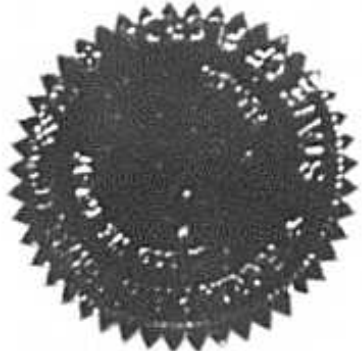


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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the matter of:
Determination of the cost of
basic local telecommunications
services, pursuant to section
364.025, Florida Statutes

DOCKET NO. 980 696-TP



PROCEEDINGS: SPECIAL AGENDA CONFERENCE

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

DATE: Friday, December 18, 1998

TIME: Commenced at 9:40 a.m.
Concluded at 1:20 p.m.

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

REPORTED BY: MARY ALLEN NEEL, RPR

DOCUMENT NUMBER - DATE

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FPSC - RECORDS/REPORTING

1 PARTICIPANTS:

2 MARTHA BROWN, Division of Legal Services
3 ANN CAUSSEAU, Division of Auditing and
4 Financial Analysis
5 WILL COX, Division of Legal Services
6 WALTER D'HAESELEER, Division of Communications
7 DAVID DOWDS, Division of Communications
8 GREG FOGLEMAN, Division of Communications
9 LAURA KING, Division of Communications
10 PAT LEE, Division of Auditing and
11 Financial Analysis
12 DALE MAILHOT, Division of Auditing and
13 Financial Analysis
14 ANDREW MAUREY, Division of Auditing and
15 Financial Analysis
16 SUE OLLILA, Division of Communications
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P R O C E E D I N G S

1
2 CHAIRMAN JOHNSON: We're going to begin
3 the Special Agenda 1 announcement. There may be
4 people coming in and out. This was supposed to be
5 transmitted live over the television network, but
6 we're having problems with the visual transmission,
7 but it can be heard, so we're going to go ahead and
8 proceed and allow the technical people to see if they
9 can rectify the problem. But I think at least for
10 purposes of this hearing, as long as they can hear us,
11 perhaps that will be helpful. And as soon as it's up
12 on the system and being broadcasted, they can join in
13 and view who's talking and what's being -- what's
14 happening here at the Commission on this item.

15 And with that, could counsel begin, or
16 whoever is going to present.

17 MS. KING: Good morning, Commissioners.
18 During the 1988 legislative session, the universal
19 services section of Chapter 364 was modified. The new
20 Section 364.025(4)(b), Florida Statutes, requires that
21 the Commission, after notice and opportunity for
22 hearing, select a cost proxy model and determine the
23 total forward-looking cost of providing basic local
24 telecommunications service. For the small local
25 exchange companies, those with fewer than 100,000

1 access lines, the Commission is not required to use
2 the same cost proxy model in response to
3 364.025(4)(b). Instead, a different cost proxy model
4 may be used, or a fully distributed embedded cost
5 methodology may be employed.

6 Although there was testimony in this
7 proceeding that went beyond merely selecting the cost
8 proxy model, this recommendation is to satisfy only
9 the requirements specified in Section 364.025(4)(b)
10 and (c). This recommendation does not address whether
11 or not a permanent universal service funding mechanism
12 is needed, nor does it address the potential size of
13 any such fund. These issues are not the subject of
14 this docket. There are six major issues dealt with in
15 this recommendation.

16 Issue 1 addresses the appropriate
17 definition of basic local telecommunications service
18 as it is used in Section 364.025. Staff asserts that
19 the appropriate definition is that contained in
20 Section 364.02, part (2). Mr. Cox will handle
21 questions on this issue.

22 Issue 2 addresses which of the two models
23 proffered in this proceeding, the BCPM or the HAI, is
24 appropriate for determining the total forward-looking
25 cost of providing basic local service. Of the two

1 models, Staff recommends that the BCPM 3.1 be adopted,
2 but with several modifications. Mr. Dowds and I are
3 responsible for this recommendation.

4 Issue 3 asks whether the cost determined by
5 the cost proxy model should be on a basis smaller than
6 a wire center. According to Staff member
7 Mr. Fogleman, cost determination at the wire center
8 level is appropriate at this time.

9 Issue 4 contains what are the appropriate
10 inputs that should be used in conjunction with the
11 cost proxy model in Issue 2 to yield the cost of basic
12 local service. Issue 4(a) through (t) addresses
13 various categories of model inputs. These inputs
14 include such items as taxes, depreciation, fill
15 factors, and structures. Each of these items must be
16 voted out separately by the Commission. Ms. Lee,
17 Ms. Causseaux, Mr. Maurey, Ms. Ollila and myself
18 worked on the various inputs. The specific Staff
19 member assigned to the input is noted at the beginning
20 of each section.

21 Issue 5(a) addresses which local exchange
22 companies must determine their cost of basic local
23 service using the proxy model identified in Issue 2,
24 while 5(b) addresses for these LECs identified in part
25 (a), what cost results from using the inputs

1 identified in Issue 4 with the model selected in
2 Issue 2.

3 Structural changes to the model recommended
4 in Issue 2 will need to be made by the model sponsors
5 before Staff is able to provide final cost results.
6 However, Appendix B provides preliminary results. As
7 discussed in greater length in Issue 5(b), we
8 recommend that the model sponsors make a compliance
9 filing within 25 days of the Commission's vote on this
10 recommendation.

11 Finally, Issue 6 addresses whether or not
12 the cost of basic local service for the small LECs
13 should be computed using the cost proxy model selected
14 in Issue 2 or through an alternative approach. For
15 this issue, there is a primary and an alternative
16 staff recommendation. Mr. Mailhot and Mr. Wright are
17 sponsoring the primary, while Mr. Dowds is sponsoring
18 the alternative.

19 Chairman Johnson, Staff is prepared to
20 proceed however you prefer.

21 CHAIRMAN JOHNSON: Thank you.
22 Commissioners, would you like to go issue by issue or
23 direct questions?

24 COMMISSIONER DEASON: I would like to go
25 issue by issue.

1 COMMISSIONER CLARK: I agree.

2 CHAIRMAN JOHNSON: Issue 1?

3 COMMISSIONER DEASON: I can move Staff on
4 Issue 1.

5 COMMISSIONER GARCIA: Second.

6 CHAIRMAN JOHNSON: Any discussion?

7 Seeing none, all those in favor signify by
8 saying "aye."

9 (Affirmative responses.)

10 CHAIRMAN JOHNSON: Show it approved
11 unanimously.

12 Issue 2.

13 COMMISSIONER CLARK: Let me just ask a
14 question. And this isn't related to Issue 2. You
15 used the term "TPI." Is it a price index, TPI a price
16 index? It's back further in the -- what is it?

17 MS. OLLILA: It's the telephone plant
18 index, and BellSouth used it take their current
19 investment and project the prices in the future.

20 COMMISSIONER CLARK: That's what I thought,
21 but I wanted to make sure. I didn't see it in the
22 list of acronyms.

23 COMMISSIONER GARCIA: Let me ask you -- I'm
24 sorry. Did you have some more? I was just going --

25 COMMISSIONER CLARK: No.

1 COMMISSIONER GARCIA: On page 56, you
2 recommend these changes to the structure. Give me
3 exactly what changes, the structural changes does and
4 why you agree with that, and does it increase cost,
5 reduce cost, or increase the calculation or reduce the
6 calculation? Just sum it up, because I got lost in
7 the intricacy of it. It's my own fault.

8 By the way, before -- because there may be
9 criticism on this. I thought this was a marvelous
10 report. I know I told you individually, but let me
11 get it on the record. I thought you guys did a
12 wonderful job with this. It was actually readable,
13 and that makes it much better. And when I finished, I
14 actually thought I understood it for a little while
15 until I started asking myself questions. But it was a
16 great job done, and it really explored all -- and I
17 think you pointed out all the shortcomings, which I
18 think we all feel with this.

19 Every time I try to do this, I harken back
20 to Chairman Johnson's speech at NARUC, where I think
21 she addressed some concerns in a nightmare story that
22 she gave us about dreams. But nonetheless, it's very
23 effective in communicating those shortcomings, but the
24 fact that we needed to decide something, and this is
25 the best you thought that we could do.

1 That said, I guess my question goes back
2 to, could you explain this to me, these structural
3 changes and what effect it has.

4 MR. DOWDS: Certainly. There are two kinds
5 of structural changes that we're recommending. On
6 page 56, there are two changes, the effect of which
7 should be to increase the route mileage of
8 distribution plant in order to hopefully narrow the
9 gap between the route mileage indicated by the minimum
10 spanning tree analysis as opposed to the mileage of
11 distribution plant actually built by the model.

12 COMMISSIONER GARCIA: Right.

13 MR. DOWDS: The impact should be to
14 increase the cost.

15 Over on pages 69 and 70, in the discussion
16 of switching --

17 COMMISSIONER GARCIA: Do me a favor. Tell
18 me which 69 and 70. The middle number or the corner
19 number?

20 MR. DOWDS: I'm sorry. The middle
21 number.

22 COMMISSIONER GARCIA: The middle number, 69
23 and 70.

24 MR. DOWDS: Beginning at the bottom of page
25 -- the last paragraph on page 69, there's discussion

1 of certain recommended changes that were --

2 COMMISSIONER GARCIA: It's the one you go
3 first, second, third?

4 MR. DOWDS: Yes.

5 COMMISSIONER GARCIA: Okay.

6 MR. DOWDS: Right. The AT&T witness
7 Petzinger identified certain apparent errors in how
8 the BCPM calculates certain aspects associated with
9 switching. There's three of them identified here, I
10 believe. And we believe that, as indicated on the top
11 of page 70, that the BCPM sponsors should implement
12 these corrections.

13 At this stage, we're somewhat unsure as to
14 the direction or the magnitude of these changes. I
15 suspect it may decrease a little bit, but I'm frankly
16 not sure.

17 COMMISSIONER GARCIA: Decrease the cost?

18 MR. DOWDS: Yes.

19 COMMISSIONER GARCIA: Okay. Decrease --
20 okay. A decrease in the cost, in other words,
21 increasing the subsidy -- no, decrease the cost
22 calculation?

23 MR. DOWDS: Yes.

24 CHAIRMAN JOHNSON: But on that first one,
25 that route mileage distribution plant, that's going to

1 increase the cost, wouldn't it?

2 MR. DOWDS: Yes, that's correct. That
3 should.

4 CHAIRMAN JOHNSON: And at the appropriate
5 time, I'll -- I just want you to go into more detail
6 on that.

7 COMMISSIONER GARCIA: I do also. I wanted
8 you to explain that out to me also. But finish where
9 you were going, and then -- okay. Then could you do
10 that for me and the Chairman? I agree.

11 CHAIRMAN JOHNSON: Because it's going to
12 increase it by more than the BCPM that was filed, and
13 Hatfield would have been a little -- it's no longer
14 Hatfield. HAI. This is a Staff -- in my mind, it was
15 a Staff calculation that I guess neither of the models
16 provided as much plant as you thought was necessary.
17 Or you can go ahead and explain how we got to where we
18 got and how much of an increase we think this will
19 be.

20 MR DOWDS: Certainly. A minimum spanning
21 tree analysis basically is designed to estimate the
22 minimum route length to connect a set of points. It's
23 a connect-the-dots calculation. In the context of
24 these models, the relevance of the MST analysis is,
25 using that mathematical technique applied to the

1 customer locations that the particular models
2 identifies, it yields the total route length required
3 to connect those locations.

4 The problems we have here are that the
5 models do not do what they intend to do with 100%
6 accuracy. You heard extensive discussion during the
7 hearing about the dispersion problems with the HAI
8 model because of the converting of irregularly shaped
9 polygons to regular shaped rectangles and then merely
10 handing off to the actual model which designs the
11 plant basically two statistics. One is what's called
12 the aspect ratio; the second is the area of the
13 polygon. And the problem is, it can understate
14 dispersion.

15 Similarly, the BCPM is building
16 distribution plant to its -- the term they use is an
17 ultimate grid, which is its surrogate for a carrier
18 serving area. Given certain of the assumptions as to
19 how it builds the plant, it too understates the
20 required distribution length relative to what it says
21 it's supposed to build to.

22 Our analysis indicates that of the two, the
23 BCPM, (a), understates to a significantly less degree,
24 and (b), it appears that there are plausible, quote,
25 fixes, unquote, that should remedy the problem.

1 Sprint Witness Staihr proposed two in
2 particular that we recommend should be implemented
3 sequentially to see what the result would be after
4 each step.

5 The first one pertains to -- let me make
6 sure I've got the right one here. There is a
7 constraint built into the BCPM such that the maximum
8 route miles of distribution plant that can be built
9 into one of BCPM's distribution quadrants cannot
10 exceed the route mileage of the roads in that
11 quadrant. Witness Staihr testified that by relaxing
12 this constraint, it's likely that in all probability,
13 more rural areas, that the model would thus build more
14 distribution facilities to narrow the gap between what
15 the MST said the mileage should be relative to the
16 locations BCPM was supposed to be building to.

17 The second recommendation that he made that
18 we recommend that the Commission adopt pertains to the
19 design of -- I always get this backwards. Of the
20 backbone cable, or the branch cable, rather, that runs
21 on the back of lots in a neighborhood.

22 Assume you've got six lots that are
23 contiguous. Both models currently don't run this
24 backbone cable all the way to the corners of the
25 respective lots. They stop about a half a lot length

1 on each end. If that cable were extended, by
2 definition, that would increase the aggregate
3 distribution mileage. These are the two changes to
4 remedy, ideally, or at least narrow the MST problems
5 that we're recommending.

6 COMMISSIONER DEASON: You got that now,
7 Joe?

8 COMMISSIONER GARCIA: Oh, yeah.

9 COMMISSIONER JACOBS: On page 51 through
10 53, you talk about this whole idea a little bit more
11 in detail. I want to understand a couple of points.

12 First of all, at the bottom of page 51, you
13 give those numbers. You say that the BCPM comes up
14 short by 20 -- I guess you're specifically looking at
15 BellSouth here, and you say they come up 24% and HAI
16 68%.

17 Now, I want to go over -- and then you talk
18 about some of those things that you just explained.
19 And then at the top of page 57, the first full
20 paragraph, that's what I want to understand there. It
21 says, "In addition"-- that sentence that begins, "In
22 addition, the main cluster, as you know, when these
23 adjustments to include the respective centroids, as
24 nodes are made, and then you give some different
25 percentages. Help me understand what that adjustment

1 really is about.

2 MR. DOWDS: I'm sorry, Commissioner. Could
3 you tell me -- I lost the reference.

4 COMMISSIONER JACOBS: On page 57.

5 COMMISSIONER GARCIA: Page 57 in the
6 middle?

7 COMMISSIONER JACOBS: No, in the first full
8 paragraph. The first sentence begins, "During cross
9 examination." And what I'm focusing on are the last
10 two sentences.

11 COMMISSIONER GARCIA: I'm sorry. I can't
12 find that paragraph so I can be with you.

13 COMMISSIONER CLARK: Which 57 is it?

14 COMMISSIONER JACOBS: Oh, I'm sorry.

15 MR. DOWDS: In the middle.

16 COMMISSIONER JACOBS: No, strike that.
17 I'm sorry. I'm wrong. I was looking at the bottom.
18 This is 53. I'm sorry, page 53.

19 COMMISSIONER GARCIA: And the paragraph
20 begins, "In addition," on page 53?

21 COMMISSIONER JACOBS: No, "During cross
22 examination," the first full paragraph.

23 COMMISSIONER GARCIA: Okay. Thank you.

24 COMMISSIONER JACOBS: Now looking at the
25 last two -- actually, I guess it's the last sentence,

1 when these adjustments to include the respective
2 centroids.

3 Now, that's contrasting to -- and I guess
4 that was page 51 that was I was on before. Page 51
5 before talked about -- in the last full paragraph, it
6 talks about the model estimates and how they fall
7 short of the actual plant needed to build. And then
8 you say that -- you talk about why they don't build to
9 -- why the nodes don't go -- in the case of the BCPM,
10 they don't go to that essential grid, and in the case
11 of the HAI, they don't go to the centroid. And you
12 talk about if you do that, if you were to build, make
13 the nodes go to the center of what they say is the
14 center of the population, there's a difference. Is
15 that -- and I want to make sure that that's the
16 essence of what you're saying here, that if you do
17 that, then you change the percentages by which they
18 fall short. That was what I'm trying to understand
19 and be more clear on.

20 MR. DOWDS: Let me try to restate what I
21 believe --

22 COMMISSIONER JACOBS: Tell me what you
23 meant to say, not how I characterized it.

24 MR. DOWDS: The AT&T witnesses asserted,
25 correctly, as it turns out, that in performing their

1 MR. DOWDS: It may be a warranted
2 clarification to the BCPM sponsors in terms of how
3 they should -- which I admit I overlooked, in terms of
4 how they should perform the MST analyses they provide
5 us with a compliance filing.

