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September 10, 1998

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

Dear Mrs. Bayo:

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

You will find enclosed for filing in the above-referenced docket an original and fifteen (15) copies of AT&T's Prehearing Statement.

Copies of the foregoing are being served on the parties of record in accordance with the attached certificate of service.

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Yours truly,

Tracy Hatch

TH/mr
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cc: Parties of Record

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CERTIFICATE OF SERVICE
DOCKET 980696-TP

I HEREBY CERTIFY that a true and correct copy of the foregoing was furnished via *hand delivery/**Federal Express and U.S. Mail to the following parties of record on this 10th day of September, 1998

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ATTORNEY

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re:	)	
	)	
Determination of the cost of	)	
basic local telecommunications	)	Docket No. 980696-TL
service pursuant to Section	)	Filed: September 10 1998
364.025, Florida Statutes	)	
	)	

AT&T'S Prehearing Statement

AT&T Communications of the Southern States, Inc. (hereinafter "AT&T"), pursuant to Rule 25-22.038, Florida Administrative Code, and order of the Florida Public Service Commission (hereinafter the "Commission") hereby submits its Prehearing Statement in the above-referenced docket.

A. and B. Witnesses and Exhibits:

AT&T intends to sponsor the testimony of the following witnesses:

Witnesses:		Issues:
Richard T. Guepe	(Direct)	1, 3, 5a, 6
John I. Hirshleifer	(Direct and Rebuttal)	4(b)

Exhibits:

JH-1	Resume
JH-2	Telephone Holding Companies
JH-3	Summary of Cost of Debt for BST GTE and Sprint
JH-3a	BST Bond Yields (as of 12/31/97)
JH-3b	GTE Bond Yields (as of 12/31/97)
JH-3c	Sprint Bond Yields (as of 12/31/97)

JH-4	3-Stage DCF Model Estimates of Cost of Equity for Telephone Holding Companies
JH-5	Estimated Betas for the Comparable Companies (60 Monthly Observations – period ending 12/31/97)
JH-6	Risk Premium Computer from DCF Expected Market Return
JH-7	Expected Long-Run One-Month Treasury Bill Yield for December 1997
JH-8	Stock Market Premium Analysis
JH-9	Model Estimates of Cost of Equity for RBOC's, ALLTEL, Cincinnati Bell, GTE and SNET
JH-10	Capital Structure of Telephone Holding Companies as of Year-End 1997
JH-11	Model Estimates of Cost of Capital for BST, GTE and Sprint
Rebuttal JH-1	Comparison of Earnings Growth Forecasts for Telephone Holding Companies and Wireless Companies
JHR-2	Network Services Strategic Overview – Bell Atlantic

Michael J. Majoros, Jr. (Direct and Rebuttal) 4(a)

Exhibits:

MJM-1	Appearances Before Regulatory Agencies Related to Depreciation
MJM-2	Participation as Negotiator in FCC Depreciation Rate Represcription Conferences
MJM-3	Resume
MJM-4	All LECs Plant Related Rates
MJM-5	BST Telephone Plant Related Rates
MJM-6	Florida Projection Life Comparison Recommended Inputs
MJM-7	BellSouth Universal Service Depreciation Parameter Comparison
MJM-8	Forecasting – Society of Depreciation Professionals Annual Meeting, F. Franklin, FCC, 09/22/97
MJM-9	Comparison of TFI's Fiber Feeder Forecasts
MJM-10	Track Record, Comparison of Actual Retirements and Additions to the 1990 and 1993 Depreciation Study Forecasts
MJM-11	Comparison of BellSouth's Metallic Cable Forecast to Actual Retirements
MJM-12	Summary of Reserves on FCC Basis

Witnesses: Issues:

Art Lerma (Rebuttal) 4c, s

Exhibits:

ALR-1	State of Florida – BST, GTE & Sprint Proposed USF Cost per Line
ALR-2	BellSouth Expenses per Line USF Filing per BCPM 3.1 (Documentation)
ALR-3	BellSouth Adjusted Expenses per Line AT&T Projected Expenses

Catherine E. Petzinger (Rebuttal) 4(o)

Exhibits:

CEP-1	Comparison of Vendor Switch Price Per Line, Fully Installed Switch Price Per Line and Per Line Price for Switch Types

Don J. Wood/ Brian F. Pitkin (Rebuttal) 2, 3, 4c, o, p, q, r, s, t, 5(b)

Exhibits:

DJW/BFP-1	BCPM Serving Areas Ignore Customer Location
DJW/BFP-2	Assessment Sought on Bell Rates, The Associated Press, 08/20/98
DJW/BFP-3	FCC Public Notice titled "Common Carrier Bureau Seeks Comment on Model Platform Development," 08/07/98
DJW/BFP-4	Maps illustrating that the BCPM does not serve all customers
DJW/BFP-5	BCPM output reports showing the investment and cost generated by the BCPM using the BCPM's "default switching method" and the "SCM switching method"
DJW/BFP-6	HAI geocoding success rates by state and density zone
DJW/BFP-7	AT&T and MCI June 10, 1998 Ex Parte filing with the FCC titled "HAI Model 5.0a – Why it Engineers the Appropriate Amount of Distribution Plant"
DJW/BFP-8	BCPM ultimate grids vary in size across the United States

