



Florida Cable Telecommunications Association

Steve Wilkerson, President

VIA HAND DELIVERY

September 10, 1998

Ms. Bianca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

RE: **Docket No. 980696-TP**

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen (15) copies of the Prehearing Statement of the Florida Cable Telecommunications Association. Copies have been served on the parties of record pursuant to the attached certificate of service.

Please acknowledge receipt of filing of the above by stamping the duplicate copy of this letter and returning the same to me.

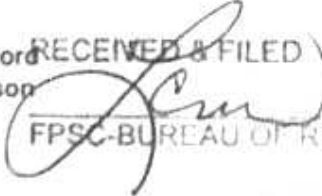
Thank you for your assistance in process this filing. Please contact me with any questions.

Yours very truly,


Laura L. Gallagher
Vice President, Regulatory Affairs &
Regulatory Counsel

LLG/mj
Enclosure

cc: All Parties of Record
Steven E. Wilkerson

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Prehearing Statement of the Florida Cable Telecommunications Association has been furnished by U.S. Mail delivery this 10th day of September, 1998, to the following:

Monica Barone, Esquire
Sprint
3100 Cumberland Circle
Atlanta, GA 30339

Thomas Bond
MCI
780 Johnson Ferry Rd
Suite 700
Atlanta, GA 30342

Lynne Brewer
Northeast Florida Telephone Company
P.O. Box 485
MacClenny, FL

Steven Brown
Intermedia Communications, Inc.
3625 Queen Palm Drive
Tampa, FL 33619-1309

Kimberly Caswell, Esquire
GTE Florida, Inc.
106 E. College Avenue
Tallahassee, FL 32301

Kimberly Caswell, Esquire
GTE Florida Incorporated
P.O. Box 110, FLTC0007
Tampa, FL 33602

William Cox
Staff Counsel
FPSC
2540 Shumard Oak Blvd
Tallahassee, FL 32399-0850

Peter Dunbar
Barbara Auger
Pennington, Moore, Wilkinson, & Dunbar
P.O. Box 10095
Tallahassee, FL 32302

Mark Ellmer
GTC Inc.
P.O. Box 220
Port St. Joe, FL 32457

David Erwin, Esquire
Attorney at Law
127 Riversink Road
Crawfordville, FL 32327

Harriet Eudy
ALLTEL Florida
P.O. Box 550
Live Oak, FL 32060

James Falvey, Esq.
Esquire Communications, Inc.
133 National Business Pkwy, Suite 200
Annapolis Junction, MD 20701

John Fons, Esquire
Ausley & MacMullen
227 S. Calhoun St.
Tallahassee, FL 32301

Kelly Goodnight
Frontier Communications
180 S. Clinton Avenue
Rochester, NY 14646

Stan Greer
BellSouth Telecommunications, Inc.
150 S. Monroe Street, Suite 400
Tallahassee, FL 32301-1556

Michael Gross
Asst. Attorney General
Office of the Attorney General
PL-01 The Capitol
Tallahassee, FL 32399-1050

John Guthrie
Susan Masterton
418 Senate Office Bldg
Tallahassee, FL 32399

Lynn Hall
Vista-United Telecommunications
P.O. Box 10180
Lake Buena Vista, FL 32830

Tracy Hatch
AT&T
101 N. Monroe Street
Suite 700
Tallahassee, FL 32301

Kenneth Hoffman, Esq.
John Ellis, Esq.
Rutledge, Ecenia, Underwood, Purnell,
& Hoffman
P.O. Box 551
Tallahassee, FL 32301

Norman Horton, Esquire
Messer, Caparello & Self, P.A.
P.O. Box 1876
Tallahassee, FL 32302

Paul Kouroupas
Michael McRae
Teleport Communications Group, Inc.
2 Lafayette Centre
1133 21st Street, NW, Suite 400
Washington, DC 20036

Carol Marek
Vice President of Regulatory Affairs
Southeast Region
Time Warner Communications
P.O. Box 210706
Nashville, TN 37221

Tom McCabe
TDS Telecom
P.O. Box 139
Quincy, FL 32353-0189

Joe McGlothlin
McWhirter, Reeves, McGlothlin, Davidson,
Rief & Bakas, P.A.
117 S. Gadsden St.
Tallahassee, FL 32301