6 COMMISSIONER JACOBS: I see.

7 MR. DOWDS: Does that make --

8 COMMISSIONER JACOBS: So the upshot of it
9 is that in the -- and I want to be clear on this,
10 because in essence, what we're saying is, when it's
11 all said and done, the MST analysis should be a
12 benchmark.

13 MR. DOWDS: Yes.

14 COMMISSIONER JACOBS: That's a beginning
15 point. And then what we say is that, BCPM, when you
16 attempted to address the plant you would build up on
17 the other side of the digital loop carrier, you
18 misstated something.

19 MR. DOWDS: What happened was, by not
20 including that point, there are fewer points to
21 connect.

22 COMMISSIONER JACOBS: Okay.

23 MR. DOWDS: So thus, the AT&T witnesses
24 argued that you should include the digital loop
25 carrier as a node in terms of measuring the

1 distribution plant.

2 COMMISSIONER JACOBS: Right.

3 MR. DOWDS: And by not including that as a
4 point, that understates the analysis.

5 COMMISSIONER JACOBS: Okay. Now, how does
6 that impact on the BCPM's compliance with the MST
7 analysis? Do they -- it sounds like they fell farther
8 short.

9 MR. DOWDS: Yes, that's correct.

10 COMMISSIONER JACOBS: Okay. That's what I
11 wanted to be clear on. And --

12 MR. DOWDS: And I believe -- I'm sorry. Go
13 ahead.

14 COMMISSIONER JACOBS: And now what we're
15 suggesting is a way that they can make some
16 adjustments that would cause them not to fall as far
17 short as doing that would suggest.

18 MR. DOWDS: Yes, that's correct. But the
19 changes we're recommending would be indifferent to
20 exactly -- that would have, all things equal, the same
21 effect, regardless of how you're going to do your MST
22 analysis. The issue is whether or not you include the
23 DLC side as a node.

24 COMMISSIONER JACOBS: Okay. I understand.

25 MR. DOWDS: Which we implicitly intended

1 that they should. And for purposes of doing the MST
2 analysis, they file a compliance filing. But in and
3 of itself, it doesn't have anything to do with our
4 adjustments, if that makes sense.

5 COMMISSIONER JACOBS: I think I understand,
6 but let me try and get it straight.

7 What you're shooting for in this whole MST
8 analysis is a reasonable measure of how long the loops
9 ought to be, and therefore, what the plant to serve
10 should look like. Okay?

11 And what I think I'm hearing you say is
12 that these points that should have been included in
13 that measurement weren't included, and if you include
14 them in there, the measurement for BCPM gets shorter,
15 and therefore the requirement that it must meet in
16 order to be compliant with the MST analysis is
17 impacted and essentially falls further short of that
18 measurement.

19 MR. DOWDS: Yes.

20 COMMISSIONER JACOBS: Okay. Now, and what
21 our adjustments don't necessarily bring them -- did I
22 just hear you say that what we're suggesting as
23 adjustments to that don't necessarily bring them
24 closer? Or do they --

25 MR. DOWDS: We have testimony that they

1 will decrease the shortfall.

2 COMMISSIONER JACOBS: Okay. Now --

3 MR. DOWDS: May I give --

4 COMMISSIONER JACOBS: Go ahead. Go ahead.

5 MR. DOWDS: May I give you a hypothetical?

6 Maybe this will help. Let's assume just for sake of
7 argument that you do an MST analysis the way the LECs
8 did, which is basically they connected the dots, where
9 the dots are only the -- exclude the DLC side as a
10 node. And let's assume you add them all up and prove
11 the number is 8,000 feet. Okay? However, let's
12 assume further that for some reason, again
13 hypothetically, the model only builds plant to those
14 same locations you used in the MST analysis equal to
15 6,000 feet. Okay?

16 Let's assume one more. Let's assume you
17 did the same MST analysis, but instead of 8,000 feet,
18 you added the DLC side, and let's assume that it went
19 from 8,000 to 9,000. What I'm saying is, the changes
20 we're recommending will make the 6,000 bigger, so it
21 will decrease the shortfall whether it's 8,000 or
22 9,000. Does that help?

23 COMMISSIONER JACOBS: All right, sir.

24 COMMISSIONER CLARK: Well, I'm not sure it
25 did, at least for me. I viewed your comments with

1 regard to the MST, MTS, minimum spanning tree, as sort
2 of a sanity check on the models.

3 MR. DOWDS: Right. It's an internal
4 consistency test of whether the model does what it
5 says it's supposed to do.

6 COMMISSIONER CLARK: Right. And you found
7 that the BCPM came closer to what the MST told you was
8 likely to be what you needed. It was just a sanity
9 check.

10 MR. DOWDS: Yes.

11 COMMISSIONER CLARK: Okay.

12 COMMISSIONER JACOBS: The ultimate cost to
13 serve --

14 CHAIRMAN JOHNSON: Let's go back to that
15 question, though. But it wasn't just a sanity check,
16 in that we're going to actually revise -- that's one
17 of the modifications to the model, so it will actually
18 affect the inputs.

19 COMMISSIONER JACOBS: Now, that's --

20 COMMISSIONER CLARK: And the modifications
21 would be what Witness Staihr thought were appropriate?

22 MR. DOWDS: Yes.

23 COMMISSIONER CLARK: Okay.

24 CHAIRMAN JOHNSON: But we don't know the
25 exact -- how that's going to impact the dollars. We

1 just know directionally, it will increase the cost.

2 MR. DOWDS: It should increase the
3 distribution plant mileage and thus the dollars of
4 distribution plant.

5 COMMISSIONER DEASON: Is that a change that
6 can readily be made to the model? Or is it a change
7 to the model, or is it a change in inputs?

8 MR. DOWDS: It's a change to the model
9 structure, in other words, the formula.

10 COMMISSIONER DEASON: That's what I thought
11 it was. Now, when you start changing the model,
12 usually that is a difficult undertaking. And my
13 question is, is that something that can be implemented
14 that's straightforward, direct, understandable, with
15 no interpretation controversy, so that we get results
16 back 25 days from now, and we say, "That's not the way
17 we meant it. We wanted you to interpret it this way
18 when you made that change to the model," because I'm
19 concerned about the time constraints under which we
20 have to operate.

21 I want to make sure that we give direction
22 as to what is required so that when we get the results
23 back, it's what we intended.

24 MR. DOWDS: It's my belief that the BCPM
25 model sponsors will likely -- one of two scenarios

1 will occur. Either Sprint people in Kansas City will
2 do the calculations who have been working on this
3 model for at least two years, or they will have
4 INDETEC, who is their consultant for the last year,
5 year and a half, implement the changes. I believe
6 that this description, especially since it was -- this
7 is essentially a paraphrase of what Sprint Witness
8 Staihr proposed. It's fairly straightforward. It
9 amounts to, in one case, removing from a formula a
10 value which constrains the distribution plant mileage
11 in a quadrant. Basically, it's a glorified, extremely
12 complicated if-then statement. And what they would
13 need to do is go in and make sure they get the ripple
14 effects to still meet the constant, which is basically
15 the road mileage.

16 COMMISSIONER DEASON: But you're not
17 incorporating MST per se into the model?

18 MR. DOWDS: No.

19 COMMISSIONER DEASON: You used it as a
20 check on internal consistency to make a general
21 finding that there are understatements in mileages,
22 and you've look at the model as to how is a way to
23 compensate or correct for that.

24 MR. DOWDS: Yes.

25 COMMISSIONER DEASON: But even with the new

1 results, when you apply the new results to an MST
2 test, you still may find some situations where the MST
3 test would show that they're still insignificant -- I
4 mean deficient mileages, but that should be minimized
5 with the change to the model that you're suggesting.

6 MR. DOWDS: That's our hope. We don't know
7 if we can remedy the problem completely. We just flat
8 out don't know. Based on the record we had, these
9 proposals should move in that direction. Whether the
10 MST analysis that we want them to file in -- we said
11 25 days because of the constrained time schedule.
12 Whether that matches exactly the route mileage built
13 by the model, we don't know. The record indicates
14 that the two should converge. By how much we frankly
15 don't know.

16 COMMISSIONER DEASON: We don't know. We
17 know that it should be better.

18 MR. DOWDS: Yes.

19 COMMISSIONER DEASON: But what if we get
20 results back that we are -- are unanticipated. Do we
21 have any evidence in the record that shows what the
22 magnitude of the changes seem to be by making the
23 modification you're suggesting?

24 MR. DOWDS: No, we don't. We would have
25 to -- the changes would have to be implemented really

1 in order to know that.

2 COMMISSIONER DEASON: So it's not like -- I
3 know numerous times we have evidence in the record
4 where you asked the model to be run with different
5 assumptions or different input, which I think it's
6 fairly readily able to do. But when you start talking
7 about changing the model itself, that's a different
8 proposition.

9 MR. DOWDS: We were a little leery about
10 trying to do that ourselves, because it's a little
11 complicated. And in all candor, we weren't sure we
12 had enough time to make sure we didn't mess it up. In
13 other words, we're moderately knowledgeable about the
14 model. We've been working with it for a number of
15 months. But the model sponsors should be able to do
16 this pretty quickly.

17 COMMISSIONER DEASON: Well, let me ask
18 another question. I guess it's more of a
19 philosophical one. Obviously, during the course of
20 this hearing, the incumbent LECs, with the exception
21 of the small companies, generally put forth positions
22 which tended to increase costs, as compared to the
23 intervenors, who basically put forth positions which
24 tended to decrease costs or minimize costs. I mean,
25 that's -- and we're trying to take all this

1 information and try to find what we think is
2 appropriate.

3 My question is, given that observation --
4 and I'm sure there's exceptions. That's not always
5 the case, but generally that's the tendency. Given
6 that tendency, and that this is a BCPM model basically
7 that we're recommending to use, and we're finding a
8 shortfall or a structure within that model which in
9 Staff's opinion has the tendency to understate costs,
10 why is this not something that the incumbent LECs
11 themselves identified and modified and told us that
12 this is something that needed to be corrected to
13 present costs as they deem them?

14 MR. DOWDS: The short answer is, I don't
15 know. What we do know and/or have in our record is an
16 acknowledgement by the LECs that there was a problem
17 and some proposals which admittedly they apparently
18 had not implemented as of the time they testified
19 which they thought would take steps to alleviate, at
20 least in part, the identified problems.

21 COMMISSIONER DEASON: Is there the
22 potential -- and I know that the model is certainly
23 complex and complicated. Is there the potential that
24 with changing this, that there are unanticipated
25 consequences in the fact that it has an effect on

1 something which has an effect on something which has
2 an effect on something, such that when you rerun the
3 model, you don't know what results you're going to
4 get?

5 MR. DOWDS: That's always a possibility.
6 But I think on balance it should be unlikely. And let
7 me explain why I believe that's the case.

8 Most of the shortfalls that are meaningful
9 are in the low density areas. In my opinion, these
10 are the areas that if you ever want to provide
11 universal service funding, these are obviously areas
12 that one should target. I have fewer misgivings about
13 erring on the high side in such areas, because on
14 balance, that's what -- those are the important
15 aspects.

16 If we want to get something right, we
17 should strive to get it right in the rural low density
18 areas, and that's where the record indicates that the
19 lion's shares of the glitches between the MST and what
20 the model builds to occurs.

21 And because of the distribution of MST --
22 the difference between the MST and what the model
23 builds to is greatest in the low density areas, it
24 becomes almost de minimus in the high density areas.
25 So it shouldn't really -- these changes shouldn't have

1 much effect on the high density areas.

2 And it's one of those -- it's preferable,
3 in my opinion, to come up with more reasonable
4 estimates for the low density areas, even if the
5 result is a slight overstatement in the high density
6 areas, because we know what we did, so we know the
7 direction of any bias we're introducing. Moreover,
8 we're not going to -- hopefully we're not go to
9 provide high cost funding in the high density areas
10 such as Miami or Fort Lauderdale. So it's one of
11 those tradeoffs.

12 COMMISSIONER CLARK: I have a general
13 question, getting back to -- to ask you the
14 relationship between the universal service fund that
15 might be established in the state and the one
16 established by the FCC. Is it correct that the FCC is
17 going to adopt a model -- has it adopted a model?

18 MR. DOWDS: Yes, but it's not part of this
19 -- well, yes.

20 COMMISSIONER CLARK: And is it my
21 understanding that a recommendation on the universal
22 service fund and a decision by the FCC is due in July?

23 MS. CAUSSEAU: Yes, for the large --

24 MR. DOWDS: Before then, because --

25 COMMISSIONER CLARK: For the large

1 carriers, which would include the ones that you're
2 recommending we use the BCPM or -- I can't remember.
3 Bench Cost Proxy -- yes, BCPM.

4 COMMISSIONER DEASON: No, David is also
5 recommending that we apply it to the other companies
6 too.

7 COMMISSIONER CLARK: Yes.

8 COMMISSIONER DEASON: In the alternative.

9 COMMISSIONER CLARK: Yes. But they will
10 decide on the model in July, and will they decide on
11 the fund and how to collect it in July?

12 MR. DOWDS: What they're already -- they
13 issued an order four days after your hearings closed
14 in this proceeding picking a platform. They picked a
15 model, which is neither -- not a model that's in this
16 proceeding. So it's one of those darned if you do,
17 darned if you don't situations, because your record,
18 unfortunately, is limited to two as opposed to three
19 models, in my opinion.

20 But you're right. It was literally the
21 week after, the week after the hearings closed in
22 this. I think it was on a Thursday. They issued the
23 order picking a platform model. The next step that
24 they're still working on is, they're picking inputs to
25 populate that model, and the July 1 date is their

1 target implementation date for determining funding for
2 nonrural LECs using a proxy methodology.

3 COMMISSIONER CLARK: Here's my question.
4 I assume that they are going to determine an amount
5 that needs to be recovered through their federal
6 universal service fund. How will that work with the
7 state universal service fund? Will it -- is it just
8 separate, or do you sort of determine how much you
9 need to support a particular area? Is it wire center?

10 MR. DOWDS: I'm sorry. Whose wire
11 center?

12 COMMISSIONER CLARK: We're not going to go
13 to census block yet. We're doing wire center,
14 identifying where the support is needed?

15 MR. DOWDS: I don't know. That issue is
16 not a topic of this proceeding.

17 CHAIRMAN JOHNSON: In ours, that's Greg's,
18 the wire center basis.

19 MR. DOWDS: That's for reporting of the
20 cost.

21 COMMISSIONER DEASON: It's just --

22 COMMISSIONER CLARK: That's what I mean.

23 COMMISSIONER DEASON: Right, reporting
24 costs.

25 MR. DOWDS: That's all --

1 COMMISSIONER DEASON: We're not doing
2 anything --

3 COMMISSIONER CLARK: I guess what I'm
4 trying to find out is, you know, once you identify the
5 cost, who's going to make up the portions of the
6 universal service fund? How are the two going to work
7 together?

8 MR. DOWDS: I don't know.

9 COMMISSIONER CLARK: Okay.

10 MR. DOWNS: I mean, I can conjecture, but I
11 don't know. There's so many things up in the air on
12 that, so many -- a multitude of decisions that would
13 have to be made.

14 COMMISSIONER CLARK: Well, presumably you
15 sort of say that in this area it costs \$50 to serve,
16 and we believe that 25 of that needs to be subsidized.

17 MR. DOWDS: But we're not saying that here.

18 COMMISSIONER CLARK: I know that.

19 MR. DOWDS: Okay.

20 COMMISSIONER CLARK: I know that. I'm just
21 trying to -- but what we decide here is going to be
22 the basis for determining, you know, how much you may
23 need.

24 MR. DOWDS: I guess my reaction would be
25 yes and no, as usual.

1 In my opinion, you are obligated under the
2 terms of 364.025(4)(b) to select a proxy model for the
3 big LECs. And you only have two in the record, so in
4 my opinion, you have no choice.

5 Now, however -- what you opt to tell the
6 Legislature to do or recommend or any other issues,
7 we're -- let me try again. This docket is basically
8 -- you have to be in compliance with what the statute
9 says. You don't have to like what you're
10 recommending, but you have to make the recommendation,
11 nevertheless. In other words if you opt to --

12 COMMISSIONER CLARK: I'm not sure -- let me
13 try again. Suppose you have -- the FCC develops a
14 model, and presumably the model would be applied to
15 the large LECs in Florida, and there would be a
16 determination of how much it costs to serve a
17 particular area, loops in a particular wire center, as
18 I understand it. And then we would be doing the same
19 thing. And to the extent we don't use the same cost
20 models, they're probably going to be different. But
21 when we determine what we might recommend or what the
22 Legislature might do, it's -- probably you're going to
23 subtract out how much you're going to get from the
24 Federal Government from how much you would have to --
25 you might recommend in the state. Would that be

1 correct?

