

ORIGINAL



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September 10, 1998

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

Re: Docket No. 980696-TP  
Determination of the cost of basic local telecommunications service,  
pursuant to Section 364.025, Florida Statutes

Dear Ms. Bayo:

Please find enclosed an original and fifteen copies of GTE Florida Incorporated's Prehearing Statement for filing in the above matter. Also enclosed is a diskette with a copy of the Prehearing Statement in WordPerfect 6.0 format. Service has been made as indicated on the Certificate of Service. If there are any questions regarding this filing, please contact me at (813) 483-2617.

Very truly yours,

*Kimberly Caswell*

Kimberly Caswell

RECEIVED & FILED

*[Signature]*  
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A part of GTE Corporation

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

ORIGINAL

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Determination of the cost of )  
basic local telecommunications service, )  
pursuant to Section 364.025, )  
Florida Statutes )  
\_\_\_\_\_ )

Docket No. 980696-TP  
Filed: September 10, 1998

**GTE FLORIDA INCORPORATED'S PREHEARING STATEMENT**

GTE Florida Incorporated (GTEFL) files its Prehearing Statement in accordance with Order number PSC-98-0813-PCO-TP in this docket and Commission Rule 25-22.038.

**A. Witnesses**

GTEFL's witnesses and the subjects on which they will testify are:

Meade C. Seaman: Issues 1, 2, 3, 5(a) and the general policy considerations related to these and all other issues in this docket.

David G. Tucek: Issues 4(c)-(r) and (t); 5(b).

Michael R. Norris: Issue 4(s).

Allen E. Sovereign: Issue 4(a).

James H. Vander Weide: Issue 4(b).

Steven A. Olson: financial results supporting witness Seaman's recommendations on Issue 2.

Carl R. Danner: Rebuttal to AT&T witness Guepe and Florida Competitive Carriers Association witness Gillan.

Francis J. Murphy: Critique of HAI Model.

Timothy J. Tardiff: Critique of HAI Model.

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## B. Exhibits

GTEFL plans to introduce the following exhibits into the record:

Exhibits MCS-1, MCS-2 (attached to Mr. Seaman's Direct Testimony) and MCS-3 (attached to his Rebuttal Testimony).

Exhibits DGT-1, DGT-2, and DGT-3 (attached to Mr. Tucek's Direct Testimony).

Exhibits MRN-1, MRN-2, and MRN-3 (attached to Mr. Norris' Direct Testimony)

Exhibit AES-1, AES-2, AES-3, AES-4, AES-5 (attached to Mr. Sovereign's Direct Testimony), AES-6 and AES-7 (attached to his Rebuttal Testimony)

Exhibits JWV-1, JWV-2, JWV-3 (attached to Dr. Vander Weide's Direct Testimony), JWV-4, JWV-5, and JWV-5 (attached to his Rebuttal Testimony).

Exhibit SAO-1, attached to Mr. Olson's Direct Testimony.

Exhibits TJT-1 and TJT-2 (attached to Dr. Tardiff's Rebuttal Testimony.)

GTEFL reserves the right to use and/or introduce into evidence other exhibits at the hearing and other appropriate points in this docket.

## C. GTEFL's Basic Position

In making its decision in this proceeding, the Commission should remain aware of the ultimate reason why it must choose a proxy model to determine the cost of providing local service--to help the Legislature establish a universal service support mechanism. The model results must be sufficient to preserve, maintain, and advance universal service, as required by Florida law and the Telecommunications Act. The Commission should thus test the adequacy of a forward-looking cost model by comparing its results to today's costs of supporting universal service, which are reflected in GTEFL's current rates. To the

extent that model results fall short of replacing all of today's implicit subsidies, they must be adjusted to accommodate this goal. GTEFL does not believe a universal service mechanism can be determined solely through the use of a forward-looking proxy model, nor does it believe the Legislature intended such a result.

