

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of : DOCKET NO. 980696-TP
: :
Determination of the cost of :
basic local telecommunications :
service, pursuant to Section :
Section 364.025, Florida :
Statutes. :
: :

VOLUME 19

Pages 2163 through 2255

PROCEEDINGS:

HEARING

BEFORE:

CHAIRMAN JULIA L. JOHNSON
COMMISSIONER J. TERRY DEASON
COMMISSIONER SUSAN F. CLARK
COMMISSIONER JOE GARCIA
COMMISSIONER E. LEON JACOBS, JR.

DATE:

Thursday, October 15, 1998

TIME:

Commenced at 9:10 a.m.

PLACE:

Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY:

MARY ALLEN NEEL, RPR

BUREAU OF REPORTING

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APPEARANCES: (As heretofore noted.)

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P R O C E E D I N G S

1
2 (Transcript follows in sequence from
3 Volume 18.)

4 COMMISSIONER DEASON: One further
5 question. Ignoring for the moment that there's
6 argument that basic service doesn't pay its own way,
7 if we just assume that right now basic service is
8 paying its own way, am I to conclude from that then
9 that 32 cents of every customer's monthly bill is to
10 pay for those that don't their bills?

11 THE WITNESS: Yes, sir, based on that
12 argument. Assuming that it covers all the revenues
13 assigned to that item, that would be true.

14 COMMISSIONER DEASON: Has BellSouth -- has
15 this been a historic number that has kind of held
16 constant through the years, or has there been some
17 recent change?

18 THE WITNESS: I'm just trying to remember.
19 I've only had experience with it for just a couple of
20 years, and I have seen it fluctuate some. Beyond
21 that, I don't know that far back. But it does vary
22 some by years.

23 COMMISSIONER DEASON: How does this
24 compare -- do you have any idea how this compares to
25 other companies in Florida or other companies

1 nationally?

2 THE WITNESS: I'm afraid I don't know
3 that.

4 COMMISSIONER DEASON: Okay. Thank you.
5 One other. Has there been any change in
6 BellSouth's deposit policies in the last few years?

7 THE WITNESS: Not in the last few. I
8 think they've been fairly constant for the last couple
9 of years.

10 COMMISSIONER DEASON: It just strikes me
11 that's a large amount to ask other customers to pay
12 for those that don't pay, and it looks to me like
13 something's wrong, that perhaps that is just what is
14 accepted in the industry and is considered fine. I
15 don't have a feel for that. That's why I was asking
16 you how it compares to others.

17 THE WITNESS: And I'm sorry. I haven't
18 seen the others.

19 CHAIRMAN JOHNSON: AT&T?

20 MR. HATCH: I have a few questions. Thank
21 you.

22 CROSS EXAMINATION

23 BY MR. HATCH:

24 Q Good morning, Ms. Caldwell. I'm Tracy
25 Hatch. I'll be asking you a few questions on behalf

1 of AT&T.

2 A Good morning.

3 Q You are the witness for BellSouth who's
4 responsible for all of the inputs to the BCPM in this
5 proceeding; is that correct?

6 A Yes, sir, the user-adjustable inputs.

7 Q And one of the user-adjustable inputs would
8 be your switching discount. And that number is
9 proprietary, but it is shown on page 257 of your
10 Exhibit DDC-1; is that correct?

11 A That's correct.

12 Q Is that number a mixed rate between new
13 switching and growth switching?

14 A Yes, where there is a different discount.
15 Some of the switches, for instance, the Northern
16 Telecom normally has just one discount that's not a
17 difference between replacement and growth, which is
18 one of the ones we used. The other one is Lucent, and
19 it does have a difference, and it's a meld.

20 MR. HATCH: Madam Chairman, I'm going to
21 hand out some documents. These documents are
22 documents provided to us in discovery by BellSouth.
23 They consist of some highly proprietary confidential
24 information exclusively to BellSouth, so I'm going to
25 do my very best to avoid eliciting any information

1 that's contained in them that's proprietary. And I
2 want to make sure and give BellSouth's counsel an
3 adequate opportunity if it looks like I'm straying
4 somewhere to jump in.

5 MS. WHITE: All right.

6 Q (By Mr. Hatch) Have you had a chance to
7 look over the first four pages, five pages of that
8 document yet, Ms. Caldwell? When you're done, let me
9 know.

10 A Okay.

11 MR. HATCH: This may get kind of
12 complicated, Madam Chairman, but could I have this
13 document that I just handed out marked for
14 identification, please.

15 CHAIRMAN JOHNSON: It's marked as 74.

16 MR. HATCH: And the short title would be
17 BellSouth Switch Vendor Contract Extracts.

18 CHAIRMAN JOHNSON: Could you say that
19 again?

20 MR. HATCH: BellSouth Switch Vendor
21 Contract Extracts. This is just pieces of
22 information. It's not the full contract.

23 CHAIRMAN JOHNSON: Okay.

24 (Exhibit 74 marked for identification.)

25 THE WITNESS: Okay.

1 BY MR. HATCH:

2 Q Now, with respect to the discount that is
3 on page 257, I believe, of your DDC-1, could you turn
4 to the third page in from the beginning of the
5 document that I handed you?

6 COMMISSIONER CLARK: Tracy, you're not
7 speaking loud enough. Is it the third page?

8 MR. HATCH: My apologies. I'll try and
9 speak louder.

10 DDC-1, page 257, the proprietary version,
11 shows BellSouth's switch vendor discount that they
12 used for running their BCPM calculations. And if you
13 look at the third page in on the document that I
14 handed you, I'm going to be asking her a couple of
15 questions comparing the two.

16 COMMISSIONER CLARK: Comparing what?

17 MR. HATCH: Comparing page 257 of DDC-1
18 with what's on the third page of the document that I
19 handed out.

20 Q (By Mr. Hatch) Do you see the growth
21 discounts set forth in the document that I handed you?

22 A Page --

23 Q May I approach the witness?

24 A The fourth in, page 9 of 19?

25 Q Yes, ma'am.

1 MS. WHITE: It's the fourth page in.

2 Q (By Mr. Hatch) It is the fourth page in.
3 My apologies. It's 9 of 19. I didn't mean to confuse
4 you.

5 A Okay. I'm with you.

6 Q Now, having reviewed this document, does
7 this appear to be a BellSouth switch vendor contract
8 with Lucent Technologies?

9 A Yes, it does.

10 Q Now, if you look in the upper right-hand
11 corner, would this be the most recent contract that
12 BellSouth would have with Lucent?

13 A To the best of my knowledge, it would be.

14 Q Now, if you look down at paragraph C on
15 page 9 of 19 there and look at those growth discounts
16 -- do you see those?

17 A Correct.

18 Q Each of those growth discounts are higher,
19 meaning a better discount, than what's put forth in
20 DDC-1; is that correct?

21 A I'm trying to be real careful not to say
22 these numbers. No. If you look on 257 in DDC-1, 5E
23 switches, under "Growth Discount Rate," there's a
24 percentage. If you look on page 9 of 19 under C, come
25 down one, two, three, four. And I don't know if I can

1 read the words beside that, so I won't. But that
2 number corresponds, and we used that number based on
3 information from our switch purchasing individuals.

4 MR. HATCH: May I ask a question of
5 BelSouth's counsel? Do you see where we are on that
6 document?

7 MS. WHITE: The one you handed out?

8 MR. HATCH: Yes, ma'am, paragraph C.

9 MS. WHITE: Yes, I do.

10 MR. HATCH: Do you see the dates under
11 paragraph C?

12 MS. WHITE: Yes, I do.

13 MR. HATCH: Are those proprietary?

14 MS. WHITE: Yes, they are.

15 MR. HATCH: Okay.

16 Q (By Mr. Hatch) Ms. Caldwell, do you see
17 the date on the first line?

18 A Yes.

19 Q That is a forward-looking date; is that
20 correct? As of the --

21 A I'm sorry.

22 Q As of the time the contract was entered
23 into.

24 A Yes.

25 Q Okay. I'm trying -- this is getting kind

1 of complicated.

2 A I know, and I'm trying to be real careful,
3 because I'm real bad to say the numbers, and I'm --

4 Q The discount shown there for growth is
5 higher than the growth discount that you show on page
6 257 of DDC-1; is that correct?

7 A I agree with that statement, but you have
8 to look down farther. The other dates are even
9 farther into the future. And the words I couldn't
10 read beside the percentage explain why I believe we
11 were told to use that number.

12 Q Now, if you take the second line down,
13 which is a further out date, that discount is even
14 higher than the previous date, which is still higher
15 than the growth rate in DDC-1; is that correct?

16 A Yes, in terms of relationship. My
17 explanation would be the same, if you look farther
18 down.

19 Q And iff you look at the next line down,
20 which is a date even further out, that discount for
21 growth is still higher than the growth discount rate
22 shown in DDC-1?

23 A That is true. I think it's significant
24 that that number is less than the first two lines in
25 the contract. And I still get to the point, you have

1 to look at the next number down and the words beside
2 it.

3 Q And those words are a particular constraint
4 on the contract performance; would that be a fair
5 characterization?

6 A I wouldn't tie it to just the contract
7 performance, but also maybe company needs. But, yes,
8 I mean, in terms of -- it is a constraint, I would
9 agree.

10 Q And the only way that your discount would
11 match -- the discount in DDC-1 would match the
12 discount on the fourth line down is if certain things
13 didn't happen; is that correct?

14 A Yes.

15 Q Now, you're using those certain things not
16 happening as the basis for your discount?

17 A Yes, we're using that assumption.

18 Q What is the probability that the criteria
19 in the fourth line down will occur?

20 A I cannot give you a number. All I can say
21 is that the conversations that we had with our
22 individuals in the switching environment that handle
23 these contracts said that would be the most probable
24 number for us that would occur, so we should use that
25 in our study.

1 Q So the most probable occurrence is where a
2 sequence of events pursuant to your contract aren't
3 going to happen that you assume will happen in order
4 to get the other better discounts? I know that's
5 complicated, and I wish we could do this another way.

6 A Well, I think in terms of what you said,
7 that would be a true statement. But I think you also
8 have to recognize that this discount is not that bad.
9 I mean, this is a good discount in relationship to --

10 Q But it is not the best discount that you
11 are eligible for pursuant to this contract, is it?

12 A Pursuant to this contract. And let me
13 emphasize that this contract has some requirements on
14 the number of lines you purchase and place and all of
15 that, and these higher numbers represent like the best
16 things that could ever occur.

17 Q Just for the growth portion?

18 A This is just the growth, that's correct.

19 Q Now, let's go over to the first page of
20 that document. Do you see there in paragraph 7 the
21 reference at the top right-hand corner to page 8 of
22 19? Do you see that?

23 A Okay. I'm on page 8 of 19. Can you give
24 me the reference again? I'm sorry.

25 Q Okay. Page 8 of 19, which is the first

1 page of the document as I handed it out, paragraph 7.

2 A Paragraph 7. Okay.

3 Q That gives you a number that is not a pure
4 discount, is that correct, in terms of a percentage
5 discount?

6 A No, that is not a percent discount number.

7 Q And it is for a switch replacement?

8 A Yes, it is.

9 Q Okay. When you run your SCIS model, when
10 it calculates a price per line, would the price per
11 line calculated by SCIS as you have used it as an
12 input to BCPM calculate a number higher or lower than
13 that number in paragraph 7?

14 A I'm trying to follow your question.

15 Q Okay.

16 A All right. I think the answer is yes, but
17 let me explain what's in there, and then we'll see if
18 that -- if this lays down.

19 Q We'll see where it gets us.

20 A Yes, because it's really hard not to say
21 these numbers.

22 The inputs to BCPM that we use are based on
23 the regression analysis, but BellSouth did run SCIS to
24 get our inputs to that regression analysis. So that's
25 what I guess we're talking about, right, the S --

1 okay, the SCIS runs that generates numbers.