Witnesses:	Issues:
DJW/BFP-9	Bellcore comparison of bush v. branch design
DJW/BFP-10	Graphical comparison of the BCPM and HAI Model approaches to customer location and outside plant design
DJW/BFP-11	Illustration of MST Analysis on the BCPM
DJW/BFP-12	Graph of HAI Model Copper Analog Distribution Loop Lengths
DJW/BFP-13	The BCPM does not build cable to reach modeled customer locations
DJW/BFP-14	Square lots are inefficient and result in increased developer costs
DJW/BFP-15	Comparison of the number of serving areas and lines by company in the HAI Model and the BCPM
DJW/BFP-16	Comparison of route miles by company in the HAI Model and the BCPM
DJW/BFP-17	Per-foot structure costs for distribution and feeder plant
DJW/BFP-18	Comparison of HAI Model and BCPM estimated distances to minimum spanning tree distances, by wire center
DJW/BFP-19	Comparison of HAI Model and BCPM estimated distances to minimum spanning tree distances, by density zone
DJW/BFP-20	Letter from Metromail detailing geocoding success rate
DJW/BFP-21	Comparison of annual charge factors in the HAI Model and the BCPM

C. **Basic Position**

AT&T Position: Legislation enacted in 1998 requires the FPSC to determine and report to the legislature the total forward-looking cost of providing basic local telecommunications service in Florida. AT&T believes that the costs for BellSouth, GTE, Sprint-United and Sprint-Centel should be determined by both using the HAI cost proxy model as filed by AT&T, and the inputs proposed by AT&T's and MCI's witnesses. Based on the comparison of these costs to the revenue generated by the services offered by these ILECs, there is no need for a separate universal service fund for any of these companies at this time.

D. and F. Positions on the Issues

ISSUE 1: What is the definition of the basic local telecommunications service referred to in Section 364.025(4)(b), Florida Statutes?

AT&T Position: Florida statute Section 364.02 defines basic local telecommunications service in the context of alternative regulation for local exchange carriers and it specifies the obligations of incumbent local exchange carriers that choose alternative regulation. In this context, basic local telecommunications service is defined as that minimal service which carriers selecting alternative regulation must make available to consumers in the state of Florida. However, for the purposes of determining the size of a universal service subsidy, it is appropriate to include all forward-looking costs incurred to provide this functionality (the loop and the switch) to consumers. In other words, the full cost of the loop and switch to provide all services that can be furnished to consumers should be included. This approach provides for consistency between revenues and costs when determining whether a subsidy is needed, since the appropriate revenues to consider are all the revenues that a local telecommunications carrier can expect to receive in association with the provision of local exchange service. This is the same method to calculate the revenue benchmark that the FCC used (and the Federal/State Joint Board recommended) in determining the interstate benchmark.

ISSUE 2: For purposes of determining the cost of basic local telecommunications service appropriate for establishing a

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?

AT&T Position: The HAI Model, sponsored by AT&T and MCI, should be used to determine the costs of basic local telecommunications service. This model calculates forward looking cost by designing a network capable of providing high quality basic local telecommunications service within the geographic area being studied. Generally accepted design and placement principles are applied, and the network investment is based only on the most recent commercially available technology and equipment. The HAI Model accurately calculates the least cost, most efficient means of meeting these objectives in a way that is highly specific to the area being studied but is not constrained by the historic or embedded costs of the incumbent local exchange company.

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?

AT&T Position: The total forward-looking cost of universal service should be determined on a wire center basis. However, the process to determine subsidy requirements in a permanent universal service mechanism should use costs aggregated at

the same level that unbundled network element ("UNE") costs are offered. The geographic basis to determine costs is a separate and distinct issue from the basis to determine any subsidy needs. The cost basis of the network facilities used to serve the customer should be the same whether it is the incumbent local exchange carrier serving the customer directly or it is the competitive local exchange carrier leasing those same facilities (as network elements). In either instance, the relevant standard should be the forward-looking, efficient cost of the facilities used to provide service. Both network element prices and universal service costs should be calculated from a cost study that estimates the forward-looking, efficient cost of a local network -- which is precisely an output of the HAI Model. In its determination of any subsidy requirements, the permanent universal service mechanism should use costs aggregated at the same level that UNE costs are calculated.. The critical relationship is between the geographic area used to determine the need for a subsidy and the geographic area at which UNE costs are averaged. These must be the same. There is no such required relationship between the geographic basis for determining the forward looking cost of service and the geographic area used to determine the need for a subsidy.

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

AT&T Position: There are two values for each Uniform System of Accounts category: a projection life and a future net salvage value. The appropriate projection lives are shown on Mr. Majoros' Attachment MJM-6, page 1 of 2, Columns c, d and e. The appropriate future net salvage values are shown on Mr. Majoros' Attachment MJM-6, page 2 of 2, Columns c, d and e.