With regard to the model choice itself, GTEFL believes that company-specific models and company-specific costs should be used to calculate the cost of providing services. However, given the Legislative directive to choose a proxy model, GTEFL believes that BCPM, populated with company-specific inputs, is the most reasonable approach.

In no event should the Commission adopt the Hatfield Model. The Commission has rejected this Model in other dockets because of, among other things, its understatement of costs and its inaccessibility. These problems--and many more--still plague the Model. A Model that produces results that are less than half of GTEFL's costs is simply not credible.

#### **D., E., F., G. GTEFL's Specific Positions**

GTEFL believes all of the issues identified for resolution in this case are mixed questions of fact, law, and policy. GTEFL's positions on each issue follow.

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

**Position:** "Basic local telecommunications service" is defined in section 364.02(2) of the Florida Statutes.

**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?

**Position:** Company-specific models and inputs, rather than proxy model and inputs, can best determine the forward-looking cost of providing basic local service. However, given the Legislature's directive to choose a proxy model, BCPM with company-specific inputs is the most appropriate choice. In no event should the Commission approve the Hatfield Model, which suffers from a number of engineering and other flaws and severely underestimates costs.

**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?

**Position:** Yes. Costs should be calculated on a basis smaller than a wire center to more accurately reflect the cost differences within a wire center. For universal service support purposes, it is important to avoid mixing lower-cost urban areas with significantly higher-cost outlying areas.

**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
- (b) Cost of money
- (c) Tax rates
- (d) Supporting structures
- (e) Structure sharing factors
- (f) Fill factors
- (g) Manholes
- (h) Fiber cable costs
- (i) Copper cable costs
- (j) Drops
- (k) Network interface devices
- (l) Outside plant mix
- (m) Digital loop carrier costs
- (n) Terminal costs
- (o) Switching costs and associated variables
- (p) Traffic data
- (q) Signaling system costs
- (r) Transport system costs and associated variables
- (s) Expenses
- (t) Other inputs

**Position:** The Commission should adopt for BCPM each of the GTE-specific inputs presented by GTEFL witnesses Vander Weide (cost of money), Sovereign (depreciation), Norris (expenses), and Tucek (all other model inputs). In particular, the Commission should use a forward-looking cost of capital and economic depreciation parameters, as recommended by GTEFL. This is the only approach consistent with today's marketplace and the mandate to choose a forward-looking cost model.

**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?

**Position:** The cost of providing basic local telecommunications service should be determined for each non-rural incumbent local exchange carrier, as the ILECs are the only carriers with carrier-of-last-resort duties and with the networks in place to provide service to all customers in their respective serving territories.

**Issue 5(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?

**Position:** The cost of basic local telecommunications service produced by BCPM with GTEFL's inputs is \$33.08 per line, per month. A directory listing (included in the statutory definition of basic service) would increase this figure by an estimated \$0.40 per line, per month.

**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?

**Position:** GTEFL takes no position on this issue at this time, but reserves the right to do so later.

**Issue 6(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?

**Position:** GTEFL takes no position on this issue at this time, but reserves the right to do so later.

**Issue 6(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?

**Position:** GTEFL takes no position on this issue at this time, but reserves the right to do so later.

#### **H. Stipulated Issues**

GTEFL is unaware of any stipulations.

#### **I. Pending Matters**

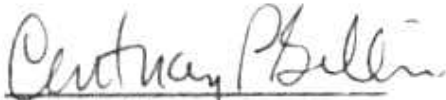
GTEFL has no pending motions at this time.

#### **J. Procedural Matters**

To the best of its knowledge, GTEFL can comply with all requirements set forth in the procedural order in this case.



Respectfully submitted on September 10, 1998.

By   
on Kimberly Caswell  
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Attorney for GTE Florida Incorporated

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that copies of GTE Florida Incorporated's Prehearing Statement in Docket No. 980696-TP were sent via U.S. mail on September 10, 1998 to the parties on the attached list.

  
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