2 The SCIS runs are not based just on
3 replacements. They are based on a meld of growth jobs
4 and replacements. And the reason we do that is, this
5 concept of this network dropping from the sky and
6 being there today, that's just not realistic. I mean,
7 even if you could do that, tomorrow you've got to have
8 growth. So we use a meld. So our numbers from the
9 meld relationship is going to be higher.

10 But there's another driving factor that you
11 don't even see here. This number cannot just be
12 assumed to be everything. There are other items that
13 are not necessarily included in the number that's on
14 this page that's in the handout. When you run SCIS,
15 you have to include other things such as taxes and
16 transportation, so we include those items.

17 And also, if you look at -- I've actually
18 looked at some jobs in some other states where we had
19 not this number, but the previous contract to this one
20 that had a similar number. And if you look at that
21 relationship, by the time the job is actually
22 finished, you get the switch in, you get all the line
23 modules, you get it up and running -- and I'm not
24 talking about telco labor; I'm just talking about
25 vendor prices that we pay -- get all the trunk lines

1 established, you will find in many cases it can be two
2 to three times what this number is.

3 So you have to -- you can't just take this
4 number at face value. You've got to look at what it
5 physically -- absolutely everything it includes.

6 Q All other things being equal, this is a
7 lower number than what you have used in your BCPM
8 calculations to give you your switch investment; is
9 that correct?

10 A That is correct, and I believe I explained
11 the reasons why.

12 Q Now, let's go over to page -- the next page
13 over. It would be page 1 of 10, paragraph 1.

14 A Okay.

15 Q Now, this is for new switches; is that
16 correct? And then there is a price for new switches?
17 The first sentence, paragraph 1.

18 A For a certain type replacement new switch,
19 yes.

20 Q Right. And if you used that number in your
21 BCPM calculations, that number is lower than what
22 BellSouth has used in its BCPM calculations, is that
23 correct, all other things being equal?

24 A That is the same. My explanation would be
25 the same.

1 Q Turning over to the fifth page in, that
2 would be a Nortel price sheet; would that be correct?

3 A Yes.

4 Q Now, Nortel does their pricing in a
5 different way than Lucent; would that be a fair
6 characterization?

7 A Yes. Pardon?

8 Q As you described earlier, Nortel does it a
9 different way from the way Lucent does it?

10 A Yes.

11 COMMISSIONER CLARK: Excuse me. What page?
12 The fifth page in?

13 MR. HATCH: It's the fifth page in, and
14 it's a Nortel --

15 COMMISSIONER CLARK: Got it.

16 Q (By Mr. Hatch) Now, do these numbers
17 appear to be Nortel's numbers for BellSouth's contract
18 purposes?

19 A Yes.

20 Q Now, if you look at --

21 MR. HATCH: May I ask BellSouth's counsel a
22 question? Would the line size designations talking
23 about a particular category be proprietary? I
24 understand. I'm just trying to be careful.

25 MS. WHITE: I would have to say yes.

1 Q Turning over to the fifth page in, that
2 would be a Nortel price sheet; would that be correct?

3 A Yes.

4 Q Now, Nortel does their pricing in a
5 different way than Lucent; would that be a fair
6 characterization?

7 A Yes. Pardon?

8 Q As you described earlier, Nortel does it a
9 different way from the way Lucent does it?

10 A Yes.

11 COMMISSIONER CLARK: Excuse me. What page?
12 The fifth page in?

13 MR. HATCH: It's the fifth page in, and
14 it's a Nortel --

15 COMMISSIONER CLARK: Got it.

16 Q (By Mr. Hatch) Now, do these numbers
17 appear to be Nortel's numbers for BellSouth's contract
18 purposes?

19 A Yes.

20 Q Now, if you look at --

21 MR. HATCH: May I ask BellSouth's counsel a
22 question? Would the line size designations talking
23 about a particular category be proprietary? I
24 understand. I'm just trying to be careful.

25 MS. WHITE: I would have to say yes.

1 BY MR. HATCH:

2 Q Okay. If you start at the bottom of the
3 line count column, line size, and you count four up.

4 A Okay.

5 Q Is that a typical switch size for line
6 counts?

7 A I'm just trying to think about the
8 different sizes. I mean, that would be one of the
9 switches we deploy. I'm not sure it would be the most
10 -- the one that we deploy the most. I don't know
11 that. But it is a switch we deploy. I would have to
12 look at the Florida data to see that, and I don't
13 remember right off.

14 Q Would you happen to have an idea about an
15 average Nortel switch size?

16 A No, I'm afraid not. I would have to look
17 at the data.

18 Q Do you know whether the numbers in the far
19 right-hand column were the numbers used by BellSouth
20 in its BCPM calculations?

21 A Okay. Can you repeat the question? I
22 wanted to get --

23 Q Right. Just looking at the far right-hand
24 column, those numbers, were those the numbers that
25 BellSouth used in its switch calculations for BCPM?

1 Were those the input values?

2 A I guess I'm a little bit confused here,
3 because the way SCIS works, you don't input this
4 number. What you have is, you have a material table
5 that you apply the discounts on 257 to.

6 Q Does SCIS calculate a price per line?

7 A It's not one of the normal outputs. You
8 can meld -- you can run a special report and do some
9 melding based on lines and calculate that number.

10 Q Based on the SCIS that you used in this
11 proceeding to generate an input to BCPM, was that
12 number higher or lower than the numbers in the
13 right-hand column generated here?

14 A That number is higher. But let me just --

15 Q Than the ones you used as an input?

16 A Yes, but let me just clarify. The number I
17 remember in mind is the number that's the meld of both
18 the SE and the DMS, so it would be higher.

19 Q So you used essentially a weighted average
20 between DMS and Nortel switches?

21 A Based on --

22 Q I mean Nortel and Lucent switches. I'm
23 sorry.

24 A Based on the deployment in Florida, yes,
25 and the planned deployment for the replacements, yes.

1 Q Did you happen to run any calculations that
2 would show your switch investment if you ran just 5Es?

3 A Oh, we -- we have the calculation for the
4 5E switches. We did not rerun the whole State of
5 Florida with only 5E switches, because we would always
6 deploy at a minimum of two vendors.

7 Q If you're talking about a forward-looking,
8 least-cost network designed from the ground up and
9 built from scratch, could you get a least cost by
10 running one particular switch type?

11 A Not in the long run you couldn't. If you
12 tie yourself down to one vendor, it doesn't work.
13 They no longer become least cost.

14 Q Did you make a run, or have you ever made a
15 run looking at just what it would cost if you used
16 Lucent switches, 5Es, for example?

17 A Not for the entire state.

18 Q Or for Nortel switches?

19 A Not for the entire state.

20 Q When you say not for the entire state, have
21 you done it for any particular territory?

22 A No. What we've done is run where 5Es are
23 deployed now and plan to be in the future, and then
24 the same analysis for the DMS 100s.

25 Q Okay. Would you turn over past these

1 contract pages and look at -- in the upper right-hand
2 corner you'll see Exhibit D handwritten in. This
3 would be page 1 of 2 in the center of the bottom.

4 MS. WHITE: B as in boy?

5 MR. HATCH: B as in boy. I mean, D as in
6 dog is the exhibit number, but it's past the contract
7 pages. It's a series of spreadsheets.

8 THE WITNESS: Could you repeat that? You
9 said Exhibit D?

10 MR. HATCH: Up in the right-hand corner it
11 has handwritten in it Exhibit D.

12 THE WITNESS: Yes, I've got that.

13 MR. HATCH: Okay.

14 THE WITNESS: Page 1 of 1?

15 MR. HATCH: Yes. It's actually 1 of 2 is
16 where I am at the bottom.

17 THE WITNESS: Okay. That's right. I'm
18 sorry.

19 MR. HATCH: The print is kind of fuzzy.

20 Q (By Mr. Hatch) If you look at the
21 right-hand column where it says "Lucent Contract
22 Investments," do you see the investment amount there,
23 and then total engineered lines per switch?

24 A Under the Lucent contract?

25 Q Yes, under the Lucent.

1 A Yes, I see those two numbers.

2 Q And then you see the contract price that we
3 talked about earlier. Do you see that?

4 A Yes.

5 Q Then if you look over at Nortel, you'll see
6 a similar comparison.

7 A Correct.

8 Q Now, if you look at the far right-hand
9 side, do you see that investment per line number?

10 A Yes. Mine is kind of cut off, but I think
11 I -- I can read the first three digits pretty well.

12 Q That investment per line number is higher
13 than the investment per line number that you would get
14 for either the Lucent contract or the Nortel contract
15 price; is that correct?

16 A All right.

17 Q Under BC --

18 A The far right-hand number --

19 Q The far right-hand number.

20 A -- is higher than the number under Nortel
21 and Lucent.

22 Q Right. Now, let me -- that's a correct
23 statement; right?

24 A Yes.

25 Q Okay. Now, in the far right-hand column,

1 that's BellSouth's BCPM weighted investment if you
2 assume 100 new lines. Would that look like an
3 accurate number?

4 A (Examining document.)

5 Q Okay. Let's just do it this way. Do you
6 have the investment per line for your weighted
7 average?

8 A I have a pretty good idea what it is. I
9 don't have it with me, but generally I know what it
10 is.

11 Q Okay. The number in the right-hand column,
12 is that pretty close to what your weighted average
13 number is? Is it higher or lower than that number?

14 A It's in the neighborhood of that number,
15 yes.

16 Q So your weighted average number is
17 significantly different than the investment per line
18 using Nortel or Lucent based on the prices in your
19 Nortel and Lucent contracts; would that be correct?

20 A I'm sorry. I'm getting a little lost
21 again.

22 If I'm understanding what you're saying,
23 this number is higher because it is a meld of
24 switches.

25 Q Right.

1 A All right. And I would agree with that,
2 but I think I've clearly stated why you have to have a
3 meld of switches. Remember, these contracts are
4 generated with BellSouth with the knowledge that we
5 have more than one vendor in the State of Florida.
6 Well, i. this particular case, in the whole United
7 States.

8 Q Now, if you ran BCPM based on the input
9 switch values that you used, assuming new lines only,
10 no growth, just assuming new, then would that number
11 be the number in the right-hand column? Does that
12 look like an accurate number?

13 A I'm sorry. I don't know where these
14 numbers came from, so I'm having some difficulty
15 there. I mean, we didn't generate these numbers, so I
16 don't know how you calculated them.

17 Q Okay. You may not have the sufficient
18 backup information in front of you. If you look at
19 the Lucent column, and you see the first column under
20 the big Lucent heading.

21 A Uh-huh.

22 Q It says "Switch Investment."

23 A Uh-huh.

24 Q Now, does that look like an appropriate
25 amount of switch investment for BellSouth for Lucent,

1 based on total engineered lines, based on the price in
2 your contract?

3 A All I can say about that is, if you take
4 the investment line you have here and the engineered
5 lines that you have here and made a calculation, it
6 appears that it would be the number in your first
7 column. I would not agree that that is representative
8 of the Lucent vendor charge to BellSouth for placing
9 of switches. It is simply if you assumed you replaced
10 all those lines with a new switch, which I think I've
11 explained is not realistic.

12 Q Right.

13 A And also, it's not the total cost. There
14 are things that you don't have. But I do agree with
15 your calculation.

16 Q Okay.

17 MS. WHITE: I'm going to object to any
18 further questions along this page, and possibly the
19 next one, from the standpoint that -- I assume this
20 was an exhibit that AT&T put together, and
21 Ms. Caldwell has not been given the basis of where the
22 numbers came from or how it was put together, but
23 she's being asked to agree with it. So I'm not quite
24 sure how she can disagree or agree when she has no
25 information about how it was put together.