2 MR. DOWDS: Presumably, yes.

3 COMMISSIONER CLARK: And how is the federal
4 universal service fund going to be funded? Are they
5 going to -- I guess I'm --

6 MR. DOWDS: By funding, you mean how --
7 whatever the dollar amount that's identified, how will
8 it be recovered from --

9 COMMISSIONER CLARK: Yes.

10 MR. DOWDS: I can tell you how it's done
11 today, but I don't know if that will be bona fide down
12 the road.

13 COMMISSIONER CLARK: Well, tell me --

14 MR. DOWDS: Currently the funding for the
15 interstate high cost and low income programs are
16 recovered from -- based on the interstate and
17 international revenues of interstate providers. So
18 basically they identify how much money they need to
19 recover, and let's assume for the sake of argument
20 it's around 1.7 billion for those two programs, I
21 believe, in that neighborhood. That's the numerator.
22 The denominator is the interstate and international
23 revenues of all interstate providers, which is -- I
24 don't remember the number. It's about 50 to \$60
25 million. And they back into a surcharge percent, and

1 they send bills to different carriers.

2 COMMISSIONER CLARK: Let me ask this
3 question. There's going to be one model, federal
4 model. There isn't going to be an opportunity to use
5 the model we've adopted in Florida. They're just
6 going to have one.

7 MR. DCWDS: (Gesturing.)

8 COMMISSIONER CLARK: Okay.

9 CHAIRMAN JOHNSON: I guess David would say
10 he doesn't know, but actually, on the Joint Board
11 recommendation, at one point we had recommended the
12 first time around that the states could perhaps submit
13 their own state studies, but in the last Joint Board
14 recommendation, we said for purposes of establishing a
15 federal universal service fund, it would be best just
16 to have the federal model. So the FCC still must make
17 a final decision, but states were not advocating
18 allowing people to submit their own models, because
19 that would just be --

20 COMMISSIONER CLARK: A nightmare. Okay.

21 CHAIRMAN JOHNSON: -- an unworkable
22 problem. So we will probably be stuck with the one
23 federal model.

24 MR. D'HAESELEER: Susan, it wouldn't
25 surprise me that you have a federal fund, and you have

1 a model, a federal model, so that takes care of the
2 federal side. Now, on the state side, we don't have
3 the same constraints, so you may have many different
4 models to recover the state side of a universal
5 service problem.

6 COMMISSIONER CLARK: I'm trying to
7 understand how the differences in what you calculate
8 the cost of the service to be might be resolved. But
9 I suppose it's not something we have to be -- decide
10 today.

11 Let me ask one other thing. You listed on
12 page 32 some of the criteria, I think, middle 32, that
13 the federal cost proxy had to meet. And I presume
14 that the cost proxy model that you're recommending
15 meets that, those criteria.

16 MR. DOWDS: Not necessarily.

17 COMMISSIONER CLARK: Which ones would you
18 say it does not meet, and why?

19 MR. DOWDS: Okay. First of all, for
20 informative purposes, these criteria were in the May
21 1997 FCC Universal Service Order, Paragraph 250. They
22 were the target criteria at that point in time.

23 But let me tell you at the outset that the
24 FCC's model does not meet these criteria either.
25 Okay? But not all of them. Which ones does the model

1 not meet? Number 4, it says the model uses either the
2 federal 11.25 or a state-authorized return for
3 intrastate services.

4 COMMISSIONER CLARK: Well, we did that, I
5 thought.

6 MR. DOWDS: Well, this says for intrastate
7 services. What's being recommended here is a
8 reasonable cost of money applicable to a provider of
9 universal services, not the LECs. We're not doing
10 rate of return prescription here for a local exchange
11 company.

12 COMMISSIONER CLARK: But we've set a --
13 we've looked at it and set an appropriate rate of
14 return.

15 MR. DOWDS: For a provider of universal
16 service, not a provider of universal services. One
17 could -- I mean, you could argue either way. In an
18 abundance of caution, I would conclude that we're not
19 meeting that requirement, that criterion. But you
20 could equally conclude --

21 COMMISSIONER CLARK: Your distinction
22 being it's not a provider of intrastate services?

23 COMMISSIONER DEASON: No, that it's not an
24 authorized return. We no longer set an authorized
25 return.

1 MR. DOWDS: That's correct.

2 COMMISSIONER CLARK: Oh, all right.

3 MR. DOWDS: We don't set returns.

4 COMMISSIONER CLARK: Okay.

5 MR. DOWDS: I would have to defer to
6 Ms. Lee on number 5 whether or not the depreciation
7 recommendations comply with that. I don't know
8 offhand.

9 COMMISSIONER CLARK: I thought you said
10 they did in your recommendation.

11 MS. LEE: For the technology sensitive
12 accounts they do. For the other accounts, not
13 necessarily are they within the FCC-prescribed ranges.
14 One in particular that I can think of right offhand is
15 computers. We're recommending a five-year life. I
16 think the FCC range starts at six.

17 COMMISSIONER CLARK: Okay. What about
18 number 10?

19 MR. DOWDS: For purposes of this
20 proceeding, I would say it does not meet it, because
21 the issue of support is not before you, and we have
22 intentionally not provided any information on possible
23 levels of support, because in order to do that, we
24 would have to go beyond the scope of this docket.

25 COMMISSIONER CLARK: Okay. All right.

1 MR. DOWDS: Setting a revenue benchmark or
2 something like that.

3 COMMISSIONER JACOBS: Any others?

4 CHAIRMAN JOHNSON: Any others, David? That
5 was it; right?

6 COMMISSIONER JACOBS: Any other of those
7 factors?

8 CHAIRMAN JOHNSON: Leon just asked if there
9 were any others.

10 COMMISSIONER JACOBS: Any other of those
11 factors?

12 MR. DOWDS: I think that we could argue
13 that we meet all the others.

14 MR. COX: Commissioner Clark, I would just
15 point out one thing with regard to the interaction of
16 a state, interstate fund versus the federal fund. In
17 Section 254(f) of the Telecommunications Act, it
18 states that a state may adopt regulations to provide
19 for additional definitions and standards to preserve
20 and advance universal service within that state, only
21 to the extent that such regulations adopt additional
22 specific, predictable, and sufficient mechanisms to
23 support such definitions or standards that do not rely
24 on or burden the federal universal service support
25 mechanisms. So basically it's saying that we don't

1 have -- we can employ our own standards. We don't
2 have to follow these criteria, so long as we don't
3 burden the federal mechanism.

4 COMMISSIONER CLARK: Okay.

5 COMMISSIONER DEASON: And what do they mean
6 by burdening the federal mechanism?

7 MR. DOWDS: As long as it's our money.

8 COMMISSIONER DEASON: That's what I
9 thought. And obviously, we're doing this for intra --
10 our own purposes. So -- okay.

11 COMMISSIONER CLARK: I have one question.
12 And I think I read it later on in the recommendation,
13 but what is Staff recommending with respect to
14 copper? That we only use copper for 12,000 feet and
15 below?

16 MR. DOWDS: Oh, okay, the copper/fiber
17 breakpoint?

18 COMMISSIONER CLARK: Pardon me?

19 MR. DOWDS: This is the 12 versus 18?

20 COMMISSIONER CLARK: Yes, it is the
21 fiber/copper breakpoint.

22 MR. DOWDS: Okay. I believe --

23 COMMISSIONER CLARK: Twelve kilofeet -- on
24 page 74, I take that to mean that -- at the bottom of
25 the second full paragraph, I took that to mean that

1 the reasonable stand -- that copper loop lengths will
2 be limited -- you'll use copper when it's 12 kilofeet
3 or less. Above that, you'll use fiber?

4 MR. DOWDS: Yes. Do you want me to clarify
5 or explain that?

6 COMMISSIONER CLARK: Yes.

7 MR. DOWDS: Okay. There are two
8 interrelated issues. One of them in my opinion is a
9 red herring. There was a dispute between the parties
10 as to whether the maximum length of a loop that's
11 comprised of copper, which is basically -- which is
12 equivalent to the portion of the loop that's hanging
13 off a carrier system, whether it should be 12 kilofeet
14 or 18.

15 The HAI model advocates that it should be a
16 maximum copper loop length of 18,000 feet. BCPM says
17 12. BCPM -- I forget the exact arguments, but it was
18 essentially that if you have more -- they were arguing
19 that in some sense, you would be providing deficient
20 quality if you go beyond 12, and HAI says, "Well,
21 yours is too extensive, so therefore, use mine."

22 Based upon my review of the record, it's a
23 red herring. It really doesn't matter as long as you
24 build it correctly.

25 For example, my understanding from the

1 record is that you can use 26-gauge copper cable out
2 to 12 kilofeet without any additional devices added to
3 it. If you want to use instead out to 18 kilofeet,
4 you have to make two -- depending upon the exact
5 length of that loop, you have to make potentially two
6 adjustments. One, you have to use a different gauge
7 cable. You have to go from 26 to 24, which is more
8 expensive copper cable. And you need to use what are
9 called extended range line cards. And it's my
10 understanding -- I'm not an engineer, but I'm winging
11 it -- that there's two. There's one in the digital
12 loop carrier facility, and there's one in what's
13 called the central office terminal back at the central
14 office. These cards, line cards are different from
15 the normal line cards that would be used to provide
16 POTS service on a 12-kilofeet loop, and they tend to
17 cost more. But as long as you build it right, it
18 doesn't make any difference.

19 COMMISSIONER CLARK: All right. Let me see
20 if I can sort of return that to you. You're saying if
21 you used copper beyond that and added the conditioning
22 that you would need to add, it would bring you up to
23 what you would probably spend if you just put in
24 fiber?

25 MR. DOWDS: Okay. All right. Let me

1 finish the 12 versus 18, and then I'll get back to
2 that.

3 COMMISSIONER CLARK: Okay.

4 MR. DOWDS: There was -- the short answer
5 is, there was basic agreement by the parties that you
6 don't have copper more than 18 kilofeet. The issue
7 that they were arguing about was whether it should be
8 18 or less.

9 In other words, nobody -- none of the
10 parties argued that you should have copper loops --
11 you should as a standard practice design copper loops,
12 the copper portion of a loop to be more than 18
13 kilofeet. That wasn't an issue.

14 COMMISSIONER JACOBS: But the bottom line
15 on that fact was that you could -- if you did the 18
16 kilofeet, you could do more drops?

17 MR. DOWDS: Not exactly. Basically what
18 happens is, the longer the copper portion, then the
19 shorter your feeder facilities are, which is the
20 portion from the central office to the carrier
21 system. So it's a tradeoff between having short
22 feeder facilities and long loops, long copper loops,
23 or longer feeder facilities and shorter copper loops.
24 Does that make sense?

25 COMMISSIONER JACOBS: Yes.

1 MR. DOWDS: Because --

2 COMMISSIONER JACOBS: I'm sorry. I said
3 yes.

4 COMMISSIONER CLARK: I don't think the
5 people sitting at the table necessarily --

6 MR. DOWDS: I guess the --

7 COMMISSIONER CLARK: I thought you
8 indicated that you use the -- it says, "On balance, we
9 recommend that 12 kilofeet is a reasonable standard
10 for the maximum copper loop length based on record
11 evidence that indicated that overall, this is a lower
12 cost option and that longer loops might be an
13 impediment to the provision of advanced services."

14 MR. DOWDS: Right. One of the --

15 COMMISSIONER CLARK: So what does that mean
16 you did?

17 MR. DOWDS: Okay. One of the allegations
18 was that if you have the copper portion of a loop
19 beyond a certain length, somehow or other you will be
20 unable to provide new whiz-bang services if you wanted
21 to to certain locations.

22 In my opinion, as I just indicated, the 12
23 versus -- within the range of 12 and 18 kilofeet for
24 copper, it's a red herring. As long as you build it
25 right, it's a cost minimization exercise. It's

1 whichever option is cheaper, given the circumstances
2 at hand. It really doesn't matter. Both will work.
3 And the only evidence we had on the record one way or
4 the other was -- I believe it was a late-filed
5 exhibit. I forget the exact reference. But basically
6 there was an ex parte that was made with the FCC by
7 the BCPM sponsors within a -- about a year ago, I
8 believe. And the FCC Staff had requested the BCPM
9 sponsors to provide results for various states at 12
10 kilofeet and at 18. The results of that ex parte are
11 part of this record and were a late-filed exhibit, as
12 I recall.

13 It turns out that the difference between
14 the two was de minimus.

15 COMMISSIONER CLARK: Okay. All right.

16 MR. DOWDS: It really -- that's the only
17 evidence we have, and I would caution that I don't
18 know what the inputs were. But the two runs were
19 internally consistent, presumably.

20 COMMISSIONER CLARK: Okay.

21 CHAIRMAN JOHNSON: Any other questions,
22 Commissioners?

23 I did have one. I hate to bring it up.
24 And it was in the testimony. I think it was the
25 people that supported the HAI. They're arguing that

1 -- and I guess because their model did, with respect
2 to using T1 on copper technology, and they were
3 articulating that that's what their model did and that
4 was the appropriate thing to do. But I think it was
5 -- it wasn't necessarily the attorneys. It was our
6 attorney that kind of questioned T1 on copper
7 technology as to whether that was the appropriate
8 technology. And the witness kept saying yes, it was.
9 And perhaps it was our attorney that stated that, no,
10 not to provide the quality of service that I guess our
11 definition of universal service would have required.

12 Do you know the issue that I'm talking
13 about? I cannot find it.

14 MR. DOWDS: Yes. Whether the models are
15 modeling forward-looking technology.

16 CHAIRMAN JOHNSON: And the HAI does model
17 the T1 on copper technology, and for some reason we
18 were thinking -- did we throw HAI out because of
19 that? Go ahead.

20 MR. DOWDS: Well, it's a strike that was
21 made, is probably a better way of thinking of it.
22 It's not three, but it's a strike.

23 My recollection is that there was cross
24 examination from a LEC attorney, and I believe it was
25 AT&T Witness Wells, either Wells or Lerma. I'm not

1 sure. And the issue was whether or not the provision
2 of T1 carrier on copper cable was a forward-looking
3 technology, and they kept hammering the point. And my
4 recollection is that the witness acknowledged that it
5 was the least cost, most effective technology, but he
6 agreed that it wasn't forward-looking.

7 CHAIRMAN JOHNSON: Okay. So in that --
8 because it was, and I think maybe they went over
9 numbers and cost, and it was a much cheaper
10 technology, and that was one of the reasons why the
11 HAI would have come out with lower numbers in terms of
12 total cost.

13 But -- and I guess then would you agree
14 because -- I guess you agree that technologically it's
15 not a forward-looking technology. And because it's
16 not a forward-looking technology, is that why it
17 wouldn't have been the appropriate thing to use?

18 MR. DOWDS: Yes. The record reflected that
19 it was not a standard practice currently and
20 prospectively to use T1 copper -- T1 carrier on copper
21 as the norm.

22 By the way, that's not the same thing as
23 saying it would never be used, but it wouldn't be used
24 as a standard practice.

25 CHAIRMAN JOHNSON: Okay. So -- but it's

1 probably being used.

2 MR. DOWDS: It was the inference in the
3 record.

4 CHAIRMAN JOHNSON: But it's probably being
5 used.

6 MR. DOWDS: I'm sure it is. But the issue
7 is whether they would still install it as a general
8 practice, and there no indication in the record that
9 that was the case. As a matter of fact, both models
10 -- going back to the HAI, both HAI and the BCPM are
11 basically modeling carrier serving areas. So they're
12 using what's called next generation digital loop
13 carriers. The only time that HAI uses T1 on copper is
14 to serve what are called outlier clusters that are
15 more than -- I believe it's 12 kilofeet from a main
16 cluster. But everything else, all the other carrier
17 systems are basically, you know, the state-of-the-art
18 kinds of carrier systems, except this one little
19 piece.

20 CHAIRMAN JOHNSON: But that would have been
21 more in the more rural areas?

22 MR. DOWDS: Yes.

23 CHAIRMAN JOHNSON: So it was almost
24 backwards, like the more rural areas would not have
25 the advanced technology.

1 runs?

2 MR. DOWDS: What we cannot predict is the
3 dollar magnitude of what we expect to be an increase
4 in distribution plant investment. We can intuitively
5 know the direction, and we know what components will
6 change. And I'll have to go back and check, but I
7 don't believe the investment in DLCs per se would
8 change. It should just be the copper cable.

9 COMMISSIONER JACOBS: Yes, because you
10 mentioned it was going to be primarily --

11 MR. DOWDS: Right. I believe it was just
12 the copper cable, but I'll have to go back and double
13 check.

14 I lost my place there.

15 Oh, okay. With respect to Commissioner
16 Deason's cascading comment, there is one aspect where
17 we will be able, once they make the compliance filing,
18 to follow through, and one where it will be a little
19 tougher.