Richard Melson, Esquire
Hopping, Green, Sams & Smith, P.A.
P.O. Box 6526
Tallahassee, FL 32314

Charlie Murphy
Booter Imhof
428 House Office Bldg
Tallahassee, FL 32399-1300

Robert Post
ITS Telecommunications Systems, Inc.
P.O. Box 277
Indiantown, FL 34956

Charles Rehwinkel
Sprint-Florida, Inc.
1313 Blair Stone Road, MC FLTH00107
Tallahassee, FL 32301

Floyd Self, Esquire
Messer, Caparelli & Self, P.A.
215 S. Monroe Street, Suite 701
Tallahassee, FL 32301-1876

Jack Shreve, Esquire
Charles Beck, Esquire
Office of Public Counsel
c/o The Florida Legislature
111 W. Madison Street, Rm 812
Tallahassee, FL 32399-1400

Brian Sulmonetti
WorldCom, Inc.
1515 S. Federal Highway
Suite 400
Boca Raton, FL 33432

Jeff Wahlen, Esquire
Ausley & McMullen
227 S. Calhoun St.
Tallahassee, FL 32301

Nancy White
Robert Beatty
c/o Nancy Sims
BellSouth Telecommunications, Inc
150 S. Monroe Street, Suite 400
Tallahassee, FL 32301

Patrick Wiggins
Donna Canzano
Wiggins & Villacorta
P.O. Drawer 1657
Tallahassee, FL 32302


Laura L. Gallagher

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Determination of the Cost of Providing)
Basic Local Telecommunications Service,)
Pursuant to Section 364.025, Florida)
Statutes)

Docket No. 980696-TP

Filed: September 10, 1998

**PREHEARING STATEMENT OF FLORIDA CABLE
TELECOMMUNICATIONS ASSOCIATION, INC.**

The Florida Cable Telecommunications Association, Inc. (FCTA) pursuant to Rule 25-22.038(2), Florida Administrative Code, Order No. PSC-98-0813-PCO-TP, respectfully submits its Prehearing Statement to the Florida Public Service Commission (FPSC).

I. BASIC POSITION

The Florida Legislature has directed the FPSC to determine and report the total forward-looking economic costs of providing basic local telecommunications service in Florida. FCTA's testimony addresses the inputs that are most likely to influence the cost estimates submitted under the Benchmark Cost Proxy Model, Version 3.1 ("BCPM 3.1") and the Hatfield Model, Version 5.0a ("HM 5.0a"). The testimony recommends modifications to develop more reliable forward-looking cost estimates. The testimony also rebuts incumbent LEC assertions concerning the need for a universal service fund at this time.

The Florida Legislature has requested this study of the cost of basic local telecommunications service in the context of gathering information to evaluate the need for and size of any permanent universal service fund in Florida. At this time, the Legislature has only asked the FPSC to determine the forward looking cost of service and not to establish a fund or quantify the size of any fund. Those additional steps may or may not be taken at a later date as determined by the Legislature. Accordingly, while proposing certain adjustments

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to the cost estimates in this proceeding, FCTA opposes the establishment of a permanent mechanism without further inquiry into the need for a fund taking into account the incumbent LECs' overall profitability in serving residential subscribers, the degree of competition, the extent to which competition has eroded the LECs' ability to maintain universal service, the appropriate revenue benchmark, the appropriate affordability threshold, and opportunities for rate rebalancing.

II. WITNESSES' TESTIMONY AND EXHIBITS

The FCTA will present the direct and rebuttal testimony of William J. Barta and Exhibit No. WJB-1 attached to Mr. Barta's direct testimony. Mr. Barta's testimony addresses issues 2,3,4, and 5.

III. ISSUES

ISSUE 1:

What is the definition of the basic local telecommunications service referred to in Section 364.025(4)(b), Florida Statutes?

FCTA's POSITION: Section 364.025(4)(b), Florida Statutes, provides that the Commission shall determine and report to the Legislature the total forward-looking cost of providing "basic local telecommunications service." Issue one is directed at determining the meaning of the phrase "basic local telecommunications service." The phrase is defined in Section 364.02(2) which states:

"Basic local telecommunications services" means voice-grade, flat-rate residential, and flat-rate single-line business local exchange services which provide dial tone, local usage necessary to place unlimited calls within a local exchange area, dual tone multifrequency dialing, and access to the following: emergency services such as "911," all locally available interexchange companies, directory assistance, operator services, relay services, and an alphabetical directory listing. For a local exchange telecommunications company, such term shall include

any extended area service routes, and extended calling service in existence or ordered by the commission on or before July 1, 1995.