1 MR. HATCH: She is free to agree or
2 disagree.

3 CHAIRMAN JOHNSON: What was that,
4 Mr. Hatch?

5 MR. HATCH: If Ms. Caldwell can't agree,
6 then she can't agree.

7 CHAIRMAN JOHNSON: If you're looking at
8 those numbers and you're confused and you don't know
9 the basis and don't feel that you can respond, tell
10 him that.

11 THE WITNESS: Okay.

12 MR. HATCH: No further questions on this.

13 CHAIRMAN JOHNSON: Is that all?

14 MR. HATCH: I'm done.

15 CHAIRMAN JOHNSON: Staff?

16 MR. COX: Good morning, Ms. Caldwell. Will
17 Cox on behalf of the Commission Staff.

18 THE WITNESS: Good morning.

19 MR. COX: Before I begin, Chairman Johnson,
20 I would ask at this time if we could mark for
21 identification an exhibit. The exhibit has the
22 identifier DDC-2 on it. It is the deposition
23 transcript and Late-filed Deposition Exhibit Nos. 1
24 through 6 of Ms. Caldwell.

25 CHAIRMAN JOHNSON: It will be identified as

1 75.

2 (Exhibit 75 marked for identification.)

3 MR. COX: Thank you.

4 CROSS EXAMINATION

5 BY MR. COX:

6 Q Ms. Caldwell, for the purposes of the model
7 inputs that BellSouth has put forward in this
8 proceeding, is it correct to say that the telephone
9 plant index, or the TPI, as it's known, is only used
10 by BellSouth to adjust current dollars, whether they
11 be for expenses or for investment, for inflation in
12 the future?

13 A Yes, the TPIs. But I would like to say
14 inflation or deflation.

15 Q Just so I'm clear, what exactly is the
16 telephone plant index?

17 A The telephone plant indices that we use are
18 account specific. They indicate the price change for
19 material that will be anticipated.

20 In our particular study, we used three
21 years, so each one of them is year over year. We use
22 -- if you look at a '98, '99, 2000, you would have a
23 TPI that would show the price change from '97 to '98,
24 '98 to '99, and '99 to 2000. And what we've done in
25 our study is, instead of using all three of them, we

1 tried to hit a midpoint of the time frame, and we took
2 the three numbers and straight averaged them. So you
3 had one TPI that would bring it to a representative
4 midyear of that period.

5 And it is applied to material. That's the
6 one we used.

7 Q And it's not used for replacement purposes,
8 is it?

9 A Could I get you to define replacement?

10 Q Does BellSouth use the TPI to calculate the
11 replacement cost of existing investment?

12 A No. We use it to take a material -- excuse
13 me, a current material price off of a price list, and
14 then expand that out a time frame.

15 Q Does BellSouth use any other type of index
16 to adjust its actual numbers?

17 A The only other one that we use at all is a
18 CC to BC factor. That stands for current cost to book
19 cost. It is only used in one or two calculations, and
20 it's for our factor calculation.

21 For instance, in the land -- and you don't
22 see those in BCPM as much, but they're easier for me
23 to explain. If you have land, buildings, pole, and
24 conduit, you have a certain embedded investment today,
25 so we take that embedded investment before we do our

1 A Okay.

2 Q Now, the table on the top of the page is
3 for 24-gauge aerial cable; is that correct?

4 A Correct.

5 Q And this is copper cable?

6 A Yes.

7 Q Using 1,200-pair cable as an example, we
8 see that there are several different types of fixed
9 costs associated with the 1,200-pair cable; is that
10 correct?

11 A Correct.

12 Q And these costs are per pair foot?

13 A Yes.

14 Q The first column shows a material cost of
15 \$6.46; is that correct?

16 A Correct.

17 Q You see the next column is exempt material,
18 which is \$6.35 per pair foot for this cable; is that
19 correct?

20 A Excuse me just a minute. I need to look
21 back at one other page for something.

22 Q Okay.

23 A I want to be sure that I answer this
24 exactly right.

25 Q Okay.

1 A All right. Let me -- if I could, please,
2 let me just back up.

3 Q Sure.

4 A The cost here is not per pair foot. That
5 is just per foot. So you wouldn't multiply it by
6 1,200, in other words. It is per foot.

7 Q Okay. But the first column does show a
8 material cost of \$6.46? That was correct?

9 A That is correct. I agree with that. I
10 think I just answered incorrectly as to what it was
11 representative of.

12 Q Okay.

13 A Sorry.

14 Q And the next column is exempt material, and
15 that's \$6.35 per foot, not per pair foot; right?

16 A Right.

17 Q For this cable. Now, the exempt material
18 is material that is expensed rather than capitalized,
19 so it is not tracked separately; is that correct?

20 A That is correct.

21 Q Now, what might be an example of exempt
22 material?

23 A One of the major items you have is any
24 terminal that is 100 pair or smaller. That's probably
25 the biggest example. You have splicing enclosures,

1 things of that type.

2 Q Now, the next column, taxes, is 39 cents
3 per foot. Now, does this represent the sales tax paid
4 by BellSouth on the cable?

5 A Correct.

6 Q And then the column after tax is telco,
7 which is a cost per foot of \$16.07; is that correct?

8 A Correct.

9 Q Now, what kind of cost does the telco
10 include?

11 A This particular cable, this is aerial
12 cable, and this is the installation labor. BellSouth
13 employees actually install the aerial cable, so it's
14 the installation labor associated --

15 Q So that's the labor and time, that sort of
16 thing?

17 A Yes.

18 Q How is the cost calculated in this instance
19 for the telco?

20 A For each one of these categories, we
21 calculated it based on our in-plant factors. The
22 in-plant factors give a breakdown -- if you start --
23 if you look at a material price and you pay so much,
24 in this particular case, the \$6.46 per foot, by the
25 time that particular item of plant is engineered and

1 installed and actually closes into our capital
2 accounts, it is a much greater number, because you add
3 these particular items to it.

4 So what we've done is for our in-plant
5 factor develop a relationship between what actually
6 gets closed to the books as capital dollars and what
7 the material price was. And we used the 1997 time
8 frame for that calculation for the in-plant.

9 Q The column to the right of telco is titled
10 "Contract."

11 A Yes.

12 Q And it shows a cost of \$2.94.

13 A Yes.

14 Q Now, does this represent contractor labor?

15 A Yes, it does.

16 Q Is there anything else included in that?

17 A No. Excuse me. No.

18 Q And how is that cost calculated?

19 A It would be the same. Our in-plant factor
20 is just the contract portion of it. See, the in-plant
21 factor can be broken down into the categories across
22 the top, exempt material, tax, telco, contract, and
23 engineering.

24 Q Now, the next column, the engineering
25 column which you just mentioned, shows a cost of

1 \$2.57?

2 A Correct.

3 Q Does this represent the cost of BellSouth's
4 engineers?

5 A Yes, it does.

6 Q Is anything else represented in that cost?

7 A No, it does not.

8 Q The total cost of the 24-gauge aerial cable
9 then is \$34.78, and that's per foot; correct?

10 A Correct.

11 MR. COX: Thank you, Ms. Caldwell. That
12 concludes Staff's questions.

13 CHAIRMAN JOHNSON: Commissioners?

14 COMMISSIONER JACOBS: Ms. Caldwell, on
15 page 9 of your testimony, you discuss how the
16 telephone price indices are used, and I wonder if you
17 could just walk me through. You indicated that in
18 certain accounts you add inflation factors, and in
19 others you use forecasts to lower the actual cost.
20 Could you tell me how that's determined, how it's
21 calculated?

22 THE WITNESS: Okay. If you look at copper
23 cable, the material price of copper is just
24 increasing, so for that particular item, your in-plant
25 factor would be a little greater than 1. So that

1 would be an example of the inflation.

2 If you look at switching, the electronic
3 switching, it's almost constant. It's almost 1.

4 And some of your digital loop carrier,
5 since you have advances in electronics, that's going
6 down, so those would be below 1.

7 So those are how we used them. Every
8 account has its own factor.

9 COMMISSIONER JACOBS: Okay. I notice in
10 one of the GTE witnesses, I believe it was
11 Mr. Tardiff, he had a trend table attached to his.
12 Have you done any trending of these to see how they
13 perform over time?

14 THE WITNESS: Yes, we have done some
15 trending in the past to show that, and it supports
16 just what I said, that copper is actually slightly
17 increasing, switching has leveled out, and fiber and
18 electronics is slowly going down.

19 COMMISSIONER JACOBS: And the calculations
20 that you used for input to the model, they're the most
21 recent, I think I heard you say; right?

22 THE WITNESS: Yes, they are.

23 COMMISSIONER JACOBS: Okay. Thank you.

24 CHAIRMAN JOHNSON: Redirect?

25 MS. WHITE: Yes, I just have a few.

REDIRECT EXAMINATION

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BY MS. WHITE:

Q Ms. Caldwell, Mr. Melson asked you several questions comparing the inputs used by GTE and Sprint to those used by BellSouth. Could you tell me whether you believe it's appropriate to compare those inputs between the different companies?

A Not on an individual basis. I think I've said you have to look at the contract as a whole. If you look at just Sprint's buried cable and BellSouth's buried cable, you may get a distorted view. But if you look at poles and buried cable as a whole, you'll find that the overall contracts are what you really need to consider.

And in fact, if you look at Sprint's final investment on a per line basis that they filed in their testimony, you will find that it is within -- the overall investment is within a dollar or two of what BellSouth's is. So I think when you look at the overall impact, you'll see they're very close. Again, overall is what's important.

Q Okay. Mr. Melson also asked you about the per duct material cost for conduit of \$2.24, I believe.

A Correct.

1 Q What is included with that \$2.24?

2 A The \$2.24 on that particular page was what
3 we pay for the conduit. And if I could, let me just
4 glance back at that sheet to be sure that I have
5 everything that's in that. There are so many numbers.

6 Yes. I just wanted to verify for this
7 particular item. The 2.24 includes the material as
8 well as the installation of that particular material.

9 Q What would be the material?

10 A The material would be in this particular
11 case the plastic PVC pipe that you run the cable
12 through. The installation would be the actual
13 physical placing in the ground of that conduit, which
14 can be quite costly.

15 Q Mr. Cox asked you about the inclusion of
16 nonrecurring costs in the cost of basic local service,
17 and I believe your answer was that they should be
18 included?

19 A Correct.

20 Q Have they been excluded from other
21 expenses?

22 A There are no double-dipping in those
23 expenses. That is the only place they are included,
24 one and only one time.

25 MS. WHITE: Okay. Thank you. That's all

1 I have.

2 CHAIRMAN JOHNSON: Exhibits?

3 MS. WHITE: BellSouth moves Exhibit 73.

4 CHAIRMAN JOHNSON: Show that admitted --
5 (Exhibit 73 received in evidence.)

6 MR. HATCH: Madam Chair, this is going to
7 be a little bit complicated, because what I would like
8 to do as Exhibit 74 is move the first five pages.
9 They are labeled Exhibit A through Exhibit C on those
10 pages. Exhibit D and beyond, which is the
11 spreadsheet, I am not moving as part of Exhibit 74.
12 That's why I labeled it as Switch Vendor Contract
13 Extracts.

14 CHAIRMAN JOHNSON: Tracy, I couldn't hear
15 you.

16 MR. HATCH: Okay. So as not to completely
17 confuse everybody, which I probably have, when I
18 handed out the document, the switch vendor contract,
19 the portions of that, I would like to move that
20 exhibit.

21 MS. WHITE: Did you say you're going to
22 move all that was in the red folder?

23 MR. HATCH: No. That's why I made sure
24 that from Exhibit D, which is the spreadsheet, which
25 is that, I am not moving.