20 The model is a huge Excel spreadsheet, for
21 all intents and purposes, and Excel has what's called
22 the audit function, so you can basically go to a
23 formula, and they're transparent in the model, and
24 track all its antecedents and its successors. You can
25 basically track all the downstream impacts.

1 Now, what I don't believe you could
2 literally do is track, you know, step-wise the dollar
3 effects of each of those downstream impacts. But we
4 would know in the aggregate, or course, what it was
5 relative to what we've included in Appendix B.

6 Is that responsive to your question, sir?

7 COMMISSIONER JACOBS: I think so. I have
8 one other. In those list of criteria, item 7 in that
9 list had to do with joint and common costs. And I may
10 have missed it, but I didn't see a specific discussion
11 on that. What I kind of saw was some -- in the fill
12 factors in some of those other issues, some language
13 where we addressed that.

14 You indicated that you thought that we were
15 meeting that criteria. Could you help me understand
16 how?

17 MR. DOWDS: Sure. We did not address
18 head-on a technique to include, quote, joint and
19 common costs, unquote, in the model. What we did
20 basically was, there were two things where we've
21 accounted for it.

22 What the models essentially do is identify
23 and design a network sufficient to provide at a
24 minimum basic local telecommunications service. One
25 of the things, for example, they have to do is, they

1 have to install a sufficient number of digital
2 switches with sufficient capacity to handle the call
3 demands placed upon them.

4 Whenever you install a digital switch, it
5 has a very, very large up-front fixed cost component.
6 So one could opine that that meets the standard of a,
7 quote, common cost. So to that extent, there are,
8 quote, common investment costs by definition, because
9 you can't do otherwise. In other words, you can't put
10 in half a processor in a switch. It won't work.

11 The second way we've essentially accounted
12 for joint and common costs is in one of Ms. Ollila's
13 issues on expenses. In essence, what was done is,
14 there were certain nonplant specific expenses that
15 were included in the model. And I will -- can you
16 explain it?

17 MS. OLLILA: The nonplant specific expenses
18 are shown in the model as monthly per line expenses,
19 and these are the expenses that seem to vary more by
20 line. And they do include general and administrative
21 costs, marketing costs. And --

22 COMMISSIONER JACOBS: How do we ensure that
23 they are I guess generic, more so than reflective of
24 any company's costs?

25 MS. OLLILA: Well, what we did was, we

1 first looked at a way to determine how much of those
2 costs are attributable to basic local service.

3 COMMISSIONER JACOBS: That's good. Okay.

4 MS. OLLILA: Okay. And then once we did
5 that, we looked at the cost of an efficient provider
6 in the State of Florida and believed that these costs
7 aren't specific to any one geographic area. So we
8 summed the costs for the three LECs and then divided
9 by their access lines to produce a statewide average.

10 COMMISSIONER JACOBS: So you separated out
11 what you considered to be the costs associated with
12 basic service, and then --

13 MS. OLLILA: That's correct.

14 COMMISSIONER JACOBS: -- you made it
15 relative by averaging across the access lines.

16 MS. OLLILA: Yes. And we also reduced the
17 expenses, believing that these kinds of expenses are
18 ones that are more -- for an efficient provider,
19 general and administrative type expenses are expenses
20 that most companies look to reduce first with
21 competition, so we reduced those expenses by 10%.

22 MR. DOWDS: Commissioner, perhaps I can
23 help a little bit. Essentially what the LEC
24 proponents did is, they identified what are loosely
25 called A&G expenses, administrative and general

1 expenses, things like executive, legal, planning, and
2 the like. And essentially what they did is, they came
3 up with allocators to determine what percent of those
4 dollar expenses should be attributable to basic local
5 services. And I don't recall, but I believe their
6 allocators range from something like 65 to 90%.

7 So, for example, let's assume these kinds
8 of common and joint expenses were \$100. They would
9 allocate between 65 and \$90 to basic local service and
10 then turn around and divide that \$90 in my
11 hypothetical by the number of access lines to get a
12 per line per month cost. So they would essentially
13 pro rata assign whatever that works out to to each
14 line in the study.

15 What Staff did was basically a couple of
16 kinds of adjustments. One was, from a forward-looking
17 perspective, Ms. Ollila reduced the overall level of
18 these A&G expenses. And the second thing we did is,
19 as described in Issue 4 or --

20 COMMISSIONER JACOBS: That was the 10%
21 reduction?

22 MR. DOWDS: Well, the 10% was the reduction
23 to reflect a forward-level looking.

24 Also, Ms. Ollila developed a different
25 allocator that differs from that proposed by the local

1 exchange companies.

2 COMMISSIONER JACOBS: Okay. And that's --

3 MR. DOWDS: To determine what portion of
4 those A&G costs are appropriately considered a cost
5 associated with the provision of basic local service.
6 They assumed between 65 and 90. And I forget what her
7 percent was, but I can tell you it was much below
8 that.

9 MS. OLLILA: It was 39.6.

10 COMMISSIONER DEASON: That's one of the
11 inputs we're going to get to; right?

12 MR. DOWDS: Yes, sir.

13 COMMISSIONER JACOBS: Is it? Okay.

14 CHAIRMAN JOHNSON: Any other questions,
15 Commissioners?

16 I believe there was a motion.

17 COMMISSIONER GARCIA: And I seconded it.

18 CHAIRMAN JOHNSON: Any discussion on
19 that?

20 All those in favor signify by saying "aye."
21 (Affirmative responses.)

22 CHAIRMAN JOHNSON: Opposed?

23 Show it approved unanimously.

24 Issue 3.

25 COMMISSIONER CLARK: Let me just ask a sort

1 of overall question. You're recommending cost of
2 equity of 11.25?

3 COMMISSIONER DEASON: Issue 3 is the wire
4 center issue; is that correct?

5 MR. FOGLEMAN: That's correct.

6 COMMISSIONER CLARK: I have no questions on
7 Issue 3.

8 COMMISSIONER GARCIA: I likewise. If
9 anyone else doesn't have a question, I'll move it.

10 COMMISSIONER DEASON: I'll second.

11 CHAIRMAN JOHNSON: Show it approved without
12 objection.

13 Issue 4.

14 MS. KING: Commissioners, just to remind
15 you, Issue 4 has the various inputs, and they each
16 need to be voted out separately.

17 COMMISSIONER DEASON: Are we going to begin
18 with 4(a)?

19 CHAIRMAN JOHNSON: 4(a).

20 COMMISSIONER DEASON: I have a few
21 questions on 4(a). Soon-to-be Chairman Garcia warned
22 me, though, to keep my questions to a minimum on
23 depreciation. We would lose our TV ratings.

24 The first question I have, I think I've
25 already discussed it with Staff to some extent, but I

1 want to make sure that it's clear here. In going
2 through this issue, I noticed that there was a
3 question concerning the appropriate depreciation rate
4 for large PBXs.

5 MS. LEE: Yes, sir.

6 COMMISSIONER DEASON: And my immediate
7 question was, we'll, who cares, because we're doing
8 cost of service for basic services, and I don't know
9 too many residential or single line business customers
10 that have large PBXs. So what's --

11 MS. LEE: Yes, sir. And it is not part of
12 the -- it is not an input into the cost model. The
13 only reason it was addressed was something that was
14 proposed by BellSouth in their study. I probably
15 should have -- I should have put in here that it was
16 not a direct input into the proxy model, though.

17 COMMISSIONER DEASON: Okay. The other
18 questions that I have relate to the -- towards the end
19 of the recommendation on this issue, which shows the
20 various lives as presented by the incumbent LECs and
21 the Staff's recommendations.

22 The first question I have is on page 106
23 for conduit. Staff is showing zero.

24 MS. LEE: Those should both be -- those
25 should be 50 for both of those. I'm not sure what

1 happened to the schedule, but if you'll look at it,
2 there are quite a few lives like one.

3 COMMISSIONER DEASON: Well, the bottom was
4 other work equipment, one year.

5 MS. LEE: Yes. That's not correct either.
6 That should be I think 12.

7 COMMISSIONER DEASON: And buildings should
8 not be four years?

9 MS. LEE: Right. It should be 40. I'm not
10 sure what happened when this schedule was put in here.
11 If you'll look -- and I know this doesn't help very
12 much, but on Appendix A, those are the correct lives
13 and salvage values. It only shows the Staff
14 recommended, though. It doesn't show the parties'
15 positions. But those are -- the ones that are shown
16 on Appendix A I have looked at, and they are correct.

17 COMMISSIONER DEASON: So what's going to be
18 input into the model?

19 MS. LEE: The ones on Appendix A.

20 COMMISSIONER DEASON: Those are correct?

21 MS. LEE: Yes, sir.

22 COMMISSIONER DEASON: Okay. That's all the
23 questions I have.

24 CHAIRMAN JOHNSON: That was on --

25 COMMISSIONER DEASON: On 4(a).

1 CHAIRMAN JOHNSON: Any other questions,
2 Commissioners, on 4(a)?

3 COMMISSIONER CLARK: I move Staff.

4 COMMISSIONER DEASON: Second.

5 CHAIRMAN JOHNSON: Show that approved
6 without objection.

7 4(b,, cost of money?

8 COMMISSIONER CLARK: Just so I understand,
9 the overall cost of capital the FCC set was back in
10 1990 or 1991, and it was 11.25?

11 MR. MAUREY: That's correct, September of
12 1990.

13 COMMISSIONER CLARK: Okay. And we are
14 recommending 9.5 overall?

15 MR. MAUREY: 9.5, yes.

16 COMMISSIONER CLARK: There was no real
17 debate on the debt. As I saw it, there were pretty
18 much agreement. I mean, they were pretty close.

19 MR. MAUREY: Yes. The range between the
20 witnesses's estimate was very narrow.

21 COMMISSIONER CLARK: Where do the real
22 differences come in with respect to that the companies
23 should be compared to? It seems to me that I think
24 Sprint and BellSouth recommended comparing it to the
25 Standard & Poor industrials?

1 MR. MAUREY: Well, some of the companies in
2 that -- well, all the companies in that index were in
3 the Standard & Poor's. But the BellSouth and Sprint
4 witness used an index of 20 companies for each. It
5 was the GTE witness that used the broader index of the
6 majority of the S&P 500.

7 COMMISSIONER CLARK: Okay. And we don't --
8 Staff doesn't agree with that. You used companies
9 that are in a comparable line of business.

10 MR. MAUREY: There was testimony in the
11 record that it would be more appropriate to use an
12 index made up of companies in a comparable line of
13 business.

14 COMMISSIONER CLARK: And that's what you
15 used?

16 MR. MAUREY: Yes. Well, we did not -- we
17 also looked at the risk premium analysis done by
18 Witness Billingsley that was a broader measure. It
19 was not limited just to telephone companies. It did
20 look at an index of equity returns over long-term debt
21 returns for a broader index of companies, not just
22 telecommunications companies.

23 But the DCF analysis, yes, that was based
24 on an index of telecommunications companies. There
25 were three different models relied upon.

1 CHAIRMAN CLARK: I can move Staff.

2 COMMISSIONER DEASON: Well, I have a
3 question. It's more of a general one. I think this
4 issue highlights something I guess we need to get
5 clarified here. And obviously, anytime you talk about
6 cost of capital, it's a very time sensitive issue. It
7 changes with time, probably more so than some of the
8 other issues that we're going to be dealing with here.

9 And I know Staff had some discussion about
10 the appropriateness of using TPI as BellSouth utilized
11 in their information, and the result of Staff's
12 recommendation was that, well, we're trying to
13 identify the costs, the current costs, basically.

14 And I guess I'm trying to get an idea of
15 what we're doing here as far as changes in costs over
16 time. We're not trying to do that. We're trying to
17 identify costs as they exist as of -- I guess
18 currently. And we realize that with time, those costs
19 are going to change. They could go up, and they could
20 go down, and probably some cost factors would be going
21 up and some down. And what the net result would be,
22 you would have to run the model again and change your
23 inputs.

24 First of all, I guess, what are the
25 requirements under the statute as far as -- there's no

1 mention as to time, and how do we propose to present
2 -- and this may be an issue for another day, but how
3 do we propose to present this to the Legislature?
4 That these are the costs as of a date certain, or
5 these are the costs generally for, you know, this
6 year, or are these costs generally good for two years
7 or three years? What does Staff envision as far as
8 the time considerations of this entire exercise?

9 MR. MAUKEY: I guess two comments. One,
10 the statute, at least to me, reads as though it's a
11 one-shot deal. It says determine in a report by
12 February 15th, so thus I would conclude that they are
13 those costs as of on or around that date, or a
14 reasonable surrogate.

15 Unfortunately, they didn't ask us whether
16 or not we thought these things might need to be
17 updated, though I wouldn't -- my second comment is
18 that I believe the alternate to Issue 6, we alluded to
19 the fact that at some point in time, if and when a
20 model is adopted and certain situations, certain
21 answers are met, it may be appropriate to update these
22 results.

23 COMMISSIONER DEASON: And I guess the
24 reason I'm asking is that, especially when it comes to
25 cost of capital -- I mean, you can determine a cost of

1 capital as of a day and say these are the interest
2 rates on this day, and generally equity would not
3 change that much.

4 But generally when we try to set rates in a
5 rate case, we try to look to see what cost of capital
6 is going to be, and we try to look at trends and that
7 sort of thing to see what's going to be a fair rate of
8 return over, you know, hopefully -- back when we were
9 setting rates for telephone companies, we wanted rates
10 to be fair and reasonable over at least two or three
11 years, hopefully.

12 And I guess -- what are we -- as far as
13 cost of capital, are we saying, you know, this is the
14 cost of capital as a certain date, or this is
15 generally what the fair cost of capital would be for
16 an efficient provider to provide telephone service in
17 Florida over the next three years.

18 That's pretty risky, especially when you
19 start talking about cost of capital and start
20 inputting -- you know, say this is good for two years,
21 three years, or whatever. How is the cost of capital
22 -- how are we looking at it in terms of that?

23 MR. D'HAESELEER: Commissioner, I think
24 when we issue our report, we're free to say a lot of
25 different things. And obviously, cost of capital is

1 very important, and it does change over time. So in
2 our recommendation or our report to the Legislature,
3 we can address those kind of issues. But in here, you
4 know, they really ask for a specific number, so we're
5 doing that.

6 COMMISSIONER DEASON: Mr. Maurey? You
7 know, Mr. D'Haeseleer is a cost of capital expert.

8 MR. D'HAESELEER: Among other things.

9 COMMISSIONER CLARK: He did use to do that.

10 COMMISSIONER DEASON: He used to do
11 depreciation.

12 COMMISSIONER CLARK: Yes, depreciation.
13 You're right.

14 MR. MAUREY: To address your first
15 question, this was estimated as of a point in time.
16 All of the witnesses testifying on this issue were
17 recommending a cost of capital as through a certain
18 point in time. How long, Staff would say we really
19 have no basis for saying this is good for a year and a
20 half or three years. That would just be conjecture on
21 our part. Capital markets could stay steady, and this
22 could be a return that would be reasonable for a long
23 period of time.

24 COMMISSIONER DEASON: And that was the
25 answer, and I anticipated it. And I don't think that

1 we can really do much more than that. I think it
2 comes down to, as Mr. D'Haeseleer said in our report,
3 we just need to indicate that this is as of a -- you
4 know, generally as of a certain date or maybe even a
5 certain year, but to try to speculate that these are
6 costs that are good for a long period of time would
7 not be an accurate assessment of what we've done here.

8 COMMISSIONER CLARK: And that's true not
9 just for cost of capital, but depreciation rates may
10 change. And I guess that it would be appropriate to
11 indicate to the Legislature that inputs into
12 determining the cost of basic local exchange service
13 we can expect to change, and it is something I presume
14 will have to be revisited in the future.

15 How often does the FCC revisit the high
16 cost fund?

17 MR. MAUREY: Under its current scheme,
18 which uses embedded cost methodology, I believe the
19 calculations are performed by NECA once a year.

20 COMMISSIONER DEASON: Now, as I indicated
21 earlier, back when we were in a rate setting mode, one
22 of the things that we did to try to compensate for
23 changes in the cost of capital was -- you really
24 couldn't predict that, but you would try to set a
25 range, you know. And it was generally perceived that

1 anything within that range was reasonable, because you
2 just can't be that precise.

3 Was any thought given to a range in giving
4 that, or that was not contemplated?

5 MR. MAUREY: It wasn't discussed in the
6 record, and none of the witnesses addressed a range.
7 And it's Staff's understanding of how this return is
8 used within the model that it would necessitate a
9 series of runs over time to put in different rates or
10 return.

11 COMMISSIONER DEASON: Do we have any idea
12 of the sensitivity of what the costs are as a result
13 of, say, you know, a 50 basis points change in return
14 on equity, or we don't have an idea on that?