Consistent with principles of statutory construction, the definition contained in section 364.02(3), Florida Statutes, should be utilized in this proceeding. The appropriate definition of "universal service" is a separate issue not specifically addressed in this proceeding. The support for universal service should not include support for any business line service and should be limited only to the first residential line.

ISSUE 2:

For purposes of determining the cost of basic local telecommunications service appropriate for establishing a permanent universal service mechanism, what is the appropriate cost proxy model to determine the total forward-looking cost of providing basic local telecommunications service pursuant to Section 364.025(4)(b), Florida Statutes?

FCTA's POSITION: The appropriate cost proxy model is one that is consistent with forward looking economic costing principles and not a reflection of a blend of costing (i.e. embedded and TSLRIC) approaches. It should not incorporate less efficient technology than is currently available, work processes that are more labor intensive than existing automated procedures, or any types of past inefficiencies. Capital costs and operating expenses utilized by such a model must be reasonable on a forward looking basis.

ISSUE 3:

For purposes of determining the cost of basic local telecommunications service appropriate for establishing a permanent universal service mechanism, should the total forward-looking cost of basic local telecommunications service pursuant to Section 364.025(4)(b), Florida Statutes, be determined by a cost proxy model on a basis smaller than a wire center? If so, on what

basis should it be determined?

FCTA's POSITION: For purposes of developing an estimate of the costs to provide basic local telecommunications service, it is appropriate to examine costs modeled at the wire center as well as lower levels of geographic disaggregation. However, for universal service support purposes, costs should be aggregated no lower than the wire center level.

ISSUE 4:

For purposes of determining the cost of basic local telecommunications service appropriate for establishing a permanent universal service mechanism, for each of the following categories what input values to the cost proxy model identified in issue 2 are appropriate for each Florida LEC?

(a) **Depreciation rates**

FCTA's POSITION: The Commission should adopt the economic lives and net salvage values prescribed by the FCC for the Florida operations of BellSouth and GTE. The default rates of the HM 5.0a serve as a suitable proxy for Sprint since the FCC has not prescribed such rates for Sprint.

(b) **Cost of money**

FCTA's POSITION: The rate of return estimated by the HM 5.0a sponsors appears to be more representative of the LECs' forward looking cost of capital.

(c) **Tax rates**

FCTA's POSITION: No position.

(d) **Supporting structures**

FCTA's POSITION: No position.

(e) **Structure sharing factors**

FCTA's POSITION: The model inputs for structure sharing should reflect a realistic sharing arrangement. The structure sharing percentage should recognize that, over

time, there will be more carriers seeking the economic benefits of structure sharing but the opportunities for such sharing may be constrained for a number of reasons, including engineering limitations.

(f) Fill factors

FCTA's POSITION: The appropriate fill factor should balance current and expected demand levels for basic local telecommunications services as well as accommodate the requirements for administrative and modular related spare capacity over the economic life of the feeder and distribution facilities.

(g) Manholes

FCTA's POSITION: No position.

(h) Fiber cable costs

FCTA's POSITION: The FPSC should require additional support for the BCPM 3.1 input values to ensure the values are supported by actual vendor information. The FPSC should also determine whether the BCPM 3.1 inputs inappropriately reflect historical experience (i.e. embedded costs) or are appropriately indicative of the forward-looking operations that an efficient carrier would be likely to incur in a competitive market.

(i) Copper cable costs

FCTA's POSITION: The FPSC should require additional support for the BCPM 3.1 input values to ensure the values are supported by actual vendor information. The FPSC should also determine whether the BCPM 3.1 inputs inappropriately reflect historical experience (i.e. embedded costs) or are appropriately indicative of the forward-looking operations that an efficient carrier would be likely to incur in a competitive market.

(j) Drops

FCTA's POSITION: No position.

(k) Network interface devices

FCTA's POSITION: No position.

(l) **Outside plant mix**

FCTA's POSITION: No position.

(m) **Digital loop carrier costs**

FCTA's POSITION: The FPSC should require additional support for the BCPM 3.1 input values to ensure the values are supported by actual vendor information. The FPSC should also determine whether the BCPM 3.1 inputs inappropriately reflect historical experience (i.e. embedded costs) or are appropriately indicative of the forward-looking operations that an efficient carrier would be likely to incur in a competitive market.