1 MS. WHITE: Exhibit D you are not moving?

2 MR. HATCH: And Exhibit E to that I am not
3 moving, just the contract pages.

4 MS. WHITE: Okay. All right. Thank you.

5 CHAIRMAN JOHNSON: All right. So Exhibits
6 D and E are not being moved?

7 MR. HATCH: They're not included as part of
8 Exhibit 74; that is correct.

9 CHAIRMAN JOHNSON: Show that admitted
10 without objection.

11 (Exhibit 74 received in evidence.)

12 CHAIRMAN JOHNSON: We've admitted 73 and
13 74.

14 MR. COX: Chairman Johnson, Staff moves
15 Exhibit 75.

16 CHAIRMAN JOHNSON: Show that admitted
17 without objection.

18 (Exhibit 75 received in evidence.)

19 CHAIRMAN JOHNSON: Thank you.

20 THE WITNESS: Thank you.

21 CHAIRMAN JOHNSON: We're going to take a
22 15-minute break.

23 (Short recess.)

24 CHAIRMAN JOHNSON: We're going to
25 reconvene the hearing. GTE?

1 MR. MITCHELL: Tom Mitchell for GTE. GTE
2 calls Mike Norris. I do not believe that Mr. Norris
3 has yet been sworn, nor Mr. Tucek, GTE's next witness.

4 COMMISSIONER JACOBS: It your mike on?

5 CHAIRMAN JOHNSON: If you've not been --

6 MR. MITCHELL: I'm sorry. Mr. Tucek is not
7 here.

8 CHAIRMAN JOHNSON: Okay. Anyone in the
9 room who will be testifying, if you're not been sworn,
10 if you could stand and raise your right hand.

11 (Witness sworn.)

12 CHAIRMAN JOHNSON: You may be seated.

13

14

MICHAEL R. NORRIS

15 was called as a witness on behalf of GTE and, having
16 been duly sworn, testified as follows:

17

DIRECT EXAMINATION

18

BY MR. MITCHELL:

19

Q Mr. Norris, would you please state your
20 full name and business address for the record, please.

21

A My name is Michael R. Norris. My business
22 address is 600 Hidden Ridge, Irving, Texas, 75015.

23

Q You're employed with GTE?

24

A Yes, I am.

25

Q In what capacity?

1 A Cost, Manager of Cost Development.

2 Q In this proceeding, Mr. Norris, did you
3 prepare or cause to be prepared direct testimony dated
4 August 3, 1998, consisting of seven pages?

5 A Yes, I did.

6 Q Do you have any changes or corrections to
7 make to that testimony?

8 A No, I do not.

9 Q And attached to your direct testimony, were
10 there three exhibits designated MRN-1 through MRN-3?

11 A Yes.

12 Q Did you also cause to be filed revised
13 exhibits to your direct testimony designated MRN-1
14 through MR -- excuse me, MRN-1R through MRN-3R?

15 A Yes, I did.

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1 GTE FLORIDA INCORPORATED

2 DOCKET NO. 980696-T?

3
4 DIRECT TESTIMONY OF MICHAEL R. NORRIS5
6 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.7 A. My name is Michael R. Norris. My business address is 600 Hidden
8 Ridge Drive, Irving, Texas, 75038.9
10 Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?11 A. I am employed by GTE Service Corporation as a Manager - Cost
12 Models and Methods Development. In this capacity, I am responsible
13 for developing cost models, methodology and analysis.14
15 Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
16 WORK EXPERIENCE.17 A. I received a Master of Business Administration degree from Southern
18 Illinois University - Edwardsville in 1988 and a Bachelor of Science
19 degree in Business Administration from Lindenwood College. I began
20 my telecommunications career as a Staff Engineer with Contel in
21 1969. I became a GTE employee in 1991, when the companies
22 merged. During my career, I have held various positions dealing with
23 capital recovery, rate design, tariff development, toll settlements and
24 cost studies, rate case preparation, regulatory accounting, and
25 strategic planning. I accepted my current position in May 1997.

1 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY STATE OR
2 FEDERAL REGULATORY COMMISSIONS?

3 A. I have sponsored testimony before the state utility commissions of
4 Arkansas, California, Hawaii, Indiana, New Mexico, Oklahoma, South
5 Carolina and Texas.

6
7 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

8 A. The Florida State Legislature has directed this Commission to select
9 a cost proxy model to estimate the total forward-looking cost of
10 providing basic local service. My testimony discusses how the
11 expense levels shown in GTE witness Mr. Olson's testimony were
12 developed into inputs for use in the Benchmark Cost Proxy Model
13 ("BCPM").

14
15 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

16 A. There are three types of expense inputs required within BCPM:
17 capital-related expenses, expressed as a percent of investment; non-
18 capital-related expenses, expressed on a per-line basis; and general
19 support asset ratios. My testimony covers the development of each
20 of these three areas of expense inputs into BCPM.

21
22 Q. PLEASE DESCRIBE GENERALLY THE PROCESS OF
23 DEVELOPING BCPM OPERATING EXPENSES INPUTS.

24 A. The starting point for developing BCPM expense inputs is the ARMIS
25 adjusted expenses described in the testimony of GTE witness Mr.

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Olson. For purposes of BCPM, the adjusted ARMIS expenses discussed by Mr. Olson are further adjusted to remove expenses associated with non-recurring costs, billing and collection costs associated with toll and access, and directory costs. These adjusted expense amounts are then mapped to cost pools. Finally, the expense information mapped to the cost pools is used to calculate the three types of expense inputs required by BCPM.

Q. PLEASE EXPLAIN IN MORE DETAIL THE ADJUSTMENTS YOU MADE TO THE ARMIS ADJUSTED EXPENSE DATA.

A. As mentioned previously, there are three adjustments made to the ARMIS levels of expense provided by Mr. Olson. The first adjustment removes incurred costs that are associated with the provision of non-recurring activities. These costs are recovered through non-recurring charges associated with service order activity and as such must be removed so as not to recover the same expense twice.

The second adjustment removes operating expense associated with toll and access billing and collection activities, because these activities are not related to the provision of basic local telecommunications service.

The third adjustment removes expense associated with the provision of directory services from the cost pool analysis. GTE develops its expense for FCC purposes and this adjustment is made to recognize

2205

1 that the FCC does not include directory listing in its definition of
2 supported services for universal service purposes. GTE witness Mr.
3 Tucek, however, separately identifies the per-line cost of the listing
4 in his testimony, in order to accommodate the Florida statute's
5 inclusion of a directory listings in its basic service definition. In
6 calculating the size of the universal service fund, GTE witness Mr.
7 Seaman has, likewise, included directory listing cost.

8

9 **Q. WHY DOES GTE UTILIZE THE COST POOL MAPPING PROCESS**
10 **TO DETERMINE THE ASSIGNMENT OF OPERATING EXPENSES?**

11 **A.** This process allows GTE to better align its costs with those parts of
12 GTE's network or operations from which the costs are generated.
13 Better assignment of cost to the elements of the network or
14 operations allows for a more accurate assignment of costs to the
15 products and services that GTE provides.

16

17 **Q. PLEASE EXPLAIN THE COST POOL EXPENSE ASSIGNMENTS IN**
18 **MORE DETAIL.**

19 **A.** The starting point for assigning expense and investment to cost pools
20 is state-specific, 1997 USOA ARMIS data. The ARMIS account data,
21 at a budget center level of detail, is then assigned to work centers,
22 which are, in turn, assigned to the cost pools.

23

24 Budget centers are the organizational units used to track costs.
25 Budget centers are aligned with the hierarchical and functional

1 structure of GTE. A workcenter is a collection of budget centers that
2 perform similar activities or functions. The GTE Finance Organization
3 performed the budget center to workcenter mapping.

4
5 Workcenters are assigned to cost pools based on the Finance
6 Organization's analysis of the functions performed in the workcenters.
7 There are 20 different cost pools--pole, buried cable metallic, aerial
8 cable metallic, billing and collection, and common are a few
9 examples.

10
11 The attached Exhibit MRN-1 shows the detailed results of the
12 expense account cost pool assignment process. Exhibit MRN-2, also
13 attached, summarizes cost pool assignments into BCPM-required
14 input format.

15

16 **Q. HOW ARE INPUTS FOR EXPENSES RECOVERED AS A PERCENT**
17 **OF CAPITAL-RELATED INVESTMENT DEVELOPED FOR BCPM?**

18 **A.** Expense to capital-related investment ratios associated with ten
19 designated capital accounts (which include costs related to Central
20 Office and Transmission Equipment, Poles, Conduit, and Aerial,
21 Underground and Buried Cable) are developed utilizing the results of
22 the cost pool assignment process described earlier. Expenses used
23 in the numerator, to calculate expense to capital-related investment
24 factors, are taken from the relevant expense developed by cost pool.
25 The denominator in the calculation is taken from the respective

1 investment cost pool after being adjusted by the C.A. Turner index.
2 Expense as a percent of capital-related investment inputs are applied
3 to the network plant investment developed within BCPM.

4

5 **Q. PLEASE EXPLAIN THE C.A.TURNER INDEX AND WHY IT IS USED**
6 **WITH THE CAPITAL ACCOUNTS.**

7 A. The C.A.Turner Telephone Plant Index is published by AUS
8 Consultants, the successor company to Associated Utility Services,
9 Inc. These indices are applied to each vintage year of a plant
10 account to determine the reproduction cost of embedded plant, (i.e.,
11 the cost in today's dollars). By utilizing the C.A.Turner Index in the
12 development of capital-related expenses, we are better able to model
13 the relationship of expense levels to the investment levels produced
14 within BCPM.

15

16 **Q. HOW WERE EXPENSE INPUTS FOR NON-CAPITAL RELATED**
17 **EXPENSES DEVELOPED?**

18 A. Non-capital-related expense inputs to BCPM are expressed on a per-
19 line basis. There are eight non-capital expense categories: Network
20 Support, General Support, Network Operations, Marketing, Customer
21 Services, Executive & Planning, General & Administration, and
22 Uncollectibles. GTE develops the non-capital-related cost inputs from
23 the expense data assigned to the consumer, business and common
24 cost pools. These amounts are then multiplied by the local direct cost
25 percentage (i.e., the percentage of local calls to total calls) to

1 determine the portion of the expense associated with local services.
2 These amounts are then divided by access lines to determine the
3 monthly per-line expense that is input into BCPM.

4

5 **Q. HOW WERE THE SUPPORT RATIO INPUTS FOR GENERAL**
6 **SUPPORT ASSETS DEVELOPED?**

7 **A.** There are six accounts of general support assets. These accounts
8 are Motor and Special Purpose Vehicles, Furniture, Computers,
9 Office Equipment, Garage Equipment, and Other Work Equipment.
10 The percentage inputs for these accounts are a ratio of each of the
11 respective general support asset accounts to the total Plant in
12 Service for GTE Florida. The amounts used to calculate these ratios
13 are the investments from the 1997 ARMIS reports as adjusted by the
14 C.A. Turner Index.

15

16 **Q. HAVE YOU PROVIDED AN EXHIBIT THAT SUMMARIZES THE**
17 **RESULTS OF THESE CALCULATIONS AND DETAILS THE BCPM**
18 **INPUTS?**

19 **A.** Yes, the inputs and results are reflected in attached Exhibit MRN-3
20 This information is also included in GTE witness Mr. Tucek's Exhibit
21 DGT-1, page 11.

22

23 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

24 **A.** Yes, it does.

25

1 Q (By Mr. Mitchell) Mr. Norris, have you
2 prepared a summary of your direct testimony?

3 A Yes, I have.

4 Q Would you please give that at this time?

5 A Yes.

6 Good morning. Of the many input
7 require ments of proxy models, operating expenses are
8 one of the primary components of cost models. The
9 purpose of my testimony is to provide for the
10 development of the GTE company-specific operating
11 expense inputs that are required within BCPM.