15 MR. DOWDS: We didn't conduct a sensitivity
16 analyses on the variables. We just -- we ran out of
17 time.

18 COMMISSIONER CLARK: And you really couldn't
19 use a range, because you're supposed to come up with a
20 cost to provide the service at a point in time.

21 COMMISSIONER DEASON: I understand that,
22 and I guess I'm really not suggesting that. I'm just
23 curious as to how much costs are going to change if
24 for some reason there was a significant swing in the
25 capital markets and that sort of thing. But I guess

1 that's something that would be -- that an issue for
2 another day.

3 COMMISSIONER JACOBS: Am I hearing a
4 suggestion that we do include some of those caveats
5 when we make these?

6 MR. D'HAESELEER: We were going to bring
7 that to you in internal affairs. You know, that will
8 be a wide open debate on what goes in that report.

9 COMMISSIONER JACOBS: I think that would be
10 wise.

11 Another issue that I had is the equity
12 ratio, some of the same kinds of concerns. I mean,
13 we're giving some pronouncements as to a specific
14 ratio, but it seems like we're giving a lot of
15 qualifications about what the market may actually
16 dictate.

17 Let me just -- could you just give me some
18 thoughts on equity ratio that you're recommending?

19 MR. MAUREY: Sure. For purposes, if you
20 can turn to page 126 of the recommendation, that
21 summarizes what each of the witnesses proposed for the
22 capital structure.

23 As Staff discusses in its recommendation,
24 it had some reservations about a 60% equity ratio for
25 this narrow line of business, given the testimony in

1 the record about the wide range of businesses that
2 these telecommunications companies are involved in.

3 There was one witness that recommended a
4 much higher equity ratio, 77%. But looking over, as
5 you can see from here, the BellSouth and Sprint
6 witness, the ATT/MCI witness brings them very close to
7 60% equity. A review of all the orders approved in
8 other jurisdictions and proceedings that set universal
9 fund and UNE prices, the equity ratios approved in
10 those proceedings were in the range of the low 50s to
11 low 60s range, and we looked at that as a reasonable
12 level of equity and debt for this purpose.

13 COMMISSIONER JACOBS: What's the vintage on
14 most of those decisions?

15 MR. MAUREY: All of those decisions were
16 since 1996. The ones just in '98 ranged from a low of
17 55% to a high of 64%.

18 COMMISSIONER JACOBS: That's an issue where
19 I think also we could look at some ways of really
20 putting it into context, you know, because given the
21 impact on overall cost, I think --

22 MR. MAUREY: Well, one of the assumptions
23 of the capital structure is, how would the company
24 raise this money on a going-forward basis. Everything
25 is on a forward-looking basis in terms of cost of

1 is that a substantial amount of money such that it is
2 worth making that change to the model?

3 MS. CAUSSEAU: With the HAI model, the
4 witness said that he would recommend that change to
5 the model. Now, whether that would be extensive or
6 not, I'm not sure. But with the BCPM model, the
7 witness in that case indicated where the user inputs,
8 it could be changed, so that that would not be a
9 modification of the model. So having chosen the BCPM
10 in Issue 2, it would be a user input change for the
11 deferred taxes.

12 COMMISSIONER CLARK: Is it worth making
13 that change?

14 MS. CAUSSEAU: Yes.

15 COMMISSIONER CLARK: You know the dollar
16 impact would be worth making that change?

17 MS. CAUSSEAU: It would be -- since
18 deferred taxes are generally somewhere between 17 and
19 24% of capital structure, yes.

20 COMMISSIONER CLARK: Okay.

21 COMMISSIONER DEASON: Well, let me ask, how
22 do you determine the amount of deferred taxes to
23 include?

24 MS. CAUSSEAU: The model calculates them.

25 COMMISSIONER DEASON: Based upon?

1 MS. CAUSSEAU: Based on the investment and
2 the tax rate used, and the tax lives that are also
3 included in the model and the book depreciation lives
4 that are used.

5 COMMISSIONER DEASON: So it's not just a
6 historic thing. It's looking at what inputs are put
7 into the model as to the depreciation rates --

8 MS. CAUSSEAU: Yes.

9 COMMISSIONER DEASON: -- that we are
10 recommending and the tax lives for those assets?

11 MS. CAUSSEAU: Yes.

12 COMMISSIONER CLARK: Move Staff.

13 CHAIRMAN JOHNSON: Is there a second?

14 COMMISSIONER JACOBS: Second.

15 CHAIRMAN JOHNSON: Show it approved without
16 objection.

17 Supporting structures, (d).

18 COMMISSIONER CLARK: I move Staff.

19 COMMISSIONER DEASON: I have a question.
20 I'm looking at the bottom of page 143, and, of course,
21 we have specific information for BellSouth and Sprint,
22 and GTE using defaults which are recommended.

23 My question is, how do the defaults for GTE
24 compare to the Bell-specific numbers? And I don't
25 want any -- if this is confidential -- well, this is

1 default. I don't assume there's anything confidential
2 about that. How do they compare?

3 MS. KING: I'm sorry, Commissioner.

4 COMMISSIONER DEASON: I want to know how
5 the GTE defaults compare to the Bell-specific data.

6 MS. KING: On the placement cost for
7 feeder?

8 COMMISSIONER DEASON: Placement cost;
9 that's correct. It's the last paragraph of page 143.

10 MS. KING: Yes, sir. GTE, if I'm
11 remembering correctly, used the BCPM defaults, which
12 are national numbers, which are lower than what BST
13 actually proposed. The BST numbers that I've
14 recommended are actually higher in some cases than
15 those defaults. But I believe because they were based
16 on Florida-specific data they were more appropriate
17 than the BCPM defaults, although --

18 COMMISSIONER DEASON: So the defaults are
19 more conservative?

20 MS. KING: Yes.

21 COMMISSIONER DEASON: Okay. I can second
22 the motion.

23 COMMISSIONER CLARK: Is this (d)?

24 CHAIRMAN JOHNSON: Yes, this is (d)

25 COMMISSIONER CLARK: Okay. Just so I'm

1 sure, Sprint and BellSouth recommended using
2 defaults.

3 COMMISSIONER DEASON: No. They had their
4 own data.

5 MS. KING: Yes, ma'am. Sprint and Bell had
6 their data, specific data for Florida.

7 COMMISSIONER CLARK: All right. But we
8 recommend using the defaults?

9 COMMISSIONER DEASON: For GTE.

10 MS. KING: GTE proposed the BCPM defaults.
11 I recommended in GTE's territory that they use Bell's
12 numbers, because Bell's numbers were based on
13 Florida-specific data, where the BCPM defaults were
14 based on national data.

15 COMMISSIONER CLARK: Okay.

16 CHAIRMAN JOHNSON: There's a motion and a
17 second on (d). Show it approved without objection.

18 COMMISSIONER DEASON: Well, let's back up
19 just a second, because obviously I misread this, and I
20 apologize.

21 I thought -- you're recommending that GTE
22 use BellSouth's information?

23 MS. KING: That's correct.

24 COMMISSIONER DEASON: Now, it seems --
25 what's the basis for that? Because BellSouth at least

1 is Florida-specific. Are you assuming in there that
2 BellSouth's territory is generally consistent with
3 GTE's territory?

4 MS. KING: Absent better data, I thought
5 that Bell's Florida-specific information is better
6 than the BCPM information. I'm not trying to say that
7 GTE's territory is identical to Bell's territory, but
8 I thought using Florida-specific data for placement
9 costs would be better.

10 COMMISSIONER DEASON: And what's the
11 magnitude of difference? Is the defaults half, or
12 two-thirds, or 90% of the --

13 MS. KING: The defaults were a little bit
14 less in most cases, but there are several different
15 tables involved in placement cost. And I didn't
16 review every individual table, but in general, the
17 Bell numbers were significantly higher except when it
18 came to the hard rock placement costs. They seemed to
19 be significantly higher, and I believed that was
20 probably more appropriate, because they did have more
21 experience with Florida terrain and territory.

22 COMMISSIONER JACOBS: I have a couple of
23 questions actually --

24 CHAIRMAN JOHNSON: You have questions on
25 (d)?

1 COMMISSIONER JACOBS: Well, there were some
2 comments that go for all of (d) through (t),
3 particularly the indexing questions. You indicate
4 that basically you rejected the idea of indexing. If
5 I recall, there was some discussion -- and correct me
6 if I'm wrong. There was some discussion in those
7 tables of not only inflation indexing, but also
8 efficiency indexes, for lack of a better term, i.e.,
9 the growing efficiency from digital, conversion to
10 digital technology. Was that a part of that also?

11 MS. KING: Of Issue 4(d)?

12 COMMISSIONER JACOBS: No. It covered the
13 whole issue of the inputs for supports and for
14 equipment. It wouldn't cover (d) probably, but
15 because you address the issue for all of them, I
16 wanted to just touch on it briefly here.

17 MS. OLLILA: The companies use different
18 indices. None of the companies I believe used any
19 index that was technology-related, in the sense that
20 it said two years from now we expect significant
21 technological improvement in digital switches.

22 COMMISSIONER JACOBS: Okay. So that was
23 not a part of those indexing tables?

24 MS. OLLILA: No, that's correct. And
25 Bell's use of the TPI is related strictly to project

1 forward-looking -- expenses in a future period.

2 COMMISSIONER JACOBS: Okay. Thank you.

3 COMMISSIONER DEASON: Could you look again
4 at the very last sentence on page 143.

5 MS. KING: I'm sorry, Commissioner Deason.
6 I did tell you incorrectly.

7 COMMISSIONER DEASON: Okay.

8 MS. KING: For poles, I went with Bell's
9 number in the GTE area. For placement, I went with
10 the numbers that each company proposed.

11 COMMISSIONER DEASON: Which for GTE would
12 be -- which are more conservative.

13 MS. KING: Which are more conservative.

14 COMMISSIONER DEASON: Okay. That's what I
15 thought you did.

16 MS. KING: And I believe there was record
17 -- there was something on the record said that their
18 witness reviewed those defaults and felt they were
19 propose for their territory. I do apologize. I had
20 replacement costs and pole costs.

21 CHAIRMAN JOHNSON: Let's go back to
22 supporting structures. There was a motion and a
23 second. All those in favor signify by saying "aye."

24 (Affirmative responses.)

25 CHAIRMAN JOHNSON: Show it approved

1 unanimously.

2 (e), structure sharing factors.)

3 COMMISSIONER CLARK: It wasn't clear to me
4 what sharing factors you approved. Is it one sharing
5 factor, or a sharing factor for each company? Or does
6 it depend on how tall the pole is?

7 MS. OLLILA: I'll address poles in a couple
8 of minutes, because that's a little bit more of a
9 complex issue.

10 The structure sharing factors that we
11 recommended were specific to each geographic area,
12 which meant that we viewed the ILEC as being -- as
13 providing a reasonable surrogate for any efficient
14 provider in its respective territory.

15 COMMISSIONER CLARK: Okay. So you used
16 Bell's sharing factor for them.

17 MS. OLLILA: Correct.

18 COMMISSIONER CLARK: GTE's for GTE, and
19 Sprints.

20 MS. OLLILA: That's correct.

21 COMMISSIONER CLARK: And what are those
22 factors again that are listed on 146 through --

23 MS. OLLILA: Well, they start on page 146
24 and go through page 150.

25 COMMISSIONER CLARK: Okay.

1 MS. OLLILA: And as far as -- poles is a
2 little -- the issue of poles is a little bit trickier,
3 because if I recall, different companies proposed
4 different pole heights, or they used an average of
5 poles. And we with the structure sharing just simply
6 went with what each company proposed as being the best
7 available.

8 COMMISSIONER CLARK: So you used -- not
9 only did you use their sharing factor for poles, you
10 would also use their pole height that they
11 recommended?

12 MS. KING: For Sprint, we did use their
13 recommended pole height of 45 feet. For GTE and Bell
14 we used a 40-foot pole. GTE had recommended that they
15 did some kind of meld of a 30- and a 40-foot pole, but
16 we recommended a 40-foot pole.

17 COMMISSIONER CLARK: But then you used
18 individual sharing factors for GTE and BellSouth?

19 MS. OLLILA: Well, they're the sharing
20 factors that each company proposed, so it is
21 consistent.

22 COMMISSIONER GARCIA: Stayed individual.

23 MS. OLLILA: That's correct.

24 CHAIRMAN JOHNSON: Any other questions on
25 structure sharing factors?

1 COMMISSIONER CLARK: I move Staff.

2 COMMISSIONER JACOBS: Seco^d.

3 CHAIRMAN JOHNSON: Show it approved without
4 objection.

5 (f) is fill factors.

6 COMMISSIONER JACOBS: I move it.

7 COMMISSIONER CLARK: Second.

8 COMMISSIONER DEASON: I have a question.
9 I'm sorry. I have a question. At the bottom of page
10 158 and the top of page 159, it talks about a model
11 override.

12 MS. OLLILA: That's correct.

13 COMMISSIONER DEASON: And so because of an
14 override, Staff indicated it was not necessary to
15 input six pairs per business. Could you explain to me
16 how that override works and why that results in your
17 recommendation?

18 MS. OLLILA: The model uses the actual
19 number of lines. If it -- I'm sorry. If it exceeds
20 the user-adjustable lines.

21 COMMISSIONER DEASON: It exceeds what?

22 MS. OLLILA: The user-adjustable lines.
23 Because of that, it didn't seem necessary to set such
24 a high default, since the model will use actual lines.
25 And in fact, in a later issue we talk about the lines

1 that the ILECs proposed.

2 COMMISSIONER DEASON: Well, how does the
3 model determine did actual lines to use as the
4 override if it exceeds the default?

5 MR. DOWDS: Commissioners --

6 MS. OLLILA: I was just going to say that
7 because we're recommending actual wire center line
8 counts, the model is building it from the ground up.
9 So therefore, it would have the number of lines.

10 MR. DOWDS: There's two ways you can run
11 BCPM. Essentially, remember what the meld does is, it
12 does two things. It builds to housing units, and it
13 build to business locations. So, for example, it
14 knows by census block the number of businesses.

15 If you -- there are various multipliers
16 that you can input. One is a second line multiplier
17 for residences, for example. And the effect of the
18 second line residence multiplier, it would take the
19 number of residences and multiply it times whatever
20 that factor is to impute access lines.

21 In this instant runs in this proceeding,
22 actual wire center line counts by class of service
23 were inputted into the model. So the number of
24 business lines is based on actual, so there was no
25 need to estimate how many --

1 COMMISSIONER DEASON: So even though we're
2 building a network from the group up for
3 cost-efficiency as an efficient provider, we still
4 know the actual number of business lines within a
5 specified geographic area that the model is using, and
6 that data is put into the model? I thought that's
7 what you said, so --

8 MR. DOWDS: I think the answer is yes.

9 COMMISSIONER DEASON: So that's where if it
10 exceeds, the model -- if the actual information
11 exceeds three pairs, then it uses the actual, so there
12 was no need to have a higher default than three.

13 MR. DOWDS: That's correct. So basically
14 it would -- it would compare the difference between
15 the number of businesses times three as opposed to --
16 the result of that calculation versus the total number
17 of business lines that were input.

18 COMMISSIONER DEASON: Okay.

19 MR. DOWDS: And would default to whatever
20 is input.

21 CHAIRMAN JOHNSON: Any other questions on
22 fill factors?

23 COMMISSIONER CLARK: I move Staff.

24 COMMISSIONER DEASON: Second.

25 CHAIRMAN JOHNSON: Any discussion?

1 Show it approved without objection.

2 (g), manholes.

3 COMMISSIONER JACOBS: I move it.

4 COMMISSIONER CLARK: I don't understand
5 adders and duct counting.

6 MS. KING: Commissioner, to be quite
7 honest, I'm a little unclear on it myself. It's my
8 understanding --

9 COMMISSIONER CLARK: Thank you.

10 MS. KING: -- that an adder is used when
11 you exceed a certain number of ducts. And, for
12 example, Bell said once they hit -- they use nine
13 ducts, and after that they don't need adders. That's
14 why they didn't --

15 COMMISSIONER CLARK: What is an adder?

16 MS. KING: It's my understanding that an
17 adder adds an additional duct to the manhole. Based
18 on my limited engineering experience, I would say it's
19 a way of using -- adding more ducts to a manhole
20 without having to place another manhole.

21 COMMISSIONER CLARK: Well, let me ask it
22 this way. Was there substantial dispute on how that
23 was figured?

24 MS. KING: No, ma'am.

25 COMMISSIONER CLARK: Okay. I do have a

1 question on page 66. I understand sort of eliminating
2 BST's input of 224. That clearly appeared to be an
3 outlier. But when you did your average, you kind of
4 threw out Sprint's 139, you know, without making a
5 judgment call as to whether that was clearly an
6 outlier too.

