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98 SEP -2 PM 1: 35

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RECORDS AND
REPORTING

September 2, 1998

Mrs. Blanca S. Bayó
Director, Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 980696-TP

Dear Ms. Bayó:

Enclosed is an original and fifteen copies of BellSouth Telecommunications, Inc.'s Rebuttal Testimony of Dr. Randall S. Billingsley, Dr. Robert M. Bowman, D. Daonne Caldwell, G. David Cunningham, Dr. Kevin Duffy-Deno, Georgetown Consulting Group, Peter F. Martin and Dr. William E. Taylor, which we ask that you file in the captioned matter.

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 to the parties shown on the attached Certificate of Service.

Sincerely,

J. Phillip Carver
J. Phillip Carver (ps)

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FPSC-BUREAU OF RECORDS

Enclosures

cc: All parties of record
A. M. Lombardo
R. G. Beatty
William J. Ellenberg II (w/o enclosures)

Bowman Caldwell

Cunningham

Duffy-Deno

09612 SEP-28

09613 SEP-28

09614 SEP-28

09615 SEP-28

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Martin DOCUMENT NUMBER - DATE
09617 SEP-28
Jaylor DOCUMENT NUMBER - DATE
09618 SEP-28
Georgetown DOCUMENT NUMBER - DATE
09616 SEP-28
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09611 SEP-28

Billingsley DOCUMENT NUMBER - DATE

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**CERTIFICATE OF SERVICE
DOCKET NO. 980696-TP (HB4785)**

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J. Phillip Carver

(+) Protective Agreements

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BELLSOUTH TELECOMMUNICATIONS, INC.
REBUTTAL TESTIMONY OF G. DAVID CUNNINGHAM
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 980696-TP
SEPTEMBER 2, 1998

Q. PLEASE STATE YOUR NAME, ADDRESS AND POSITION WITH
BELLSOUTH TELECOMMUNICATIONS, INC. (HEREINAFTER
REFERRED TO AS "BELLSOUTH" OR "THE COMPANY").

A. My name is G. David Cunningham and my business address is 3535
Colonnade Parkway, Birmingham, Alabama 35243. My position is
Director in the Finance Department of BellSouth.

Q. ARE YOU THE SAME G. DAVID CUNNINGHAM WHO FILED DIRECT
TESTIMONY IN THIS DOCKET?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony in this proceeding is to respond to the
direct testimony of Michael J. Majoros, representing AT&T and MCI,
regarding the economic lives used in BellSouth's calculation of
universal service costs.

1

2 Q. PLEASE REVIEW THE LIVES THAT BELLSOUTH USED IN ITS
3 UNIVERSAL SERVICE COSTS CALCULATIONS.

4

5 A. The asset lives used in BellSouth's universal service costs calculations
6 were provided in Exhibit GDC-1 of my direct testimony. These lives are
7 supported by BellSouth's 1998 Florida Depreciation Study, which was
8 attached to my direct testimony as Exhibit GDC-2. These forward-
9 looking lives appropriately reflect the impact of rapid technological
10 changes taking place in the telecommunications industry.

11

12 Q. WHAT IS THE BASIS OF THE LIVES THAT MR. MAJOROS
13 RECOMMENDS FOR UNIVERSAL SERVICE COSTS
14 CALCULATIONS?

15

16 A. In general, Mr. Majoros recommends that the projection lives
17 prescribed by the FCC in 1995 for booking depreciation expense on an
18 interstate basis be used in universal service costs calculations.

19

20 Q. DO YOU AGREE THAT LIVES PRESCRIBED BY THE FCC ARE
21 APPROPRIATE FOR THIS APPLICATION?

22

23 A. No, I do not. As I stated in my direct testimony in this proceeding, the
24 lives currently prescribed by the FCC, particularly for the technology-
25 sensitive accounts, are much too long. Mr. Majoros states in his

1 testimony that the projection lives prescribed by the FCC are forward-
2 looking. BellSouth believes that the FCC has not properly assessed
3 the impact of technological evolution and increasing competition to
4 determine appropriate forward-looking lives.

5
6 As I stated in my direct testimony, BellSouth currently establishes its
7 own depreciation rates for intrastate purposes in Florida, under
8 authority granted by Price Regulation implementation. However, when
9 the Florida PSC did establish intrastate depreciation rates for
10 BellSouth, they were considerably more progressive than the FCC in
11 determination of appropriate asset lives for depreciation purposes. The
12 Florida PSC historically prescribed Average Remaining Lives, not
13 "Projection", economic lives as used in BellSouth's BCPM study.
14 However, projection lives corresponding to the Average Remaining
15 Lives last prescribed by the Florida PSC for intrastate depreciation
16 purposes can be determined, and are shown in Exhibit GDC-4.

17
18 BellSouth's Depreciation Study, provided as Exhibit GDC-2 in my direct
19 testimony, provides detailed analysis to support forward-looking lives
20 significantly lower than those prescribed by the FCC, particularly for the
21 technology-sensitive accounts.

22
23 Q. ON PAGE 8 OF HIS TESTIMONY, MR. MAJOROS REFERENCES A
24 STREAMLINED, SIMPLIFIED DEPRECIATION RATE-SETTING
25 PROCESS DEVELOPED BY THE FCC. HE GOES ON TO SAY

1 THAT, WITH THE SIMPLIFIED APPROACH, "THE FCC REAFFIRMED
2 ITS FORWARD-LOOKING ORIENTATION". WHAT COMMENTS DO
3 YOU HAVE?