12 BCPM allows for operating expense inputs in
13 two ways, first, expense as a percent of investment.
14 These expense inputs are development in the
15 calculations to be based on operating expense related
16 to network plant components.

17 The second input provides for expense on a
18 per line basis. The expenses that are input on a per
19 line basis are related to network and general support
20 and administrative type functions.

21 The level of operating expenses used in the
22 development of BCPM inputs is based on GTE's actual
23 expense incurred for 1997 as reported in ARMIS. I
24 have made adjustments to these in three areas. First,
25 I have removed expenses associated with nonrecurring

1 services. Second, I have removed operating expense
2 associated with billing and collection activities
3 related to toll and access. And third, I have removed
4 operating expense associated with directory services.
5 These adjusted expenses are then used to develop
6 expense-to-investment ratios and expense per line
7 inputs as required by BCPM. These expenses are based
8 on GTE's actual cost experience for 1997 and provide a
9 reasonable representation of the level of operating
10 expenses of GTE of Florida.

11 Thank you.

12 MR. MITCHELL: Madam Chairman, at this time
13 I would move for the admission of Mr. Norris's direct
14 testimony into the record.

15 CHAIRMAN JOHNSON: It will be admitted.

16 (Prefiled testimony of Mr. Norris inserted
17 at page 2203 for the convenience of the record.)

18 MR. MITCHELL: And I would also asked that
19 the revised exhibits to Mr. Norris's testimony be
20 marked for identification, that is, Exhibits MRN-1R
21 through MRN-3R.

22 CHAIRMAN JOHNSON: They will be marked as
23 stated and identified as 78.

24 MR. MITCHELL: Thank you. Mr. Norris is
25 available for cross examination.

1 MR. COX: Chairman Johnson, before we begin
2 cross examination, Staff would ask that we mark as an
3 exhibit the deposition transcript of Mr. Norris, which
4 is identified as MRN-4.

5 CHAIRMAN JOHNSON: It will be marked as 79.

6 MR. COX: I think we may be one number off.

7 CHAIRMAN JOHNSON: Oh, we're two numbers
8 off. I went from -- the first one should have been
9 76. I'm sorry. So GTE's first exhibit, MRN-1R
10 through MRN-3R, is Exhibit 76, and Staff's will be 77.

11 MR. COX: Thank you.

12 (Exhibits 76 and 77 marked for
13 identification.)

14 CHAIRMAN JOHNSON: The witness has been
15 tendered?

16 MR. MITCHELL: Yes, he has.

17 MR. COKER: Thank you.

18 CROSS EXAMINATION

19 BY MR. COKER:

20 Q Mr. Norris, my name is Gene Coker. I
21 represent AT&T.

22 You had mentioned that you made some
23 adjustments to the expense inputs that you've
24 suggested.

25 First of all, what you're doing is taking

1 the expense levels generated by Mr. Olsen and
2 converting them into an expense input to BCPM; is that
3 correct?

4 A Generally that's true, yes.

5 Q And you adjusted -- in making the
6 adjustments that you made, one of the adjustments is
7 to remove the nonrecurring costs; is that correct?

8 A That's true.

9 Q Now, why is it appropriate to remove
10 nonrecurring costs from your calculations?

11 A Well, generally nonrecurring costs are
12 recovered through other rates. And in Mr. Seaman's
13 calculations, it's my understanding at least, he did
14 not include the revenue streams from nonrecurring
15 costs in his calculations; thus, we removed the
16 operating expenses associated with nonrecurring
17 services from our calculations.

18 Q In response to -- I believe it was
19 Interrogatory 36, GTE filed a large document. I think
20 it's commonly referred to as a Bates stamped document.
21 Are you familiar with those?

22 A Yes.

23 Q Do you have a copy of those with you?

24 A Of No. 36?

25 Q Well, I'm particularly interested in Bates

1 stamped document 0002225.

2 A 2225?

3 Q Yes, sir.

4 A Yes, I have that.

5 Q Now, is that -- in that document in the --
6 there's a column labeled "Nonrecurring Expenses." Are
7 those the specific nonrecurring expenses that you
8 eliminated from your calculation?

9 A Yes, they are.

10 Q About the middle of the page, item 6423,
11 buried cable expense, can you tell me why you
12 eliminated nonrecurring expenses associated with that?

13 A Generally I can tell you that we have a
14 group of people who prepare nonrecurring cost studies,
15 and through their process of identifying costs
16 associated with their nonrecurring cost studies and
17 the costs that they've identified that are part of
18 that determination, these are the costs that they have
19 included in those calculations. As to the specifics
20 of what they have done in their nonrecurring cost
21 studies, I could not address that, no.

22 Q All right, sir. If I inquired about all of
23 those entries that you have there, your answer would
24 basically be the same; is that right?

25 A It would be the same, yes.

1 Q I would like to talk just a minute about
2 the expenses recovered as a percent of capital. This
3 calculation uses embedded investment adjusted by the
4 C. A. Turner index; is that correct?

5 A Yes.

6 Q And can you tell me what the C. A. Turner
7 index is?

8 A The C. A. Turner index is an index that's
9 developed by the Associated Utilities Services, I
10 think now known as AUS. That factor -- those indices
11 are developed by them from their analysis and the
12 valuation of plant over years of their observances,
13 and the factors are designed to bring plant levels up
14 to a current replacement level of value.

15 Q So what you've done here in your
16 calculation is to take the embedded plant and express
17 it in today's dollars?

18 A Essentially, yes.

19 Q Isn't a cost model supposed to produce a
20 forward-looking cost based on the most recent and
21 currently available technology?

22 A Yes.

23 Q Is there anything in the Turner index that
24 would adjust for new technologies that are introduced
25 into the network, or is it just an update of

1 historical dollar values?

2 A I'm not specifically knowledgeable about
3 the AUS indices, but it's my understanding that
4 essentially they take into account some of the effects
5 of changes on technology.

6 The way we are using this is to develop a
7 level of plant from the book levels of investment that
8 essentially are equivalent to today's current dollars
9 that then match up with the investments, the
10 forward-looking investments that are generated out of
11 BCPM.

12 Q Would it be fair to say then that the
13 application of this Turner index is more of an
14 accounting adjustment than a recognition of new
15 technology?

16 A I wouldn't necessarily characterize it as
17 an accounting adjustment, no. It's designed to
18 restate investment levels from your books to a current
19 replacement level. And we then utilize it to divide
20 into our operating expenses to develop the
21 expense-to-investment ratios that go into BCPM that
22 are then applied to the investments that are developed
23 within the BCPM model.

24 Q Do you have any idea what the Turner index
25 is for switching equipment in general?

1 A That we applied?

2 Q Yes.

3 A The factor that we used in our calculation
4 was a composite factor for digital switching of .7025.

5 Q And what does that mean, that particular
6 factor mean? Can you translate that into simple terms
7 that I could understand?

8 A Well, essentially what that says is that
9 the investment level that is calculated from using
10 that would be about 70% of whatever your book value
11 is.

12 Q Now, other than bringing the embedded
13 investment up to today's dollar values, what other
14 steps did you take to make your proposed inputs
15 forward-looking?

16 A In addition to the C. A. Turner?

17 Q Yes.

18 A We removed any electromechanical and analog
19 operating expenses. We removed any aerial wire
20 expenses.

21 Q Is that all?

22 A Yes.

23 Q You have included in your operating expense
24 input product advertising as a portion of the
25 marketing expense, haven't you?

1 A Yes.

2 Q And is that related to a specific account?

3 A Yes, it is.

4 Q Which account is that?

5 A Account 6613.

6 Q And does that particular account identify
7 advertising expenses associated only with the
8 provision of basic local exchange service?

9 A No, it does not.

10 Q Did you make any adjustment to reflect the
11 advertising for only basic local exchange service?

12 A In the sense that as you get into our
13 common costs, or the cost that we include in our
14 common cost pool, and those things that ultimately end
15 up in those factors, we had done a calculation to
16 identify those expenses that are associated with local
17 services on the basis of the relationship of local
18 calls to total calls.

19 Q In your deposition, do you recall stating
20 that it was appropriate to include this expense
21 because there was some advertising, some instructional
22 advertising on how to use basic local service?

23 A Yes.

24 Q And do you remember the example that you
25 used?

1 A I think what I said was that we do
2 advertising today, and it is related to informational
3 or instructional. I don't remember a specific example
4 now.

5 Q Do you recall using Star-69 as an example?

6 A Yes, I believe that's true.

7 Q Is that part of basic local exchange
8 service, or is that an optional service for which an
9 additional fee is paid?

10 A It would be a vertical service.

11 Q So that really wouldn't be part of basic
12 local exchange?

13 A I don't believe so, no.

14 Q Are you aware of any advertising that is
15 limited solely to the provision of basic local
16 exchange service?

17 A Specifically?

18 Q Yes, sir.

19 A No.

20 Q Again I would like to ask a question about
21 an item that came up in your deposition. Do you
22 recall -- in speaking about operating expenses, do you
23 recall saying something to the effect that GTE doesn't
24 foresee any change in the way it operates or it will
25 operate over the foreseeable future, meaning the next

1 three to five years?

2 A Yes.

3 Q And by that did you mean that you
4 anticipated your operating expenses to remain
5 relatively flat?

6 A Yes, I did. I think what I said was that
7 given the fact that GTE had just gone through a fairly
8 extensive process of re-engineering effort and had
9 re-evaluated the systems and processes related to its
10 operations, that I didn't see any change in the way
11 that GTE does business today over the next three to
12 five years, and that those expenses would remain
13 relatively flat.

14 Q To the extent that your operating expenses
15 remain flat and your access lines continue to grow,
16 won't that result on a per unit basis in a decline in
17 expenses?

18 A It will not create a decline in expenses.
19 It will create a -- assuming that access lines in fact
20 would increase over time, you would see -- and
21 operating expenses do remain flat, you would see a
22 decrease in expense per line, yes.

23 Q Okay. That's what I meant by a per unit
24 basis. Expenses per line, that would decline?

25 A You would see that occurring. I thought

1 what you said was would you see operating expenses
2 decline, and I'm saying that I would not necessarily
3 expect operating expenses to decline.

4 Q But just by virtue of having the number of
5 lines increase and the expenses stay flat, the math
6 ends up with an expense per line in a downward trend?

7 A Yes, as the opposite would happen if access
8 lines would decrease.

9 Q Would you agree that one of the benefits of
10 competition is lower costs?

11 A I don't know that I -- that's a little
12 beyond the scope of my testimony. I don't know that I
13 would be the one to answer that.

14 Q Well, let's -- for purposes of my question,
15 we'll make it a hypothetical, and I would ask you to
16 assume that that is one of the benefits of
17 competition. Would you agree that based on that
18 assumption, that as competition develops more
19 intensely that the pressure to be more cost-efficient
20 grows as well?

21 A Generally I would say that's true.

22 Q Based on your testimony a few minutes ago
23 that your operating revenues will remain flat -- they
24 have been flat over the last couple of years; is that
25 correct?

1 A Operating expenses?

2 Q Yes.

3 A Yes.

4 Q And your opinion or GTE's opinion that it's
5 going to remain that way for the next three to five
6 years, could we conclude from that that the level of
7 competition has not and will not change over that
8 p riod of time for basic local exchange service?

9 A I don't know that you could conclude that,
10 no.

11 Q Can you draw any conclusions from the fact
12 that your operating expenses are going to remain flat
13 for three to five years and have been flat the last
14 couple of years, and compare that to the hypothetical
15 situation where as competition develops, the pressure
16 to decrease costs are going to become greater?

17 A Well, again, GTE has just gone through and
18 re-evaluated its systems and its processes, and has
19 those things in place since 1996, and I would not
20 expect even the introduction of competition to affect
21 that, generally that operations over the next three to
22 five years.