7 MS. KING: The reason I chose not to
8 include Sprint there in the average, they used the
9 BCPM default. Again, that was based on national
10 numbers, so I just went with the specific information
11 I had there.

12 COMMISSIONER CLARK: Tell me why you didn't
13 -- let's see.

14 MS. KING: Are you talking about the
15 conduit cost --

16 COMMISSIONER CLARK: Yes.

17 MS. KING: -- on page 166?

18 COMMISSIONER CLARK: Yes.

19 MS. KING: We did use AT&T and Sprint.

20 COMMISSIONER CLARK: I guess my question is
21 why you didn't use the GTE. Was it because they added
22 costs in there such that it wasn't comparable to the
23 73 and 60?

24 MS. KING: It also appeared to be an
25 outlier, just being \$1.39, when the other numbers were

1 73 and 60.

2 COMMISSIONER CLARK: Well, I guess I --

3 COMMISSIONER DEASON: Well, one could argue
4 that the 73 and 60 are outliers when compared to the
5 2.24 --

6 COMMISSIONER CLARK: Right.

7 COMMISSIONER DEASON: -- and the \$1.39.
8 The question I had was that you made reference -- you
9 specifically indicated that GTE's numbers included
10 engineering and materials loading, and my question is,
11 well, is that inappropriate? Is that why you
12 discarded GTE?

13 MS. KING: If I'm remembering correctly,
14 based on their confidential data, it seemed like that
15 was a significant percentage of the total cost.

16 COMMISSIONER DEASON: So then it wasn't so
17 much just that the \$1.39 was an outlier as that you
18 were unsure that they calculated it correctly, and the
19 reason was because of the inclusion of engineering
20 loading?

21 I'm not trying to put words in your mouth.
22 I'm just trying to understand.

23 MS. KING: Yes, sir. It just seemed like
24 their loadings were just expensive.

25 COMMISSIONER DEASON: Does Sprint's cost

1 have loading?

2 MS. KING: We do not -- they do not break
3 down their information the same way.

4 COMMISSIONER DEASON: Is loading
5 appropriate?

6 MS. KING: I would say, yes, sir.

7 COMMISSIONER DEASON: And what would be
8 inappropriate then with just averaging the three, the
9 \$1.39, the 73, and the 60? Is that -- I'm just trying
10 to --

11 MS. KING: I don't think it would --

12 COMMISSIONER DEASON: -- get a feel for --

13 MS. KING: Yes, sir. I don't think it
14 would be completely inappropriate to do an average
15 that way. As I said, it just appeared that the GTE
16 number seemed a little bit high based on what I had
17 before me. I think if we averaged those three
18 numbers, it wouldn't be out of line.

19 COMMISSIONER CLARK: It wouldn't be?

20 MS. KING: I think it --

21 COMMISSIONER CLARK: I guess I -- I think I
22 would be more comfortable with that, because I would
23 be concerned that -- you know, one of the things that
24 Staff has a theme throughout this has been, to a large
25 extent, we have to rely on those companies currently

1 providing local exchange service and what they say the
2 costs are. And when you have the three of them giving
3 a range of 2.24, 1.39, and 73, and when you exclude
4 two of the companies from calculating where it should
5 be, it causes some concern. And I think it would be
6 more appropriate to average the three.

7 MS. KING: If we included GTE's number,
8 it would bring the conduit cost to 91 cents per
9 duct-foot.

10 COMMISSIONER DEASON: If that's a motion --

11 COMMISSIONER CLARK: I'll move that.

12 COMMISSIONER DEASON: -- to modify Staff to
13 that extent, I'll second it.

14 MR. DOWDS: What was the modification? I'm
15 sorry.

16 COMMISSIONER DEASON: It was to add in GTE
17 into the average as opposed to disallowing it within
18 the average calculation.

19 CHAIRMAN JOHNSON: You made a motion?

20 COMMISSIONER CLARK: Yes.

21 CHAIRMAN JOHNSON: We have a second. Any
22 other discussion?

23 Seeing none, all those in favor signify by
24 saying "aye."

25 (Affirmative responses.)

1 CHAIRMAN JOHNSON: Show it approved.

2 COMMISSIONER DEASON: We're going to have
3 to get reruns anyway on Staff's recommendations. I
4 mean, this is probably so insignificant, it probably
5 wouldn't even merit a rerun, but since we're rerunning
6 anyway.

7 MR. DOWDS: It shouldn't have all that
8 significant an impact except in urban areas, plus my
9 recollection is that the outside plant mix of these
10 local exchange companies is not heavily skewed to
11 underground facilities.

12 CHAIRMAN JOHNSON: (h)?

13 COMMISSIONER CLARK: I move Staff.

14 COMMISSIONER DEASON: Just one second.

15 Okay. I'm looking at page 187, and the
16 top paragraph there looks at -- I'm sorry? I thought
17 I heard something.

18 COMMISSIONER CLARK: Somebody sneezed.

19 COMMISSIONER DEASON: I thought David was
20 saying something.

21 Staff is recommending that we go ahead and
22 include prices for 18- and 12-pair cable; is that
23 correct?

24 MS. OLLILA: That's correct. It's only an
25 issue because -- it only became an issue because Bell

1 does not use 18- and 12-pair in its network, and
2 consequently --

3 COMMISSIONER DEASON: But we're making --
4 we're going to put those price inputs into the model
5 when we run it for BellSouth.

6 MS. OLLILA: That's correct.

7 COMMISSIONER DEASON: And my question is, I
8 recall some testimony on it, and the bottom line, as I
9 recall, was that in Bell's opinion, it just wasn't
10 cost-effective to utilize 18- and 12-pair cable.

11 And one of the things that struck home
12 with me, if you look at the bottom, the last sentence
13 of the third paragraph, it talks about Sprint, which
14 does use 12-pair cable, but that the -- there's 11
15 times the material cost for 12-pair cable, and that
16 seems to indicate that there is a question of
17 cost-effectiveness.

18 And I guess my question is, by including,
19 requiring the 18- and 12-pair cable, are we actually
20 increasing the bottom line cost for BellSouth if, in
21 effect, it was a correct decision on their
22 management's part not to use these because they're not
23 cost-effective?

24 Are we -- just give me your explanation as
25 to why you felt it was important to include 18- and

1 12-pair cable.

2 MS. OLLILA: BellSouth was the only ILEC
3 that offered testimony as to why it does not use the
4 18- and 12-pair cable. And the model does have an
5 input for 18- and 12-pair cable. It's not very
6 expensive cable. And in general --

7 COMMISSIONER DEASON: Well, does the model
8 -- even though BellSouth does not use it, does the
9 model -- when it's building the network, would it
10 require the use of 18- and 12-pair cable, or is there
11 -- explain that.

12 MS. OLLILA: My understanding of the model
13 is that it would use 12- and 18-pair cable.

14 COMMISSIONER DEASON: Unless you tell it
15 not to, correct?

16 MS. OLLILA: That I don't know.

17 COMMISSIONER DEASON: Well, why is it an
18 issue then? If you can't tell it not to, why is it
19 even an issue as to whether you include or exclude 18-
20 and 12-pair cable?

21 MR. DOWDS: What it would do is, it would
22 determine the size cable necessary. And let's assume
23 it was 17 pairs. Then it would adjust that for fill.
24 So from 17, the next increment would probably be
25 25-pair cable. Essentially what BellSouth did -- it's

1 a look-up table, in essence. It determines the size
2 and then figures out the price of the corresponding
3 cable. Essentially all Bell did is, where it has
4 values for 12 and 18, it put the same cost in as for
5 25 pair. So when the model looks for the cost of the
6 12-pair cable, what it actually -- in Bell's model,
7 what it used was the cost for 25.

8 My recollection, and I would have to defer
9 to Ms. Ollila on this, is that one of the major
10 reasons that Bell contended that it used 25-pair cable
11 was for standardization, and I'm guessing, but
12 possibly to make warehousing simpler or something like
13 that.

14 MS. OLLILA: That's correct, and also I
15 believe for training purposes.

16 COMMISSIONER DEASON: Well, then -- you
17 would think then that Bell's training costs, which get
18 allocated I guess through some type of allocation of
19 general and administrative costs, and their
20 warehousing costs would be less because it's an
21 efficient thing to do. So are we penalizing them
22 here, but then not recognizing the true cost of
23 warehousing and training, if in fact you do save cost
24 by using 25 as opposed to 18 and 12? Or are we just
25 using general cost allocators or expenses when it

1 comes to those type of expenses like warehousing and
2 training and other general and administrative type
3 expenses? Are we doing Apples to apples, is my
4 question.

5 MS. OLLILA: I believe we are. In the
6 cable costs, what we proposed was a single set of
7 statewide rates that happened to be Sprint's, for a
8 number of reasons.

9 Bell may find it efficient to use nothing
10 smaller than 25-pair cable, but that's not to say that
11 another company would consider Bell's reasons
12 insignificant for their purposes and decide to use 12-
13 and 18-pair cable.

14 So from the perspective of an efficient
15 provider coming into the State of Florida, it seemed
16 appropriate to have discrete prices for 18- and
17 12-pair cable, even though one of the largest
18 providers in Florida doesn't happen to use it.

19 COMMISSIONER DEASON: And I don't have a
20 problem with having the prices. It's a question of
21 how those prices are used in the model.

22 Are we saying that since we're including
23 the prices, then that those prices have to be input
24 into Bell's model, and even though they would put a
25 constraint on their model to indicate that they would

1 not utilize 18- and 12-pair, are we saying, use those
2 prices anyway when we run the model for you? Is that
3 what we're saying?

4 MS. OLLILA: Yes, we are. And their
5 constraint is through the use of model prices in
6 determining the cost.

7 COMMISSIONER DEASON: So we're reversing
8 their constraint, in other words. So even though it
9 is their practice to only use 25, or that would be the
10 smallest that they would use, we would basically
11 require them rerun and require 18- and 12-pair.

12 MS. OLLILA: That's correct.

13 COMMISSIONER DEASON: And why are we doing
14 that? I know that -- why are we doing that?

15 MS. OLLILA: Why are we reversing the
16 constraint?

17 COMMISSIONER DEASON: Uh-huh.

18 MS. OLLILA: Simply because Bell's
19 reasoning -- Bell's reasons for not using 18 and 12
20 may not apply to another company, and it apparently
21 doesn't apply to Sprint, and in the interest of a more
22 kind of generic provider, it --

23 COMMISSIONER JACOBS: Yes, that's what I
24 understood, is that you were saying that there may be
25 some efficiencies in using those other size cables.

1 MR. DOWDS: But we're not -- it's important
2 to remember, we don't care what BellSouth's costs are.
3 We're trying to come up with a surrogate for, in a
4 competitively neutral environment, what would be the
5 reasonable cost that a provider of local service would
6 incur.

7 And we've done a balancing act throughout
8 Issue 4, all 40 million subparts, to not unduly
9 underestimate what the cost would be. In other words,
10 we don't want to under- or overestimate. We're trying
11 to do our best at getting a reasonable level, which
12 may be higher or lower than the incumbent, and it does
13 not necessarily dovetail in all instances with the
14 particular practices --

15 COMMISSIONER DEASON: I guess what I'm
16 saying is that their costs -- you do look at the
17 incumbent company's costs. And in determining -- the
18 main thing, the main driving force to me is
19 determining what you consider an efficient company,
20 their costs to be. And you make some changes. You
21 average some things. Sometimes you pick one company
22 over another. There's no magic answer to these. You
23 have to look at it on a case-by-case basis.

24 MR. DOWDS: Certainly.

25 COMMISSIONER DEASON: And I guess my

1 question is, if Bell saves other costs, perhaps in
2 installation or warehousing or in training their
3 technicians or whatever, such that it's more than
4 offset by the little bit of additional material costs
5 that go along with 25-pair versus 18- or 12-pair,
6 that's their decision. And my question is that if
7 there are cost benefits associated with that and we're
8 using BellSouth's costs to some extent in these other
9 things, installation and training and warehousing and
10 whatever, do we have a mismatch?

11 First of all, let me ask you, do you think
12 it's an inappropriate decision by Bell to not use 18-
13 and 12-pair cable? I mean, that's not an issue in
14 front of us, but do you think -- I mean, they
15 presented reasons why that's the way they choose to
16 run their company. Is that an inappropriate decision?

17 MR. D'HAESELEER: Commissioner, what I was
18 thinking when we were doing this and some of these
19 questions came up, with Bell and their resources and
20 as big as they are, 25-pair probably is a reasonable
21 and cost-effective way of providing minimum size
22 cable.

23 Now, if a small company went to compete
24 with them in the Miami area or some rural area, maybe
25 12 cable pair is all they would need, and that's what

1 we would do. And that's why a lot of this -- you have
2 to get off of the prospect of this is a particular
3 company's cost. What we're really trying to do is
4 come up with a competitively neutral cost, and if a
5 competitor much, much, much smaller than Bell were to
6 come in their area, what would they do.

7 COMMISSIONER DEASON: Yes And I guess my
8 question is, is the most efficient thing to do -- and
9 maybe it's not. And I guess maybe that's your bottom
10 line recommendation. It is not the most efficient
11 thing to do to limit the smallest pair -- the smallest
12 cable size to 25. That is not the most efficient
13 thing to do. It may be the most efficient thing for
14 Bell, but it's not the most efficient thing to do
15 generally.

16 MR. D'HAESELEER: For a smaller company, I
17 would say yes.

18 MR. DOWDS: And the I think the reason was,
19 the decision to install smaller than 25 versus 25
20 only, Bell's decision is largely based not on
21 engineering reasons. It's based upon convenience or
22 other factors. So by putting in discrete input values
23 for 12 and 18, we're affecting the engineering, but it
24 doesn't necessarily translate into differences in the
25 -- including Bell's level of warehousing.

1 individual area and each individual issue? In other
2 words, you haven't developed some broad definition of
3 what an efficient provider would be. You're just
4 looking at each individual issue.

5 MS. OLLILA: That's correct. And it's --
6 it would be very difficult to come up with an average
7 efficient provider, although to some extent we have to
8 think in those terms.

9 COMMISSIONER JACOBS: Okay. Thank you.

10 CHAIRMAN JOHNSON: Any other questions on
11 (h)?

12 Is there a motion?

13 COMMISSIONER CLARK: Yes.

14 CHAIRMAN JOHNSON: And a second. Any
15 further discussion?

16 Seeing none, show it approved unanimously.
17 We're going to take a short 10-minute
18 break.

19 (Short recess.)

20 CHAIRMAN JOHNSON: We're on Issue 4, Item
21 (i), copper cable costs.

22 COMMISSIONER CLARK: I move Staff.

23 COMMISSIONER DEASON: Second.

24 CHAIRMAN JOHNSON: Is there any discussion?

25 MR. COX: Madam Chairman, the previous

1 discussion --

2 CHAIRMAN JOHNSON: You need to turn your
3 mike on.

4 MR. COX: I thought it was. I'm sorry. It
5 went off. It was on and off.

6 The previous discussion was on 4(h) and
7 (i), so I'm wondering if that motion should have been
8 for 4(h) and (i). That was all one section.

9 CHAIRMAN JOHNSON: I'm sorry. You said --

10 MR. COX: You discussed the fiber cable and
11 the copper cable, that we voted on and discussed. It
12 appeared to me that you were voting on both at that
13 time, because you did discuss both the copper cable
14 and the fiber cable. Maybe the earlier vote should be
15 corrected to be --

16 COMMISSIONER CLARK: That's fine with me.

17 CHAIRMAN JOHNSON: It doesn't matter.

18 COMMISSIONER DEASON: In essence, that's
19 what we did, because there's really nothing there.

20 MR. COX: Right.

21 COMMISSIONER DEASON: Okay. That's fine.

22 CHAIRMAN JOHNSON: So that was for --

23 MR. COX: It was a vote on 4(h) and (i).

24 CHAIRMAN JOHNSON: Okay. Let the record
25 reflect that we approved (h) and (i) unanimously.

1 (j)?

2 COMMISSIONER CLARK: I move Staff.

3 COMMISSIONER DEASON: Second.

4 CHAIRMAN JOHNSON: Is there any discussion?
5 Show (j) approved unanimously.

6 (k)?

7 COMMISSIONER CLARK: I move staff.

8 COMMISSIONER DEASON: I have a question on
9 (k). The NID cost, as I understand it, Staff is
10 recommending that we take the BellSouth cost of
11 business plus the ATT/MCI cost for business, add that
12 together and average it to come up with approximately
13 \$50, and then to apply a factor of .6 to the 50 to
14 come up with a residential cost of \$30.

15 MS. KING: That's correct.

16 COMMISSIONER DEASON: Okay. First of all,
17 how did you calculate the .6 factor for residence
18 versus business? Where was that determined?