(n) **Terminal costs**

FCTA's POSITION: The FPSC should require additional support for the BCPM 3.1 input values to ensure the values are supported by actual vendor information. The FPSC should also determine whether the BCPM 3.1 inputs inappropriately reflect historical experience (i.e. embedded costs) or are appropriately indicative of the forward-looking operations that an efficient carrier would be likely to incur in a competitive market.

(o) **Switching costs and associated variables**

FCTA's POSITION: The FPSC should require additional documentation for the BCPM 3.1 input values to ensure the values are supported by actual vendor information. The FPSC should also determine whether BCPM 3.1 inputs inappropriately reflect historical experience (i.e. embedded costs) or are appropriately indicative of the forward-looking operations that an efficient carrier would be likely to incur in a competitive market.

(p) **Traffic data**

FCTA's POSITION: No position.

(q) **Signaling system costs**

FCTA's POSITION: The FPSC should require additional support for the BCPM 3.1 input

values to ensure the values are supported by actual vendor information. The FPSC should also determine whether the BCPM 3.1 inputs inappropriately reflect historical experience (i.e. embedded costs) or are appropriately indicative of the forward-looking operations that an efficient carrier would be likely to incur in a competitive market.

(r) **Transport system costs and associated variables**

FCTA's POSITION: The FPSC should require additional support for the BCPM 3.1 input values to ensure the values are supported by actual vendor information. The FPSC should also determine whether the BCPM 3.1 inputs inappropriately reflect historical experience (i.e. embedded costs) or are appropriately indicative of the forward-looking operations that an efficient carrier would be likely to incur in a competitive market.

(s) **Expenses**

FCTA's POSITION: The estimates of operating expenses developed by the BCPM 3.1 and HM 5.0a models lack adequate support and do not provide reasonable assurance that the levels are representative of an efficient carrier operating in a competitive market. The FPSC should require BellSouth, Sprint and GTE to provide detailed documentation supporting either the adjustments they have made to recast embedded cost activity as forward-looking expenses or, in the case of BellSouth, provide the detail that is relied upon from other cost studies prepared by the Company.

(t) **Other inputs**

FCTA's POSITION: The FPSC must determine, based upon sound engineering practices, the appropriate economic cross-over point (i.e. threshold where fiber facilities are used in lieu of copper) to be utilized in the cost proxy models.

ISSUE 5:

(a) **For purposes of determining the cost of basic local telecommunications service**

appropriate for establishing a permanent universal service mechanism, for which Florida local exchange companies must the cost of basic local telecommunications service be determined using the cost proxy model identified in Issue 2?

FCTA's POSITION: The cost of basic local telecommunications service should be determined for BellSouth, GTE and Sprint.

- (b) For each of the LECs identified in (a), what cost results from using the input values identified in Issue 5 in the cost proxy model identified in Issue 2?

FCTA's POSITION: No position.

ISSUE 6:

- (a) For purposes of determining the cost of basic local telecommunications service appropriate for establishing a permanent universal service mechanism, should the cost of basic local telecommunications service for each of the LECs that serve fewer than 100,000 access lines be computed using the cost proxy model identified in Issue 2 with the input values identified in Issue 4?

FCTA's POSITION: No position.

- (b) If yes, for each of the LECs that serve fewer than 100,000 access lines, what cost results from using the input values identified in Issue 4 in the cost proxy model identified in Issue 2?

FCTA's POSITION: No position.

- (c) If not, for each of the Florida LECs that serve fewer than 100,000 access lines, what approach should be employed to determine the cost of basic local telecommunications service and what is the resulting cost?

FCTA's POSITION: No position.

IV. STIPULATION

FCTA is unaware of any stipulated issues at this time.

V. PENDING MOTIONS

FCTA has no motions pending at this time.

VI. OTHER MATTERS

FCTA is unaware of any requirement of the prehearing order with which it cannot comply at this time.

Respectfully submitted this 10th day of September, 1998.



Laura L. Gallagher
Vice President-Regulatory Affairs
Florida Cable Telecommunications Association
310 N. Monroe Street
Tallahassee, FL 32301
Tel: 850/681-1990
Fax: 850/681-9676

Attorney for FCTA