23 Q Well, I thought you told me a few minutes
24 ago that based on the assumption that one of the
25 benefits of competition is lower costs, that the

1 greater the degree of competition, the greater the
2 pressure to reduce costs.

3 A Well, I said generally I would agree with
4 that statement, yes.

5 Q Well, isn't that in conflict with what you
6 just told me?

7 A I don't believe so.

8 Q And why is that?

9 A Well, again, for the most part, as
10 competition starts to enter GTE's area -- we're
11 talking about the operations of GTE, and as
12 competition starts to enter the area, those people
13 that deal with our retail services today would start
14 to deal with the wholesale sides of the services. I
15 would not expect then the level of -- overall level of
16 operating expenses to change over time.

17 Q So is it -- just so I'm clear on this, is
18 it your opinion that an increasing level of
19 competition will have no effect on GTE's level of
20 operating expenses over the next three to five years?

21 A I don't believe it will, no.

22 Q Mr. Norris, isn't it true that it has been
23 reported that there's going to be a \$2 billion cost
24 synergies over the next -- over a three-year period as
25 a result of the GTE-Bell Atlantic merger?

1 A That's what I understand, yes.

2 Q Have you taken that into account in making
3 your adjustments?

4 A No, I have not.

5 MR. COKER: Madam Chairman, that's all I
6 have.

7 CHAIRMAN JOHNSON: MCI?

8 MR. HENRY: We have no questions.

9 CHAIRMAN JOHNSON: Okay. Staff?

10 MR. COX: Staff has no questions.

11 CHAIRMAN JOHNSON: Commissioners?

12 COMMISSIONER JACOBS: Mr. Norris, is it
13 true that -- well, let me ask it this way. In your
14 opinion, would you expect that there would not be any
15 cost -- economies of scale or cost efficiencies that
16 would occur through the development of second lines,
17 the greater deployment of second lines in homes in
18 local service?

19 THE WITNESS: I'm sorry. I'm having a
20 little bit of difficulty hearing you. Are you saying
21 that --

22 COMMISSIONER JACOBS: As second lines
23 become more prevalent in local service, you don't see
24 any cost economies that derive from that?

25 THE WITNESS: For second lines?

1 COMMISSIONER JACOBS: Yes.

2 THE WITNESS: Generally I would say
3 probably not. A line is kind of a line that is part
4 of the network, and the cost to maintain a second line
5 into a home is generally, I would say, going to be
6 about the same as the cost of the first line.

7 COMMISSIONER JACOBS: So you're going to
8 have duplicate -- you're going to simply double the
9 cost for a second line?

10 THE WITNESS: I'm sorry?

11 COMMISSIONER JACOBS: In your example, you
12 would double the cost for a second line?

13 THE WITNESS: I would not.

14 COMMISSIONER JACOBS: You would not?

15 THE WITNESS: No.

16 COMMISSIONER JACOBS: Okay. So there will
17 be some economies? As more second lines are deployed,
18 will there not be some economies there?

19 THE WITNESS: Are you speaking relative to
20 a cost per line decreasing?

21 COMMISSIONER JACOBS: Yes, yes.

22 THE WITNESS: Yes. As you add second
23 lines, the cost per line would in fact decrease, yes.
24 I would agree with that.

25 COMMISSIONER JACOBS: Okay. Thank you.

1 COMMISSIONER JOHNSON: Redirect?

2 MR. MITCHELL: No redirect.

3 CHAIRMAN JOHNSON: Exhibits?

4 MR. MITCHELL: GTE would offer and ask that
5 what has been marked as Exhibit 76 be inserted into
6 the record.

7 CHAIRMAN JOHNSON: Show it admitted without
8 objection.

9 (Exhibit 76 received in evidence.)

10 MR. COX: Staff moves Exhibit 77.

11 CHAIRMAN JOHNSON: Show that admitted
12 without objection.

13 (Exhibit 77 received in evidence.)

14 CHAIRMAN JOHNSON: Thank you.

15 MR. MITCHELL: GTE's next witness is David
16 Tucek.

17

- - - - -

18

DAVID G. TUCEK

19 was called as a witness on behalf of GTE and, having
20 been duly sworn, testified as follows:

21

DIRECT EXAMINATION

22

BY MR. MITCHELL:

23

Q Good morning, Mr. Tucek. Would you please

24

state your full name and business address?

25

A My name is David G. Tucek. My business

1 address is 1000 GTE Drive, Wentzville, Missouri.

2 Q Mr. Tucek, where are you employed and in
3 what capacity?

4 A I'm employed by GTE as Staff Manager of
5 Economic Issues. In this capacity, I'm responsible
6 for supporting GTE's incremental cost studies.

7 Q Mr. Tucek, in this proceeding did you
8 prepare direct testimony dated August 3rd that is 12
9 pages long?

10 A Yes, I did.

11 Q Do you have any corrections or changes to
12 make to that direct testimony?

13 A I have three minor corrections.

14 Q What are they?

15 A On page 3 of the direct at line -- excuse
16 me. Yes, on page 3 of the direct at line 3, the
17 number \$33.08 should be \$32.67. On line 7 of that
18 same page, the number 40 cents should be 34 cents.

19 Q Do you have any other changes?

20 A Yes, thank you. On page 7 at line 3, the
21 value 86.0% should read 85.5%.

22 Q Is that all?

23 A That's all the changes to the direct.

24 Q Mr. Tucek, with those changes in mind, if I
25 asked you the same questions that are in your direct

1 testimony, would your answers be the same as they
2 exist and as you've changed them?

3 A Yes, they would.

4 Q Mr. Tucek, did you also cause three
5 exhibits to be filed with your direct testimony marked
6 DGT-1 through DGT-3?

7 A Yes, I did.

8 Q Have you also caused to be filed revisions
9 to those three exhibits that are marked DGT-1R through
10 DGT-3R?

11 A Yes, I did.

12 Q Mr. Tucek, did you also file rebuttal
13 testimony in this proceeding?

14 A Yes, I did.

15 Q Rebuttal testimony dated September 2, 1998,
16 consisting of four pages?

17 A That's correct.

18 Q Any changes or corrections to make to that
19 testimony?

20 A I have one change. On page 2 at line 9,
21 the sentence beginning with the word "additionally"
22 should be stricken. And that's all the changes to the
23 rebuttal testimony.

24 Q There are no exhibits to your rebuttal
25 testimony?

1 A No, there are not.

2 MR. MITCHELL: Madam Chairman, at this
3 time I would move for the admission of Mr. Tucek's
4 direct and rebuttal testimony into the record.

5 CHAIRMAN JOHNSON: It will be inserted.
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GTE FLORIDA INCORPORATED

DIRECT TESTIMONY OF DAVID G. TUCEK

DOCKET NO. 980696-TP

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is David G. Tucek. My business address is 1000 GTE Drive, Wentzville, Missouri.

Q. BY WHOM ARE YOU EMPLOYED, AND IN WHAT CAPACITY?

A. I am employed by GTE as Staff Manager - Economic Issues. In this capacity, I am responsible for supporting GTE's incremental cost studies.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I have a Bachelor of Science Degree in Mathematics and Economics from Southeast Missouri State University, and a Master of Arts Degree in Economics from the University of Missouri. I also have a Master of Business Administration from St. Louis University. I began my career in the telecommunications industry as a Senior Cost Analyst with Contel Service Corporation in 1979. I became an employee of GTE in 1991, at the time of the merger between the two companies. During the course of my career, I have held various positions dealing with cost analysis and modeling, rate design, tariff

1 development, carrier billing, and demand analysis. I assumed my
2 present position in August of 1996.

3

4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY STATE OR**
5 **FEDERAL REGULATORY COMMISSIONS?**

6 A. I have testified as an expert witness before the state utility
7 commissions in Alabama, Arkansas, Hawaii, Illinois Iowa, Kentucky,
8 Michigan, Missouri, New Mexico, Nebraska, North Carolina,
9 Pennsylvania, and Washington. I have also sponsored expert
10 testimony before the Interstate Commerce Commission.

11

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. My testimony presents GTE-specific inputs that should be used to
14 populate the Benchmark Cost Proxy Model ("BCPM") in lieu of the
15 default inputs provided by the model sponsors. I also present the
16 results of the BCPM run using these inputs.

17

18 **Q. WHAT EXHIBITS ARE YOU SPONSORING?**

19 A. I am sponsoring the following exhibits, which are appended to my
20 testimony:

- 21 1. Exhibit DGT-1 GTE's Company-Specific Inputs for BCPM;
22 2. Exhibit DGT-2 A CD-ROM containing BCPM Populated with
23 GTE's Company-Specific Inputs; and
24 3. Exhibit DGT-3 A Binder Containing the BCPM Model Run
25 Results.

1 Q. WHAT WAS THE RESULT OF THE BCPM RUN?

2 A. Based on the inputs described below, the cost of basic local
3 telecommunications service produced by BCPM is \$33.08 per line,
4 per month. This figure excludes the cost of a standard white page
5 directory listing, which is included in Florida's statutory definition of
6 "basic local telecommunications service." (Fla. Stat. sec. 364.02(2).)
7 GTE estimates the directory listing cost to be \$0.40 per line, per
8 month.

9
10 Q. PLEASE IDENTIFY WHAT TYPES OF INPUTS GTE HAS
11 DEVELOPED FOR USE IN BCPM.

12 A. GTE changed BCPM's default values for the following inputs:

- 13 (1) cost of money;
14 (2) depreciation lives and salvage values;
15 (3) wire center line counts;
16 (4) tax rates and lives;
17 (5) fill factors;
18 (6) structure mix assumptions;
19 (7) structure sharing assumptions;
20 (8) spacing assumptions for poles, manholes, and guy
21 wires and anchors;
22 (9) special access line factor.

23
24 GTE also changed the following inputs related to switching and
25 transport costs:

- 2033
- 1 (1) percent local calls;
 - 2 (2) percent residence lines;
 - 3 (3) switch percent line fill;
 - 4 (4) land and buildings loading factors;
 - 5 (5) processor-related investment by wire center;
 - 6 (6) MDF and protection investment by wire center;
 - 7 (7) line port investment by wire center;
 - 8 (8) line CCS investment by wire center;
 - 9 (9) trunk CCS investment by wire center;
 - 10 (10) SS7 investment by wire center;
 - 11 (11) usage inputs dealing with calls per line, CCS per line,
 - 12 and CCS per trunk;
 - 13 (12) line-to-trunk ratio;
 - 14 (13) percent of local calls that are interoffice;
 - 15 (14) call completion fraction; and
 - 16 (15) maximum number of nodes on a SONET ring.

17

18 Additionally, GTE's BCPM inputs are based on GTE-specific input

19 prices for the following items: (i) manholes; (ii) conduit systems; (iii)

20 poles; (iv) guy wires and anchors; (v) NIDs and drops; (vi) cross-

21 connect boxes; (vii) copper cable; (viii) fiber cable; and (ix) Digital

22 Loop Carriers ("DLCs"). Finally, GTE utilized ARMIS and general

23 ledger data for 1997 to develop the inputs for network support ratios

24 and for operating expenses. All of the GTE company-specific inputs

25 for BCPM are presented in Exhibit DGT-1.

1 Q. HOW DID GTE DETERMINE WHICH COMPANY-SPECIFIC INPUTS
2 TO PROPOSE IN LIEU OF THE BCPM DEFAULT VALUES?

3 A. The company-specific inputs GTE proposes in lieu of the BCPM
4 default values were selected based on:

- 5 (1) the materiality with which the inputs affect costs, and
6 (2) GTE's ability to develop the company-specific inputs in
7 the format required by BCPM in the time allowed.