19 MS. KING: We looked at the relationship.
20 And we know that Sprint had a separate residential and
21 business NID and that AT&T and MCI modeled a separate
22 residence and business NID, so we saw the relationship
23 there was approximately 60%, and that's what we based
24 that on.

25 GTE and Bell both had the same number for

1 residence and business NID, so we believe they were
2 modeling the same NID for both, where we saw that
3 Sprint and AT&T appeared to be modeling a different
4 size NID for the res and a different size NID for the
5 business, and it appears to be a 60% relationship
6 there.

7 COMMISSIONER DEASON: Okay.

8 CHAIRMAN JOHNSON: Any further discussion
9 on (k)? Is there a motion?

10 COMMISSIONER CLARK: I move Staff.

11 CHAIRMAN JOHNSON: Is there a second?

12 COMMISSIONER DEASON: Second.

13 CHAIRMAN JOHNSON: Any discussion?
14 Show it approved unanimously.

15 (l), outside plant mix.

16 COMMISSIONER CLARK: I move Staff.

17 COMMISSIONER DEASON: Second.

18 CHAIRMAN JOHNSON: Any discussion?
19 Show it approved unanimously.

20 (m), digital loop carrier costs.

21 COMMISSIONER CLARK: I move Staff.

22 COMMISSIONER DEASON: Second.

23 CHAIRMAN JOHNSON: Any discussion?
24 Show it approved unanimously.

25 (n), terminal costs.

1 COMMISSIONER CLARK: I had a question. I
2 didn't quite understand. You're going to use one
3 serving area interface cost; is that correct? You
4 didn't see any reason to use individual companies,
5 because it shouldn't vary by geography?

6 MS. KING: Yes, ma'am.

7 COMMISSIONER CLARK: My question is, what
8 did you base the inputs on?

9 MS. KING: Give me just a moment, please.

10 COMMISSIONER CLARK: Okay.

11 MS. KING: What I did was, I recommended
12 adopting Sprint's proposed SAI costs. They seemed the
13 most reasonable of the data provided. There was
14 little data on the SAI, and I recommended that
15 Sprint's data appeared to be reasonable.

16 COMMISSIONER CLARK: Is it correct that you
17 rejected BellSouth's because they were -- they didn't
18 account for economies of scale?

19 MS. KING: Yes, ma'am. They applied -- the
20 engineering, I believe it was linear.

21 COMMISSIONER CLARK: Right. Okay. I move
22 Staff.

23 COMMISSIONER DEASON: Second.

24 CHAIRMAN JOHNSON: Any discussion?
25 Show it approved unanimously.

1 (o), switching costs and associated
2 variables.

3 COMMISSIONER CLARK: Move Staff.

4 COMMISSIONER DEASON: I have -- go ahead.

5 COMMISSIONER JACOBS: You go ahead.

6 COMMISSIONER DEASON: I have a question on
7 page 234. It's the bottom paragraph, and it's talking
8 about the witness of Witness Petzinger and his
9 assertion that there were serious questions about the
10 definition of slightly revised, but he did not provide
11 an alternative small switch prices. Could you give me
12 a little more information on that as to the basis of
13 his testimony and why it was an issue?

14 MS. OLLILA: Witness Petzinger didn't like
15 these small switch prices, but --

16 COMMISSIONER DEASON: Because they were
17 considered to be inefficient?

18 MS. OLLILA: She thought they were too high
19 because they were based on rural utility service,
20 prices for small switches, and she argued that a
21 BellSouth or a GTE would expect to receive a bigger
22 discount than what a small -- a very small telephone
23 company might receive.

24 COMMISSIONER DEASON: And on this basis, it
25 seems that there's some -- I mean, that's plausible.

1 You would think that would be true. But she did not
2 -- there was no alternatives provided in terms of an
3 alternative to those prices?

4 MS. OLLILA: No, there was not.

5 COMMISSIONER DEASON: So there was just
6 nothing in the record to --

7 MS. OLLILA: There was nothing in the
8 record. And lacking an engineering background, I
9 didn't feel able to recommend a different kind of
10 price. So it seemed that for these switches, a
11 conservative approach would be to let the small switch
12 prices remain as they are.

13 COMMISSIONER DEASON: That's all my
14 questions on that issue.

15 COMMISSIONER JACOBS: Mine have to do with
16 the discount factors. To make sure I understand, you
17 used the tables -- well, first of all, you said that
18 the inputs, that they were net, is that correct? So
19 the discount was already reflected in there, I assume.
20 Is that what you were saying?

21 MS. OLLILA: In the small switches?

22 COMMISSIONER JACOBS: Yes.

23 MS. OLLILA: Yes, that's correct.

24 COMMISSIONER JACOBS: Okay. And then for
25 the others, you did use the tables as they were input?

1 MS. OLLILA: Do you mean for the large
2 switches?

3 COMMISSIONER JACOBS: Yes, for the large
4 switches.

5 MS. OLLILA: Yes, I did recommend
6 discounts, because that's the way the companies buy
7 their switches. I just wasn't able to discuss it,
8 because the discounts are proprietary.

9 COMMISSIONER JACOBS: Okay. All right.

10 COMMISSIONER GARCIA: I just want for the
11 record to move (h) through (n). That's where I was
12 before. And then I've got a question if I can go back
13 for a second to --

14 CHAIRMAN JOHNSON: We might want to vote
15 this one out, unless you have --

16 COMMISSIONER GARCIA: Oh, okay. That's
17 fine.

18 CHAIRMAN JOHNSON: That way it will just be
19 clear --

20 COMMISSIONER GARCIA: I move it.

21 COMMISSIONER CLARK: What are we on?

22 CHAIRMAN JOHNSON: We were on (o).

23 COMMISSIONER CLARK: Second.

24 MR. COX: Chairman Johnson, will this be
25 for (o) and (p) or just (o)? It's another combined

1 variables, switching and traffic.

2 CHAIRMAN JOHNSON: (o) and (p)?

3 COMMISSIONER GARCIA: (o) and (p).

4 MR. COX: It's another one where they're
5 combined, and the record --

6 COMMISSIONER CLARK: You need to speak up.

7 MR. COX: I'm sorry. This is another set
8 of variables where they're combined in their
9 recommendations.

10 COMMISSIONER GARCIA: I'm moving (o) and
11 (p).

12 COMMISSIONER CLARK: (o) and (p), not ONP.

13 MR. COX: (o) and (p). I'm sorry.

14 CHAIRMAN JOHNSON: That was a motion. Is
15 there a second?

16 COMMISSIONER DEASON: Second?

17 CHAIRMAN JOHNSON: Any discussion?

18 Show (o) and (p) approved unanimously.
19 Commissioner Garcia?

20 COMMISSIONER GARCIA: I was just curious.
21 The calculations on (j), I didn't understand them on
22 the drops. And it's not that it didn't make sense,
23 but it almost gave me a feeling that -- in other
24 words, at one point the reg says something to the
25 effect that if they're too expensive to underground in

1 areas where they're heavily populated, then they'll
2 use the outside line search or whatever. I'm sorry.
3 I'm citing -- I'm quoting you, and it's not that much,
4 but it said something to the effect of -- what I
5 didn't understand was, why is it that BCPM did a sort
6 of "everything is the same" calculation. But, you
7 know, congested areas like downtown areas where
8 competition is going to be very important are really
9 much, much, much expensive, and I don't know how you
10 sort of averaged that out.

11 MR. DOWDS: Okay. Let me make sure I
12 understand.

13 COMMISSIONER GARCIA: Well, why don't you
14 explain to me what you did here.

15 MR. DOWDS: Your question is about the
16 difference between two models as it pertains to drop
17 length and how that affects the cost?

18 COMMISSIONER GARCIA: Right.

19 MR. DOWDS: Okay. Let me tell you. I'm
20 sorry. HAI basically has as discrete inputs a maximum
21 drop length by density zone.

22 COMMISSIONER GARCIA: Right.

23 MR. DOWDS: And in the lowest -- I think
24 it's the lowest two density zones, the maximum drop
25 length that's in the model ever is 150 feet. Okay?

1 And the comment on page 194 in the first full
2 paragraph about GTE Witness Tardiff --

3 COMMISSIONER GARCIA: Right.

4 MR. DOWDS: That's what he's talking about.
5 He's talking about the fact that by density zone, the
6 HAI model assumes a fixed length. So, for example, if
7 you live in the most dense area, then you've got a
8 shorter loop. Conversely, if you live in the boonies,
9 you've got a, quote, long loop, up to a maximum of 150
10 feet.

11 What BCPM does is, it models -- it doesn't
12 use a fixed drop length. It models it differently.
13 In essence, what it assumes is, once it identifies the
14 various sizes and shapes of the lots, which vary
15 according to the size of the census block, it will
16 build a drop into the center of the lot subject to a
17 restriction of a maximum of 500 feet. So the drop
18 length varies according to the size of the lot. So,
19 for example, in rural areas you might have a huge --
20 what in essence is a huge lot of maybe 15 acres, but
21 they constrain the maximum drop length.

22 Does that help any?

23 COMMISSIONER GARCIA: Right. But that's in
24 the least dense areas; right?

25 MR. DOWDS: Right.

1 COMMISSIONER GARCIA: But my question was
2 more for the dense areas. The HAI model seemed to
3 account for the difficulties there and recover much
4 more than -- if you look at in the buried area at page
5 194, and our model just doesn't take that into account
6 at all. In other words, I assume -- and that's why --
7 it was very light, so I wasn't sure what we were
8 talking about. But it occurred to me that what we
9 were talking about here is cable burying in downtown
10 areas and things like that, right, where you have
11 10,000, things like that? And it occurs to me that
12 that is clearly a much more expensive concept, and our
13 model doesn't recognize that at all.

14 MS. KING: I'm sorry, Commissioner Garcia.
15 On page 194, you're talking about the HAI input, \$5.14
16 in --

17 COMMISSIONER GARCIA: Right.

18 MS. KING: -- the density zone of 10,000
19 plus?

20 COMMISSIONER GARCIA: Right.

21 MS. KING: We make the comment on page 195
22 that discusses -- "Staff agrees conceptually that
23 buried drop placement costs would tend to increase in
24 densely populated areas." Is that what you --

25 COMMISSIONER GARCIA: Right, right.

1 MS. KING: Okay.

2 COMMISSIONER GARCIA: But I don't know how
3 you explained it away.

4 MS. KING: Well, conceptually we did agree
5 that in more densely populated areas, costs for
6 placing buried drop would increase. However, all we
7 had on the HAI side was the opinion of subject matter
8 experts saying this is a appropriate number.

9 What we had on the LEC side, the BCPM
10 inputs were based on actual LEC costs, so we felt that
11 was better data to use in this case. And in some
12 cases, we believe --

13 COMMISSIONER GARCIA: See, this is the only
14 question that strikes me. Maybe you can answer it and
15 we can move on. I assume that competition is going to
16 come to densely populated areas first, downtown areas,
17 things of that nature. That being the case, shouldn't
18 we try to model our cost closer to that, because
19 that's where we're first going to get those issues
20 coming up? Maybe I'm wrong.

21 MR. DOWDS: Not necessarily, for two
22 reasons, the primary reason being that this cost is --
23 this analysis is for purposes of determining the cost
24 of basic local telecommunication service, presumably
25 linked to the provision of universal service.

1 presumably maybe for a universal service fund, and
2 we're not going to fund Miami.

3 COMMISSIONER GARCIA: Right.

4 MR. DOWDS: So it doesn't really matter.

5 The other thing that I believe Ms. King
6 mentioned is that a \$5.14 drop cost per buried foot in
7 a density zone of 10,000 lines per square mile, it's
8 highly unlikely that anybody would ever bury a drop in
9 downtown Miami. It would actually be conduit, or it's
10 going to be riser cable.

11 COMMISSIONER GARCIA: Okay.

12 MR. DOWDS: It's just that, you know --

13 COMMISSIONER GARCIA: Good. Okay. Now I
14 got it. And you're right. We really don't care about
15 those areas to some degree, because that's not what
16 the mix is. That's not where the battle is. I mean,
17 it is where the battle is, but we're not thinking
18 about universal service support for that area.

19 COMMISSIONER CLARK: You mean it's not the
20 area that's likely to need support.

21 CHAIRMAN JOHNSON: Because you have costs.
22 The costs of --

23 COMMISSIONER GARCIA: Thank you for saying
24 it better.

25 CHAIRMAN JOHNSON: Signaling system costs,

1 (q)?

2 COMMISSIONER CLARK: I move Staff.

3 COMMISSIONER DEASON: Second.

4 CHAIRMAN JOHNSON: Show it approved without
5 objection.

6 (r), transport system costs and --

7 COMMISSIONER GARCIA: I move it.

8 CHAIRMAN JOHNSON: -- associated variables.

9 COMMISSIONER CLARK: Second.

10 CHAIRMAN JOHNSON: Show it approved
11 without objection.

12 (s), expenses.

13 COMMISSIONER DEASON: I have a few
14 questions on that. And I guess I can begin on page
15 263 of the recommendation. Under nonrecurring costs,
16 the last paragraph indicates that Staff has not
17 attempted to exclude nonrecurring costs, and my
18 question is why.

19 MS. OLLILA: Only one of the ILECs excluded
20 -- GTE did exclude nonrecurring costs. But in
21 averaging, we felt that the averaging would really
22 mitigate the effects of including nonrecurring costs.

23 COMMISSIONER DEASON: It seems to me the
24 question is more one of principle. Is it appropriate,
25 or is it not appropriate as to what the -- if there

1 are going to be nonrecurring costs, what is the
2 appropriate level? The question is, should they be
3 included for purposes of this cost study or not?

4 And I guess my question is, if there are
5 revenue mechanisms -- and you can debate whether
6 nonrecurring costs are recovered by those mechanisms
7 or not, but if there are nonrecurring costs and we
8 know that generally there are revenue mechanisms to
9 recover those nonrecurring costs, why are we including
10 them in terms of cost of basic service, which is
11 usually in terms of the recurring monthly cost of
12 providing service to a customer as opposed to -- now,
13 I understand there's costs imposed on the system to
14 initiate the service and that sort of thing. Usually
15 there are connection charges and things of that
16 nature. And if the connection charges are
17 inappropriate, perhaps that can be looked at in any
18 restructuring or that goes on in any legislation or
19 whatever.

20 But that's the concern that I have, and
21 that's the question. Do -- well, first of all, are
22 the costs we are calculating here going to be used in
23 terms of what is the recurring monthly cost of service
24 or not? So I guess that's kind of the threshold
25 question.

1 expenses.

2 COMMISSIONER DEASON: But you understand
3 that if there are separate revenue streams, like, for
4 example, connection charges, and if you ignore that
5 and just put all nonrecurring costs into the cost of
6 service on a monthly basis, and if these costs are
7 going to be used for universal service purposes, that
8 there could be basically over-recovery in the sense
9 that customers are going to have to pay for their
10 connection charges, but then there's going to be
11 universal service recovery of some sort, assuming
12 those costs are part of the monthly recurring cost of
13 service. And that's the difficulty I'm having. And
14 you're saying there's not enough data to make that --
15 to distinguish between the two?

16 MS. OLLILA: That's correct.

17 COMMISSIONER DEASON: And, of course, GTE's
18 position was that they excluded it. So apparently
19 they had information that they could exclude these
20 type of expenses.

21 MS. OLLILA: That's right. And they also
22 believed it was appropriate to exclude these kinds of
23 expenses. BellSouth did not believe so. Sprint
24 really didn't believe so, but said they would do
25 whatever the Commission ordered.

1 COMMISSIONER DEASON: Let me ask this
2 question. If the information were readily available
3 such that it could be identified and excluded, would
4 Staff exclude it, just as a matter of principle?

5 MR. DOWDS: Yes. If we could identify
6 those portions of the expense accounts for which there
7 are --

8 COMMISSIONER DEASON: Separate revenue
9 streams.

10 MR. DOWDS: One-to-one revenue streams.
11 Bear in mind, for example, things like -- there are
12 service order expenses that are booked to certain
13 accounts. You wouldn't want to do it across the
14 board, but you -- the accounts expense level, but
15 rather just those that pertain to service ordering, if
16 there's a service nonrecurring charge.

17 COMMISSIONER DEASON: So to the extent
18 they're included, that has the tendency to stay costs
19 higher than they otherwise would be.

20 MR. DOWDS: Yes. And as Ms. Ollila
21 explained, what she attempted to do, given the paucity
22 of data we had available, was to offset that
23 overstatement to some extent by an averaging.

24 MS. OLLILA: Process.

25 COMMISSIONER DEASON: Because you included

1 GTE in the average.

2 MR. DOWDS: Yes.

3 MS. OLLILA: And because cost levels do
4 vary among companies, from company to company, and it
5 seemed that an average would really help that problem
6 of the inclusion of nonrecurring costs.

