XX	0.2734	0.2860	-4.41%
OUTSIDE PLANT ENGINEERING	S&W 24XX, 64XX	0.4813	0.4322	11.36%
CUSTOMER POINT OF CONTACT - ICSC	S&W 6623 CP01, CP02	0.4432	0.3878	14.29%
NETWORK SERVICES CLERICAL	S&W 6532	0.4851	0.3980	21.88%
OSPC	S&W 24XX & 64XX	0.4813	0.4322	11.36%
OPAC	S&W 24XX & 64XX	0.4813	0.4322	11.36%
CRT	S&W 24XX & 64XX	0.4813	0.4322	11.36%
COIM - SW. EQ.	S&W 22XX, 62XX	0.2734	0.2860	-4.41%
RCMAG	S&W 22XX, 62XX	0.2734	0.2860	-4.41%
SW/TRK BASED TRANS	S&W 22XX, 62XX	0.2734	0.2860	-4.41%
COIMA- SFTWR	S&W 22XX, 62XX	0.2734	0.2860	-4.41%
NRC	S&W 22XX-24XX,62XX-64XX	0.4266	0.3904	9.27%
PAR	S&W 22XX-24XX,62XX-64XX	0.4266	0.3904	9.27%
EBAC	S&W 22XX-24XX,62XX-64XX	0.4266	0.3904	9.27%
BRC	S&W 22XX-24XX,62XX-64XX	0.4266	0.3904	9.27%
RRC	S&W 22XX-24XX,62XX-64XX	0.4266	0.3904	9.27%
FG10	S&W 2121,6121	0.2071	0.2342	-11.57%
FG20	S&W 22XX-24XX,62XX-64XX	0.4266	0.3904	9.27%
CABS ACCTG	S&W 6623, CP01	0.4432	0.3878	14.29%
POTS OP	S&W 6621	0.3080	0.3064	0.52%
DA OP	S&W 6622	0.3080	0.3064	0.52%
COIN COLL	S&W 6623, CP01	0.4432	0.3878	14.29%
COLL REP -RES	S&W 6623,CP03	0.4432	0.3878	14.29%
COLL REP - BUS	S&W 6623,CP03	0.4432	0.3878	14.29%
BO SVC REP - RES	S&W 6623 CP02	0.4432	0.3878	14.29%
BO SVC REP - BUS	S&W 6623 CP02	0.4432	0.3878	14.29%
COMPT CLER	S&W 6623,CP03	0.4432	0.3878	14.29%
ACCT EXEC	S&W 6612	0.4432	0.3878	14.29%
SYSTEMS DES	S&W 6612	0.4432	0.3878	14.29%
SVC CONS	S&W 6612	0.4432	0.3878	14.29%
TOTAL IOT & OSP	S&W 23XX, 24XX, 63XX, 64XX	0.4813	0.4322	11.36%
TOTAL COE	S&W 22XX, 62XX	0.2734	0.2860	-4.41%
OTHER THAN IOT, COE & OSP	S&W EXCL 22XX-24XX & 62XX-24	0.4859	0.4006	21.30%
<b>Weighted Average</b>		<b>0.4322</b>	<b>0.3914</b>	<b>10.43%</b>

COMPARISONS OF COMMON COSTS FACTORS

\$MILLIONS

**Hatfield Model (Appendix C, page 134)**

AT&T 1994 GROSS REVENUES	41,115	SOURCE: HATFIELD MODEL
AT&T 1994 CORPORATE OPERATIONS EXPENSE	3,879	
REVENUE LESS CORPORATE OPERATIONS EXP.	37,236	
COMMON COST FACTOR	10.4%	

**BST HISTORICAL DATA INPUT INTO HATFIELD FORMULA**

BST 1994 GROSS REVENUE	13,597	SOURCE: BST FORM M
BST 1994 ACTUAL CORPORATE OPERATIONS EXP.	1,199	SOURCE: BST FORM M
REVENUE LESS CORPORATE OPERATIONS EXP.	12,398	
COMMON COST FACTOR	9.7%	

**BST PROJECTED DATA INPUT INTO HATFIELD FORMULA**

BST TOTAL COST OF SERVICE (COS)	18,661	SOURCE: (BST SHARED &
BST PROJECTED CORPORATE OPERATIONS EXP.	1,120	COMMON COST STUDY)
COS LESS CORPORATE OPERATIONS EXP.	17,541	
COMMON COST FACTOR	6.4%	