8 For example, the cost of money, depreciation, line counts and the
9 various expense factors are inputs which affect all aspects of the
10 network and which are easily understood. Likewise, the inputs for
11 structure mix, sharing, and the prices of cable and the other outside
12 plant components largely determine the cost of the loop, which makes
13 up roughly 73 percent of the total cost per line. GTE changed these
14 inputs because of their relative importance to overall costs. Similarly,
15 GTE used company-specific inputs for switching costs because they
16 account for roughly 14 percent of the total cost per line. At this point
17 in time, GTE has not been able to develop company-specific values
18 for every model input and GTE reserves the right to introduce
19 additional input values in any future proceedings.

20
21 Q. WHAT COST OF CAPITAL DID GTE USE?

22 A. GTE used a risk-adjusted, forward-looking rate of return of 12.65
23 percent. Development of this value is presented in the testimony of
24 GTE witness James H. Vander Weide.

25

1 Q. WHAT DEPRECIATION LIVES AND SALVAGE VALUES WERE
2 USED?

3 A. The lives and salvage values used are those sponsored by the
4 testimony of GTE witness Allen E. Sovereign.

5
6 Q. WHAT WIRE CENTER LINE COUNTS DID GTE USE?

7 A. GTE used its actual wire center line counts as of year-end 1997. In
8 addition to single-party business and residence lines, the line counts
9 include multi-line business, special access, private lines and multiple
10 residential lines.

11
12 Q. WHAT TAX RATES AND TAX LIVES WERE USED?

13 A. The tax rates of 35.0% federal, 5.50% state, 1.17% *ad valorem*,
14 0.02% other, and 3.03% gross receipts tax were used for Florida. The
15 BCPM default values for tax lives were used for all accounts except
16 for Motor Vehicles, Special Purpose Vehicles, Furniture, and Office
17 Support. For these accounts, tax lives of 5, 5, 7, and 7 years were
18 used, respectively.

19
20 Q. WHAT FILL FACTORS WERE USED FOR FEEDER,
21 DISTRIBUTION AND SWITCHING?

22 A. Values of 65 and 98 percent were used for feeder and distribution
23 plant, respectively. The 65 percent value represents a GTE-specific
24 upper limit for the average feeder fill, based on GTE's operations
25 across the country. For GTE's Florida operations, the actual average

1 feeder fill is 52.7 percent. The 98 percent factor for distribution
2 reflects the need for administrative spare. For switching, the GTE
3 national average value of 86.0 percent was used, which is
4 comparable to GTE's 85.7 percent state average for Florida.
5

6 **Q. WHAT STRUCTURE MIX INPUTS WERE USED?**

7 A. GTE replaced the default values of BCPM for the mix of aerial, buried
8 and underground plant with the actual percentages of plant mix for
9 Florida based on the density of GTE wire centers.
10

11 **Q. WHAT STRUCTURE SHARING INPUT VALUES DID GTE USE?**

12 A. GTE has used structure sharing inputs based upon GTE's actual
13 experience in Florida. GTE's pole sharing input for normal and soft
14 rock placement is 53.58 percent; for hard rock placement, the sharing
15 input is 54.52 percent. These percentages are based on the number
16 of poles to which GTE attaches, and on whether or not GTE is the
17 only utility using the pole. The sharing and price inputs for poles
18 represent a composite of 30 foot non-shared poles and 40 foot
19 shared-use poles. There is no distinction between normal and soft
20 rock placement because GTE's existing vendor contracts for pole
21 placement do not make this distinction. Likewise, the sharing inputs
22 of 100 percent for buried placement and 97.18 percent for conduit
23 and manholes reflect GTE's current experience in Florida and the
24 assessment of GTE operating personnel in Florida.
25

1 Q. WHY IS IT APPROPRIATE FOR GTE'S COST INPUTS TO
2 REFLECT SHARING PARAMETERS BASED ON GTE'S ACTUAL
3 OPERATING ENVIRONMENT?

4 A. Unless these parameters are based on GTE's actual operating
5 environment, then the resulting cost estimates will not reflect the long-
6 run forward-looking costs GTE expects to incur. In other
7 proceedings, it has been my experience that some parties have
8 attempted to justify levels of sharing that substantially exceed actual
9 experience based on the conclusory statement that opportunities for
10 sharing will be greater in the future. Such proposals conveniently
11 overlook the fact that GTE's network is in place today. They assume
12 that GTE (or other utilities) would have the foresight to install poles
13 and conduit systems that were large enough to accommodate these
14 greatly expanded levels of sharing. With respect to buried cable,
15 these parties apparently believe that GTE will dig up its existing cable
16 in order to immediately rebury in a shared trench. Even if one takes
17 the position that it is the costs of some hypothetical new entrant that
18 is going to rebuild the entire network that should be modeled, greatly
19 increased levels of sharing still cannot be supported. Even under this
20 hypothesis, the required coincidence of wants in space and time
21 among the sharing utilities must be assumed as well. However, there
22 is no hypothetical new entrant that will completely rebuild the electric
23 power and cable TV networks in GTE's serving areas. Like GTE,
24 their networks are already in place along with sharing arrangements
25 that made sense at the time.

1 Q. WHAT SPACING ASSUMPTIONS WERE MADE FOR POLES,
2 MANHOLES AND GUY WIRES AND ANCHORS?

3 A. GTE selected spacing inputs that are consistent with its actual
4 engineering practices. A pole spacing interval of 175 feet was used,
5 which falls between the BCPM defaults of 250 and 150 feet. For
6 manholes, a longer spacing of 750 feet was used rather than the
7 proposed defaults of 550 and 725 feet. A spacing interval of every
8 tenth pole was used for guy wires and anchors, which is a wider
9 interval than specified by the BCPM defaults.

10

11 Q. HOW WAS THE SPECIAL ACCESS LINE FACTOR DEVELOPED?

12 A. This input is based on GTE Florida's 1997 year-end data. The input
13 equals 12.28 percent.

14

15 Q. HOW WERE THE SWITCHING AND TRANSPORT INPUTS LISTED
16 ABOVE DEVELOPED?

17 A. The percent of local calls and the percent of residence lines were
18 based on actual 1997 data for GTE Florida. These values were 84.63
19 and 71.40 percent, respectively. As noted above, the switch percent
20 line fill is based on the national average value for GTE. The land and
21 buildings loading factors are based on the ratio of the corresponding
22 1997 ARMIS account balances to digital switching investment, where
23 these numbers have been adjusted to replacement values using C. A.
24 Turner indices where available. The investments by wire center for
25 each category listed above are based on SCIS and Costmod runs for

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1 representative model offices in GTE's network, and on the switch type
2 and number of lines in each Florida wire center. These investments
3 reflect the pricing GTE obtains for initial switch placements and for
4 capacity additions. The investments include telco engineering and
5 installation costs, as well as common equipment and power.
6 Accordingly, the BCPM inputs for these factors have been set to zero.
7 The usage inputs, line-to-trunk ratio, the percent of local calls that are
8 interoffice, and the call completion fraction were set to values
9 consistent with the SCIS and Costmod runs. The maximum number
10 of nodes on a SONET ring was set to eight.

11

12 **Q. WHAT INPUT PRICES FOR LABOR AND MATERIAL CHANGED**
13 **FROM THEIR DEFAULT VALUES?**

14 **A.** As indicated above, GTE has developed company-specific values for
15 those material and labor inputs that deal primarily with the loop: (1)
16 manholes; (2) conduit systems; (3) poles; (4) guy wires and anchors;
17 (5) NIDs and drops; (6) cross-connect boxes; (7) copper cable; (8)
18 fiber cable; and (9) DLCs. These material and labor inputs are based
19 on the prices that GTE currently pays for these inputs in Florida. In
20 Exhibit DGT-1, the inputs have been presented on a combined
21 material and labor basis, in order to preserve the confidentiality of the
22 data.

23

24 **Q. WOULD IT BE CORRECT TO BASE GTE'S COST ESTIMATES ON**
25 **THE LOWEST INPUT PRICES FROM AMONG ALL OF THE**

PRICES PROPOSED BY THE PARTIES TO THIS PROCEEDING?

1
2 A. No. Only company-specific inputs reflect each company's current
3 contracts with various material, construction and other service
4 vendors. It would be inappropriate to select the lowest inputs from
5 among all those offered, or from among the proxy model default
6 inputs, for the simple reason that the resulting set of prices would
7 likely not be attainable by any one company. The contract prices
8 negotiated by a company are very often a package deal, covering a
9 variety of products and at times specifying minimum volume
10 requirements. It is not possible to mix and match the terms of
11 different contracts to develop a set of pricing inputs that will represent
12 the costs that any company will expect to incur. Consider the analogy
13 of a customer choosing between two different calling plans offered by
14 two different providers of toll service. Suppose that the plan offered
15 by the first toll provider has a relatively low rate per minute, and that
16 it also requires a recurring payment of \$5 per month. Suppose also
17 that the plan offered by the second carrier has a relatively higher rate
18 per minute, but has no recurring monthly charge. Is it realistic to
19 believe the customer can obtain the lower per-minute charge from the
20 second provider, or that the first provider will drop the fixed monthly
21 charge? The answer is "No." Similarly, it is not realistic to believe
22 that any local exchange carrier can mix and match input prices from
23 a variety of vendors—whether these input prices result from
24 market-based transactions or are based on the "expert" judgement of
25 an engineering team.

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Q. HOW WERE GTE'S EXPENSE INPUTS TO BCPM DEVELOPED?

A. The expense inputs are of three types: capital related expenses, which are expressed as a percent of investment; non-capital related expenses, which are input to BCPM on a per-line basis; and the support ratios for general support assets. GTE witness Michael R. Norris addresses these expense inputs.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

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GTE FLORIDA INCORPORATED**REBUTTAL TESTIMONY OF DAVID G. TUCEK****DOCKET NO. 980696-TP****Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is David G. Tucek. My business address is 1000 GTE Drive, Wentzville, Missouri.

2242

Q. ARE YOU THE SAME DAVID G. TUCEK WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of MCI witness James Wells concerning the pole costs GTE provided to the FCC in August, 1997. GTE provided this information in response to an FCC data request and, while Mr. Wells has accurately reported the Florida information that GTE filed with the FCC, his use of this information in his direct testimony is completely inappropriate.

Q. WHY IS MR. WELLS' USE OF GTE'S RESPONSE TO THE FCC INAPPROPRIATE?

A. At pages 14 through 18 of his testimony, Mr. Wells attempts to make

1 use of the responses by GTE and other local exchange companies to
2 support the HAI default input value for the cost of a pole. His
3 testimony is inappropriate because the HAI national default value of
4 \$417 purports to represent the installed cost of a pole. On November
5 13, 1997, Mr. Wells testified in Kentucky Administrative Case No. 360
6 that this cost would include such items as the costs of guy wires and
7 anchors, inventory costs, and installation and engineering labor. The
8 number reported by GTE to the FCC for the price of a pole does not
9 include any of these costs. Additionally, the labor cost reported to the
10 FCC represents only the cost of installation and does not include any
11 engineering labor. Consequently, Mr. Wells has made a classic
12 "apples to oranges" comparison in his attempt to support HAI's default
13 input for the cost of a pole.

14
15 **Q. SHOULD MR. WELLS HAVE KNOWN HE WAS MAKING SUCH A**
16 **COMPARISON?**

17 **A.** Yes. On February 26, 1998, I filed supplemental rebuttal testimony
18 in the Kentucky proceeding that pointed out the mismatch between
19 the HAI default value and the pole costs provided to the FCC. In that
20 testimony I noted that, in addition to his Kentucky testimony, Mr.
21 Wells had filed similar testimony before the North Carolina Utilities
22 Commission in Docket No. P-100, Sub 133b. I also noted that, in
23 response to Mr. Wells' North Carolina testimony, GTE witness Terry
24 Robinson filed rebuttal testimony stating that the pole costs filed by
25 GTE in response to the FCC data request excluded the costs that I

1 identified above. Finally, I noted that Mr. Robinson's testimony was
2 filed on January 30, 1998, more than two weeks before Mr. Wells filed
3 his supplemental direct testimony in the Kentucky proceeding. I
4 cannot understand how Mr. Wells can continue to make the same
5 inappropriate comparison between the HAI default pole cost inputs
6 and the FCC data request, given that he has been advised of his
7 error twice in the last five months.