4
5 A. As described in my direct testimony, the streamlined process that the
6 FCC set up as part of CC Docket No. 92-298 was intended to reduce
7 unnecessary regulatory burdens and their associated costs.
8 Simplification was not designed to assure forward-looking lives.

9
10 Q. MR. MAJOROS POINTS TO AN INCREASE IN THE DEPRECIATION
11 RESERVE OVER TIME AS EVIDENCE THAT FCC-PREScribed
12 LIVES HAVE BEEN FORWARD-LOOKING. HE STATES ON PAGE 9
13 OF HIS TESTIMONY THAT "A RISING RESERVE PERCENT IS
14 GENERALLY A POSITIVE SIGN THAT THE DEPRECIATION
15 PROCESS IS WORKING WELL". HOW DO YOU RESPOND TO HIS
16 STATEMENTS?

17
18 A. As stated in my direct testimony in this proceeding, the fact that the
19 reserve has grown over time is not an indication that the reserve is at
20 the appropriate level. The critical issue here is not just that the reserve
21 has increased over the past few decades. The issue is whether the
22 reserve has increased enough to handle retirements that will occur
23 because of the dramatic paradigm shift in the telecommunications
24 industry.

25

1 Q. MR. MAJOROS PRESENTS HISTORICAL RETIREMENT RATES TO
2 OFFER "CONFIRMATION OF THE FORWARD-LOOKING NATURE
3 OF CURRENT FCC PRESCRIPTIONS". HOW DO YOU RESPOND?
4

5 A. Mr. Majoros focuses on historical data, just as the FCC has done in
6 prescribing BellSouth's depreciation lives. As stated in my direct
7 testimony, BellSouth does not believe that simply looking at the past
8 can possibly indicate what will happen in the future with equipment that
9 is sensitive to rapid changes in technology.
10

11 Q. MR. MAJOROS REFERENCES STATE COMMISSION ORDERS IN
12 HIS TESTIMONY WHICH HAVE ADOPTED THE FCC'S
13 PRESCRIBED LIVES FOR USE IN TELRIC CALCULATIONS. WHAT
14 COMMENTS DO YOU HAVE REGARDING HIS STATEMENTS?
15

16 A. While some state commissions have ordered that FCC-prescribed lives
17 be used, state commissions such as Missouri, California, and Michigan
18 have endorsed the use of economic lives similar to those used in
19 BellSouth's BCPM study.
20

21 In January 1998 the Michigan PSC, in Docket U11280, modified its
22 earlier decision to approve FCC prescribed lives for use in TELRIC
23 calculations. The Commission stated, "On reconsideration of this
24 issue, the Commission is persuaded that the asset lives proposed by
25 Ameritech Michigan are more forward-looking than those that the

1 Commission initially adopted in the July 14, 1997 order. As such, the
2 Commission concludes that they are more reasonable than the FCC
3 prescription lives, which more closely resemble cost-based regulation
4 than TSLRIC principles. The Commission agrees with Ameritech
5 Michigan and the Staff that, in a more competitive environment, the
6 development of new technologies and a greater sensitivity to
7 customers' need can be expected to stimulate new investment and
8 hasten the obsolescence of existing equipment."
9

10 Q. MR. MAJOROS ATTEMPTS TO SUPPORT HIS RECOMMENDATION
11 OF FCC-PRESCRIBED LIVES BY NOTING ON PAGE 14 OF HIS
12 TESTIMONY THE FOLLOWING QUOTE FROM THE FCC
13 REGARDING TOTAL FACTOR PRODUCTIVITY CALCULATIONS:

14 "WE CAN THINK OF NO REASON WHY INCUMBENT LECs
15 SHOULD BE PERMITTED TO USE DIFFERENT
16 DEPRECIATION RATES FOR DIFFERENT REGULATORY
17 PURPOSES."

18 WHAT OBSERVATIONS DO YOU HAVE AS TO THIS STATEMENT?
19

20 A. Mr. Majoros seems to be confused. BellSouth does not propose to use
21 something different here than for other regulatory purposes. The lives
22 used in BellSouth's BCPM Study are consistent with those used to
23 determine the depreciation rates currently being booked in Florida for
24 intrastate and for external reporting purposes.
25

1 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

2

3 A. Mr. Majoros recommends that lives prescribed by the FCC in 1995 for
4 interstate depreciation purposes in Florida be used in BellSouth's
5 BCPM Study. These lives are inappropriately long, particularly for the
6 technology-sensitive accounts. The lives provided in my direct
7 testimony in this proceeding in Exhibit GDC-1 were developed by
8 performing detailed analyses of each asset account. These lives are
9 appropriate for use in BellSouth's calculation of universal service costs.

10

11 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

12

13 A. Yes, it does.

14

15

16

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25

PROJECTION LIVES

| <u>Category</u> | <u>Used in Cost Studies</u> | <u>FL PSC Last Prescribed</u> |
|------------------------------|---------------------------------|---------------------------------------|
| Computers | 5.0 | 5 yr Amortization Schedule |
| Digital Electronic Switching | 10.0 | 13.7 |
| • Circuit-Digital | 9.0 | 11.9 |
| • Circuit-Optical | 9.0 | 8.1 |
| Aerial Cable-Metallic | 14.0 | 15.5 |
| Underground Cable-Metallic | 12.0 | 11.6 |
| Buried Cable-Metallic | 14.0 | 15.0 |
| Fiber Cable | 20.0 | 19.4 - 20.0 |

* BellSouth treated Circuit-Digital and Circuit Optical as one account in the Depreciation Study