(b) Cost of money

AT&T Position: The forward-looking economic cost of capital appropriate for the provision of universal service by providers of local telephone service, based on modern finance theory and current empirical research in finance, is 8.50% for BellSouth, 8.74% for GTE, and 8.55% for Centel and United. Significantly, this estimate is supported by independent sources. Because the provision of universal service has less risk than either the LEC business or other risky businesses of telephone holding companies, it will also have a lower cost of capital. As a rule of thumb comparison, 30-year Treasury bond rates have fallen from 9.03% as of September 1990 to 5.28% as of September 4, 1998. This is a decline of 375 basis points since the 11.25% rate was prescribed by the FCC. Using this decline as a comparison implies a current cost of capital of 7.50%.

(c) Tax rates

AT&T Position: The values for this input have been included in Exhibit DJW-3, Sections 5.5.1 and 5.5.3.

(d) Supporting structures

AT&T Position: The values for this input have been included in Exhibit DJW-3, Section 2.4.1 through 2.4.4.

(e) Structure sharing factors

AT&T Position: The values for this input have been included in Exhibit DJW-3, Sections 2.2.3, 4.4.24, and Appendix B.

(f) Fill factors

AT&T Position: The values for this input have been included in Exhibit DJW-3, Sections 2.6.1, 2.8.6, 3.3.1, 3.3.2, 3.5.3, 4.1.4, and 4.1.5.

(g) Manholes

AT&T Position: The values for this input have been included in Exhibit DJW-3, Sections 3.1.2, 3.6, 3.6.1, 3.6.2.

(h) Fiber cable costs

AT&T Position: The values for this input have been included in Exhibit DJW-3, Section 3.4.2.

(i) Copper cable costs

AT&T Position: The values for this input have been included in Exhibit DJW-3, Sections 2.2.7, 2.3.2, and 3.4.1.

(j) Drops

AT&T Position: The values for this input have been included in Exhibit DJW-3, Sections 2.2.1 through 2.2.7.

(k) Network interface devices

AT&T Position: The values for this input have been included in Exhibit DJW-3, Section 2.1.

(l) Outside plant mix

AT&T Position: The values for this input have been included in Exhibit DJW-3, Sections 2.5.1, 2.5.2, 3.1.1, 3.2.1, 4.4.15.

(m) Digital loop carrier costs

AT&T Position: The values for this input have been included in Exhibit DJW-3, Sections 3.5.1 through 3.5.12.

(n) Terminal costs

AT&T Position: The values for this input have been included in Exhibit DJW-3, Sections 3.5.1 through 3.5.12

(o) Switching costs and associated variables

AT&T Position: The values for this input have been included in Exhibit DJW-3, Sections 4.1.1 through 4.1.12 and 4.2.1 through 4.2.6.

(p) Traffic data

AT&T Position: The values for this input have been included in Exhibit DJW-3, Section 4.3.1 through 4.3.15 and DJW-6 in the input screen entitled Traffic Parameters.

(q) Signaling system costs

AT&T Position: The values for this input have been included in Exhibit DJW-3, Section 4.7.1 through 4.7.14.

(r) Transport system costs and associated variables

AT&T Position: The values for this input have been included in Exhibit DJW-3, Section 4.4.1 through 4.4.24 and 4.5.1 through 4.5.14.

(s) Expenses

AT&T Position: The values for this input have been included in Exhibit DJW-3, Section 5 and Appendices C and D, and DJW-6 in the input screens entitled Expenses.

(t) Other inputs

AT&T Position: The input values for all other inputs have been included in Exhibit DJW-3.

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 ??

AT&T Position: All large LECs, that is, BellSouth, GTE and Sprint, should be required to use the same cost proxy model. It may not be appropriate at this time for small rural LECs, those with less than 100,000 access lines, to use the same cost model as the non-rural companies. The FCC has determined, for interstate high cost fund purposes, rural LECs will not be required to use a forward-looking cost methodology at

least until January 1, 2001. Section 364.024(4)(c), Florida Statutes (1998), permits the Commission to determine small LECs costs based either on a cost proxy model or an embedded cost basis.

(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?

AT&T Position: The resulting costs are included in Exhibit DJW-5.

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?

AT&T Position: No. This is consistent with the FCC determination, for interstate high cost fund purposes, that rural LECs will not be required to use a forward-looking cost methodology at least until January 1, 2001.

(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?

AT&T Position: Not applicable.

(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?

AT&T Position: Since there is no local competition in these areas and universal service is not jeopardized, it is appropriate to defer determination of universal service costs and subsidy needs until the FCC addresses this issue or a rural ILEC can demonstrate a specific need for support.

G. Stipulated Issues

There are no stipulated issues at this time.

H. Pending Motions

AT&T has no pending motions at this time. BellSouth has a pending motion to compel discovery from AT&T. AT&T has not yet had an opportunity to file its response.

I. Other Requirements

There are no requirements of which AT&T is aware that cannot be complied with.

Respectfully submitted,

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