8

9 **Q. IS THE POLE COST UTILIZED IN GTE'S SUBMISSION OF BCPM**
10 **VERSION 3.1 DIRECTLY COMPARABLE TO THE HAI DEFAULT**
11 **VALUE?**

12 **A.** No, it is not. The HAI default pole price is for a 40-foot pole and
13 includes a loading for anchors and guys in the labor component of the
14 default value. The pole cost used in GTE's submission in Florida is
15 an average of the cost of a 30- and 40-foot pole, and excludes
16 anchors and guys.

17

18 **Q. IS IT POSSIBLE TO EXPRESS GTE'S POLE COST SO THAT IT IS**
19 **ON THE SAME BASIS AS THE HAI INPUT?**

20 **A.** Yes, it is. The comparable installed cost of a 40-foot pole is \$854.38,
21 without anchors and guys. With anchors and guys, the cost
22 increases to \$997.43 per pole. Based on the assumption that
23 anchors and guys are placed once every 10 poles, the average cost
24 is \$860.69 per pole. This is more than 100 percent greater than the
25 HAI national default input of \$417 for pole costs. Additionally, for

1 Florida, the HAI sponsors have adjusted the labor component of the
2 national default downward by 32 percent. Consequently, the resulting
3 HAI pole cost input for Florida is only \$381.20 per pole. The correct
4 value for GTE is more than 125 percent greater. Put another way, the
5 HAI input for Florida falls short of GTE's cost by 56 percent.

6

7 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

8 **A. Yes, it does.**

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1 BY MR. MITCHELL:

2 Q Mr. Tucek, have you prepared a summary of
3 your testimony?

4 A Yes, I have.

5 Q Would you please give that now?

6 A Good morning. My name is Dave Tucek. As
7 you know, I'm appearing here on behalf of GTE Florida.

8 In my summary I'm going to briefly address
9 three issues. First, I'm going to discuss the
10 GTE-specific inputs that I sponsor in my testimony for
11 use in BCPM. Second, I am going to talk about
12 comparing GTE's inputs for materials and labor with
13 those inputs offered by other parties. And finally, I
14 will talk about whether this Commission should select
15 one set of inputs for all local exchange carriers in
16 Florida or if the Commission should select inputs that
17 are specific to each company.

18 The inputs that I and Mr. Norris are
19 sponsoring reflect GTE's network characteristics,
20 operating practices, and most important, the prices
21 for labor and material that GTE is both currently able
22 and expects to obtain in operating its network in
23 Florida.

24 I'm sometimes asked how many BCPM inputs is
25 GTE populating with company-specific values. In

1 response, I say that counting the inputs we have
2 populated is really a futile endeavor. What is
3 significant is that we have populated the most
4 important inputs.

5 These include inputs that affect costs
6 overall, such as the cost of capital, tax rates,
7 depreciation lives, and expenses. These include
8 inputs that affect the most important parts of
9 network, the local loop and the switch. Together the
10 loop and the switch represent about 85% of the total
11 cost of basic local service. Roughly 70% is the loop
12 and 15% is the switch. Included in these inputs are
13 things like structure mix and structure sharing
14 assumptions, as well as the cost of network components
15 such as poles and cable and digital loop carriers.
16 And, of course, the cost of the switch is utilized in
17 GTE's network.

18 I note that with respect to switching, GTE
19 has entered the cost at the wire center level and that
20 we have also input a value into BCPM for switch line
21 fill of 85.5%. I also note that the value we've put
22 in for the line fill factor did not affect the results
23 that come out of BCPM for GTE. I know this because I
24 reran the model, or the folks in Texas actually reran
25 the model with a 100% line fill, and we saw that there

1 was no change in the monthly expense.

2 That's important, because there are
3 witnesses in this proceeding who said that we've
4 somehow double-dipped by inputting a line fill input
5 into the switching models underlining the wire center
6 cost and then inputting the same factor into BCPM.

7 The second issue that I will address is the
8 question of whether any conclusions can or cannot be
9 reached when you compare GTE's inputs for network
10 components with those submitted by other parties.

11 In a nutshell, very little can be concluded
12 from looking at the differences among various sets of
13 inputs. Just like trying to count the number of
14 inputs we've populated in BCPM, it's a futile endeavor
15 to search for meaning in the differences between the
16 inputs proffered by the parties in this proceeding.
17 The reason for this is that for any such comparison to
18 be meaningful, the inputs must include the same types
19 of costs.

20 GTE's inputs for poles, cables, and the
21 other network components start with the base price we
22 pay the vendor and also include freight, sales tax,
23 minor materials, provisioning expense, and engineering
24 and installation labor. Just like the base price for
25 material, the installation labor reflects the prices

1 that we currently pay our contractors.

2 I don't know if other parties have included
3 these costs in their corresponding inputs, even when
4 the inputs are called by the same name.

5 I gave an example of the need for
6 consistency in cost input development when making
7 comparisons in my rebuttal testimony. There I pointed
8 out that Mr. Wells' reliance on GTE's response to the
9 FCC data request on poles was inappropriate, and the
10 reason for that was that all the costs that he agrees
11 should be in the installed cost of a pole were not
12 included in GTE's response to the FCC.

13 For example, the GTE response to the FCC
14 excluded anchors and guys and excluded provisioning
15 expense, even though the HAI default value ostensibly
16 includes these costs. When you take GTE's current
17 pole costs and put them on the same basis as the HAI
18 default, a very different conclusion than the one
19 reached by Mr. Wells results.

20 The lesson we can learn from my rebuttal
21 testimony is that it is very important to make sure
22 there's no mismatch in what each company has included
23 in like named inputs before trying to assign meaning
24 to the differences. Any comparison of these data rely
25 on the unproven assumption that the inputs that are

1 called by the same name are developed on the same
2 basis. We've already seen this to not be the case
3 with something as basic as a pole.

4 I would also note that one needs to
5 investigate what goes into the development of the
6 input for a network component before making broad
7 generalizations, such as, GTE and the other carriers
8 must have included loadings for huts or
9 environmentally controlled vaults in their small DLC
10 costs. I can assure you that GTE's DLCs do not
11 include huts or environmentally controlled vaults. I
12 can also assure you that only Sprint and BellSouth can
13 testify to what their costs for DLCs or any other
14 network component includes.

15 Finally, I would like to turn to the issue
16 of company-specific inputs versus one size fits all.

17 First off, I would suggest that if this
18 Commission wants the cost model and the cost model
19 inputs to result in meaningful estimates of
20 forward-looking cost, it is important that we estimate
21 the forward-looking cost of providing local service on
22 each carrier's own network. The reason for this is
23 that the supported services are likely to be provided
24 primarily out of the incumbent's network for the
25 foreseeable future, if not indefinitely.

1 In particular, this means that the inputs
2 for the purchase and placement of network components,
3 cable, poles, and switches, must reflect the prices
4 that each company is able to obtain and expects to
5 pay. If a single "one size fits all" set of input
6 prices is chosen, say like picking the lowest
7 proffered input value for each component, the result
8 is likely to be a set of input prices that no company
9 is able to obtain, and the resulting cost estimates
10 will be meaningless.

11 Likewise, the other inputs, such as those
12 relating to sharing or to fill factors, must reflect
13 the operating characteristics of each company.

14 On Monday in his presentation, Mr. Wood
15 characterized the scorched note assumption as an
16 exception to the concept of forward-looking cost. I
17 would submit that the assumption is not an exception,
18 but is a recognition of the fact that these cost
19 models and their inputs must be rooted in reality.
20 Unless they're rooted in reality, the resulting
21 estimates will have no meaning.

22 It is incorrect, for example, to claim
23 that the concept of forward-looking cost or the
24 scorched note assumption means that we are assuming or
25 we must assume that the network is completely being

1 rebuilt from the ground up and that the opportunities
2 for structure sharing will therefore be greatly
3 enhanced.

4 Now, I don't deny that both models
5 proffered in this proceeding design a network as if it
6 is being built at once, but it's not because it's a
7 requirement for forward-looking cost. The reason is
8 that there's no other alternative. In the real world,
9 the network is built and evolves through time as
10 demand qualities change. Neither model has the
11 capability of modeling a network dynamically, with
12 demand growing in both time and space.

13 The best they can do is design the network
14 in one fell swoop, as Ms. Caldwell said, the fall from
15 the sky network, and they design it to serve the
16 entire existing market. This does not mean that we
17 will have opportunity to rebury plant that's in the
18 ground today or to resize existing conduit system or
19 pole lines across the state in order to take advantage
20 of greatly expanded sharing opportunities assumed by
21 the NAI sponsors.

22 Now, some parties are going to say, "Tucek,
23 you're wrong. We should not try to estimate the
24 forward-looking cost of providing local service out of
25 the existing carriers' networks. The correct standard

1 of what we ought to be estimating is the cost of an
2 efficient provider."

3 I don't want to argue about the standard
4 here. I just want to consider the implication that
5 often accompanies that assertion, that the existing
6 carriers are inefficient, because they have yet to
7 face the rigors of competition, so it is incorrect to
8 look to their actual experience in selecting inputs.
9 So let's examine that implication.

10 At one time, every carrier in this state
11 was subject to traditional rate of return regulation
12 by this Commission.

13 MR. COKER: Madam Chairman, I think I'm
14 going to assert an objection here. This is well
15 beyond the scope of his redirect or rebuttal
16 testimony.

17 CHAIRMAN JOHNSON: Response?

18 MR. MITCHELL: Madam Chairman, it certainly
19 is not. Mr. Tucek explains in his direct testimony
20 his approach to this forward-looking cost concept, and
21 this is just an explanation of how he went about
22 approaching that issue.

23 CHAIRMAN JOHNSON: Let me direct the
24 witness that you need to -- if this is a summary, you
25 need to be summarizing what was filed and stay within

1 what was filed as you provide your summary.

2 THE WITNESS: Okay. May I ask if I'm
3 allowed to talk about the deposition?

4 CHAIRMAN JOHNSON: Is that a part of your
5 summary?

6 THE WITNESS: Well, I'm going to refer to
7 it here, yes. I don't want to --

8 CHAIRMAN JOHNSON: It's not in your
9 prefiled testimony?

10 THE WITNESS: No.

11 CHAIRMAN JOHNSON: Then I would suggest
12 that you not provide it as a summary. The summary
13 process is --

14 THE WITNESS: Let me conclude that it has
15 been offered that there's no evidence or no reason to
16 believe that the existing incumbents are inefficient,
17 and if anybody would care to ask me, I would explain
18 why. And that ends my summary.

19 CHAIRMAN JOHNSON: Thank you. We didn't
20 mark his exhibits.

21 MR. MITCHELL: Not yet. Madam Chairman, I
22 would ask that the revised exhibits to Mr. Tucek's
23 testimony identified DGT-1R through DGT-3R be marked
24 as identification.

25 CHAIRMAN JOHNSON: We'll identify those as

1 Exhibit 78.

2 (Exhibit 78 marked for identification.)

3 MR. MITCHELL: Thank you. Mr. Tucek is
4 available for cross examination.

5 CHAIRMAN JOHNSON: We're going to recess
6 for lunch, a 30-minute lunch. We'll reconvene at
7 12:30.

8 (Proceedings recessed at 11:55 a.m.)

9 (Transcript continues in sequence in
10 Volume 20.)

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