7 COMMISSIONER DEASON: What are GTE's costs
8 generally in comparison to Sprint and BellSouth?

9 MS. OLLILA: They do vary on an
10 account-by-account basis for each particular cost.

11 COMMISSIONER DEASON: The fact that they
12 -- there are more significant differences in cost
13 other than just the fact that one company included --
14 two companies included nonrecurring and one excluded
15 nonrecurring.

16 MS. OLLILA: That's correct. And an
17 example in the expense percent to investment ratio on
18 page 266 would be aerial copper. BellSouth's cost is
19 approximately 4%, GTE's is approximately 5%, and
20 Sprint's is almost 7%. So that's a case where GTE's
21 costs are quite firmly in the middle. But then on
22 that same chart, COE switching, GTE's expense percent
23 is 17, versus between 3 and 5 for BellSouth.

24 COMMISSIONER DEASON: But you would need to
25 look at cost categories which tend to be more

1 associated with nonrecurring activities like service
2 ordering; correct? Do we have any indication what
3 those general type cost accounts are and how they
4 relate between the companies?

5 MR. DOWDS: I have to defer to Ms. Ollila.
6 My recollection is that the only breakdown we had was
7 for a handful of accounts for GTE, and I don't know if
8 it was even for all expense accounts for which there
9 may be something that would be classified as a
10 nonrecurring expense.

11 COMMISSIONER DEASON: So the bottom line is
12 that you agree in principle, but it's just -- the
13 information is not there to do it.

14 MS. OLLILA: That's correct.

15 COMMISSIONER CLARK: I move Staff.

16 COMMISSIONER GARCIA: Second.

17 COMMISSIONER CLARK: Are we on (s)? I do
18 have a question. I don't understand the logic of
19 including advertising. I just never could get a
20 handle on that. At first Witness Lehrman said you
21 shouldn't include it, and then at some point he
22 conceded that you should. And it just never was clear
23 to me why when you're looking at the cost of basic
24 service -- I understand that companies themselves
25 might advertise, but they're going to be providing

1 more than just basic service. I just couldn't get my
2 arms around why you would include it.

3 COMMISSIONER JACOBS: Particularly in light
4 of what we decided were basic services. More and
5 more, even though I agree that advertising will
6 increase, but what you see more and more are the
7 bundle of services that are focused.

8 COMMISSIONER CLARK: Right.

9 COMMISSIONER JACOBS: And I would expect
10 that that will continue.

11 MS. OLLILA: Well, my understanding of why
12 he agreed that some advertising expense should be
13 included was that in a competitive environment,
14 companies are actually going to be advertising their
15 basic services. And to some extent --

16 COMMISSIONER JACOBS: As we define it or as
17 they define it? Which is it? I mean, that's the
18 interesting thing. I really -- I agree with the
19 premise that there will be advertising. I disagree
20 that it will be substantially focused on that basic
21 line.

22 COMMISSIONER GARCIA: Well, they're going
23 to provide it is in a small town; right? Am I
24 mistaken?

25 MS. OLLILA: That's correct. Advertising

1 comes under marketing, which also includes product
2 management and sales. So to that extent, it's not an
3 account by itself.

4 It's also very hard to separate out
5 advertising for local service. I see it on TV in
6 commercials for the \$49 per month basic line for
7 people who have credit difficulties. So to some
8 extent, it is there.

9 The numbers weren't really available in
10 terms of separating out advertising. And --

11 COMMISSIONER CLARK: Let me ask the
12 question this way. Does the High Cost Fund include
13 advertising?

14 MS. OLLILA: I do not know that.

15 MR. MAILHOT: (Inaudible.)

16 COMMISSIONER GARCIA: It's not on.

17 MR. MAILHOT: The Federal High Cost Fund
18 would include a little bit of expense related to
19 advertising, but very little, I believe, because
20 that's mostly in one account, and I don't think
21 there's much of that apparently included in the cost.

22 COMMISSIONER CLARK: And Staff is
23 representing that would be the same here? It would be
24 appropriate to allow some advertising so customers
25 know that other --

1 COMMISSIONER GARCIA: See, here it comes
2 out to a little bit over 10%.

3 COMMISSIONER CLARK: Ten percent of what?
4 The marketing?

5 COMMISSIONER GARCIA: No, the total.
6 Marketing, yes.

7 MS. OLLILA: What page are you referring
8 to, Commissioner.

9 COMMISSIONER GARCIA: Maybe I'm -- 274. Am
10 I on the right page?

11 MS. OLLILA: That's correct. And marketing
12 does include things other than advertising.

13 COMMISSIONER GARCIA: Right.

14 COMMISSIONER CLARK: Is it included under
15 the general notion that you would look at some joint
16 and common costs that a company in this business would
17 be providing, and some of it is appropriately
18 allocated to basic service?

19 MS. OLLILA: I'm not --

20 COMMISSIONER CLARK: Like aircraft. I think
21 some people had aircraft and some people didn't, but
22 because it's a part of the general business of
23 providing the service, at least some portion of that
24 should be allocated to the basic services. That's the
25 rationale.

1 David, you're shaking your head yes.

2 MR. DOWDS: Yes.

3 COMMISSIONER CLARK: Do you agree with
4 that?

5 MR. DOWDS: Again, we have to go back to
6 the competitive paradigm. It's not a monopoly
7 environment. We may have wanted to exclude certain
8 advertising expenses in a monopoly environment, but
9 there are --

10 COMMISSIONER CLARK: All right. All right.

11 MR. DOWDS: -- business case level that
12 would be appropriate in that environment. Now, one
13 can dispute what the level is.

14 COMMISSIONER CLARK: Say the last again.

15 MR. DOWDS: One can always dispute what the
16 appropriate level is, but some level is appropriate,
17 even if it's just --

18 COMMISSIONER CLARK: And there really
19 wasn't much dispute among the witnesses. Mr. Lehrman
20 came out initially but then said yes, some of it is
21 appropriate.

22 Okay. I move Staff.

23 COMMISSIONER DEASON: Wait. I have a
24 question.

25 COMMISSIONER JACOBS: I --

1 COMMISSIONER DEASON: I'm sorry. Go ahead.

2 COMMISSIONER JACOBS: Heretofore, what
3 we've done, we've said let's look at what a reasonable
4 provider would do.

5 MS. OLLILA: That's correct.

6 COMMISSIONER JACOBS: Is that standard
7 applicable here, and if so, how would you apply it?

8 MS. OLLILA: Well, any new provider, a
9 reasonable provider would advertise, I mean, to the
10 extent that you need a basic local service line before
11 you can get caller ID and call waiting.

12 COMMISSIONER JACOBS: I can get beyond
13 that. Now, do we try and assess what level it will be
14 through that same -- through applying that same
15 analysis?

16 MS. OLLILA: Well, in looking at the per
17 line expenses, what we did first was change the
18 allocation method, which, in effect, reduced the per
19 line expenses for marketing, which includes
20 advertising, and then took a reduction from that.
21 But, no, we did not attempt to isolate advertising.

22 And really in order to do that, it would
23 almost be impossible without looking at a particular
24 company's campaigns, for example, to see what was for
25 voice mail, what was image advertising, what was

1 caller ID and return call.

2 COMMISSIONER JACOBS: Okay. I'll move on.
3 That percentage, though, it just gives me heartburn.
4 I really do think that you're going to find that the
5 vast -- what I would look at is what is the real focus
6 of the message, because that's really what advertising
7 is. It's the message, and that's the cost of it. And
8 I would suspect that the essence of the message that's
9 being conveyed through advertising will be that bundle
10 of services, and primarily what we now for universal
11 services purposes view as nonbasic. And I would
12 suggest -- you know, I would suggest that the vast
13 majority of that expense would not go toward the
14 basic. But I won't belabor for the moment.

15 COMMISSIONER DEASON: Another question I
16 have along with the one that I asked earlier about
17 nonrecurring costs dealt with billing and collection
18 costs for toll and access. And in Staff's
19 recommendation, there was not a specific exclusion of
20 those costs. But I do understand that you do have --
21 you are using a local service allocator which you've
22 derived based upon a revenue calculation, a revenue
23 comparison.

24 So my question is, do you think that
25 captures the impact of that, or do you think that

1 these costs should be included, or you don't have the
2 information to exclude them? What's the situation
3 with toll and access billing and collection?

4 MS. OLLILA: Let me first explain how we
5 developed the revenue calculator. We took the
6 revenues for basic local service plus the end user
7 common line revenues and divided that by total
8 regulated revenues.

9 And I'm not entirely familiar with how
10 billing and collection appears in terms of the ARMIS
11 reports. But I think the way we developed the
12 allocator, we effectively excluded billing and
13 collection.

14 COMMISSIONER DEASON: That was my
15 question. You think the allocator already addresses
16 it, so you don't have to have a specific
17 identification of these billing and collection costs
18 with an exclusion of them?

19 MS. OLLILA: Yes.

20 COMMISSIONER DEASON: The allocator should
21 address it?

22 MS. OLLILA: Based on the way that we
23 developed the allocator, yes.

24 COMMISSIONER DEASON: But you do agree in
25 principle that billing and collection costs for toll

1 and access should not be part of the cost we establish
2 here?

3 MS. OLLILA: Yes.

4 COMMISSIONER DEASON: All right. I'm
5 finished.

6 CHAIRMAN JOHNSON: Any other questions on
7 expenses?

8 COMMISSIONER CLARK: Move Staff.

9 COMMISSIONER JACOBS: Second.

10 COMMISSIONER DEASON: Let me say, I'm going
11 to vote, but I think at some point we need to -- and I
12 guess when it comes time to report, we need to report
13 about the concerns about nonrecurring costs,
14 nonrecurring revenue streams, and how that somehow
15 needs to be considered in the mix.

16 COMMISSIONER JACOBS: As well as
17 advertising.

18 CHAIRMAN JOHNSON: Show the vote then a
19 unanimous vote, but Staff has noted the concerns that
20 will probably be discussed in the report, that should be
21 discussed in the report.

22 (t), other inputs?

23 COMMISSIONER CLARK: What is loop cost
24 investment cap, and what does it do?

25 MS. OLLILA: What it basically says is that

1 when the cost of a loop is over \$10,000 --

2 COMMISSIONER CLARK: It caps it at
3 \$10,000?

4 MS. OLLILA: That's correct.

5 COMMISSIONER CLARK: Is that because it
6 presumes that above that, they would be collecting
7 contributions in aid of construction from that
8 entity? I mean, why is it capped there? Why isn't it
9 capped lower, actually, because BellSouth seems to
10 imply that if it's above 4,000, they might should use
11 cellular? At least that's the way I understood it.

12 MR. DOWDS: Okay. The investment cap
13 assumes that if the cost per line exceeds the sum
14 dollar amount that's input, that there's got to be a
15 cheaper alternative than a wire line network, in
16 essence.

17 Now, my recollection, and I'm sure she will
18 correct me, is that Bell used a number of around
19 4,350, and everybody else used the BCPM model default
20 of 10,000. I believe that the reason Bell used 4,350
21 is, they didn't have any costs anywhere that exceeded
22 that number.

23 MS. OLLILA: Excuse me. They also had the
24 results of a study, a study on wireless, and that's
25 the other reason they chose the 4,350.

1 COMMISSIONER DEASON: So you're saying your
2 recommendation to apply 10,000 for BellSouth is not
3 going to have any material impact anyway, because they
4 have no costs which exceed the 4,350; is that correct?
5 That's what I thought David said.

6 MS. OLLILA: No, that's --

7 COMMISSIONER DEASON: They do have costs
8 which exceed, so when you put the 10,000 cap, it is
9 going to change their cost results?

10 MS. OLLILA: That's correct. And to the
11 extent that we have preliminary results, that \$10,000
12 cap is already in those preliminary results. To what
13 extent it increases their costs, that I don't know.

14 COMMISSIONER CLARK. Well, in your opinion,
15 is there going to be much investment between 4,350 and
16 10,000? Is this a material factor?

17 MS. OLLILA: I'm not sure how material it
18 is. And in looking at it initially, my first thought
19 was 4,350 looks like a good number. But we didn't
20 have the study that BellSouth had, and thinking more
21 generically about what might be available, the more
22 conservative approach seemed to be the \$10,000 cap.

23 COMMISSIONER CLARK: More conservative in
24 the sense that you're allowing more costs to be
25 included?

1 MS. OLLILA: Yes.

2 COMMISSIONER CLARK: And you have no idea
3 how material it would be?

4 MS. OLLILA: No.

5 COMMISSIONER CLARK: You know, because I'm
6 persuaded by the logic that if the loop cost gets
7 above 4,350, you probably ought to look at another
8 type of service, that it's not cost-effective to put
9 in a loop if it's going to cost more than that amount.

10 COMMISSIONER DEASON: Well, how did Bell
11 establish the 4,350?

12 CHAIRMAN JOHNSON: You said the study they
13 referenced was not part of the record, the wireless,
14 the study? I thought it was in that study that --

15 MS. OLLILA: It was in a wireless -- they
16 referenced a wireless study that they did.

17 CHAIRMAN JOHNSON: They didn't attach it?

18 MS. OLLILA: No, they did not.

19 COMMISSIONER DEASON: So based upon that
20 study, they indicated that anything exceeding 4,350,
21 it would be cost-effective to provide service in a
22 different manner.

23 MS. OLLILA: Yes.

24 COMMISSIONER CLARK: I'm sorry. Say that
25 again.

1 COMMISSIONER DEASON: That it would be
2 cost-effective to provide service in a different
3 manner if the loop cost exceeded 4,350.

4 MS. OLLILA: Yes, that's --

5 COMMISSIONER CLARK: And to me, that says,
6 therefore, your loop cost investment cap should be
7 that amount, because people should not be putting in a
8 loop if another technology is more cost-effective.

9 MS. OLLILA: If I might just have a moment
10 to find the reference.

11 COMMISSIONER DEASON: I also have -- while
12 you're doing that, I guess a more general question is,
13 when we start approaching a loop cost of that
14 magnitude, it looks to me like that customer is
15 probably going to be well out in the country
16 somewhere. And normally aren't there are CIAC
17 collections for those situations such that the general
18 body of ratepayers -- I know the general body of
19 ratepayers is an antiquated concept, but companies
20 still collect -- they have tariffs where they collect
21 CIAC when they have to expend a certain amount beyond
22 an average. And wouldn't that capture some of those
23 situations, so that it may be appropriate to have a
24 more conservative cap as opposed to 10,000?

25 Mr. D'Haeseleer, do you know the answer to

1 that?

2 MR. D'HAESELEER: We don't have much of it
3 anymore, but there probably are some cases where
4 aiding construction would be charged to a consumer. I
5 haven't seen it in a long time except where somebody
6 might have 10 or 20 acres off of a highway and they
7 want a service drop.

8 In those kind of cases, I suspect there
9 would be some additional cost. But by and large, you
10 know, we don't see that anymore.

11 COMMISSIONER CLARK: They would pay, not
12 the general body of ratepayers.

13 MR. D'HAESELEER: Right, right.

14 MS. OLLILA: If I might just read to you
15 BellSouth's description of their wireless. This was
16 asked of Witness Caldwell in her deposition, and she
17 -- as to why BellSouth used the 4,350. And she said
18 that she could explain why BellSouth used that number.
19 "Originally the 10,000 was the BCPM default number,
20 and that was the only information that we had
21 available. Our understanding is that that cap was
22 based upon some type of wireless technology, the
23 10,000 was. So we went to our network people, and
24 they had completed recently a study on some wireless
25 technologies, and the cost was less. So we capped it

1 at the smaller of the two numbers based on that
2 study."

3 COMMISSIONER CLARK: Well, it strikes me
4 that we should use the lesser amount.

5 MS. OLLILA: Staff would agree that we
6 certainly could. Not having seen the study, I wasn't
7 comfortable moving to the 4,350.

8 COMMISSIONER CLARK: Well, I'm comfortable
9 if BellSouth -- that says they looked at it recently
10 and it's less. You know, maybe we should do someplace
11 in between. But it doesn't seem that the 10,000 is
12 justified, particularly because they've looked at it
13 recently and indicated that for wireless -- I assume
14 it means that if you get above that amount, instead of
15 putting a loop in, you should look at wireless
16 technology.

17 MS. OLLILA: Staff would certainly be
18 agreeable to changing it to the 4,350 for all three
19 companies.

20 COMMISSIONER CLARK: Well, I would move (t)
21 with that change.

22 COMMISSIONER DEASON: Second.

23 COMMISSIONER GARCIA: Let me get an
24 understanding. What was the change we did?

25 COMMISSIONER CLARK: Capping the investment

1 at loop at 4,350 instead of 10,000. And that's based
2 on the rationale that if it costs -- if we have loops
3 where it would cost more than 4,350, BellSouth's
4 study, as I understand it, indicates that you should
5 look at a different technology and not put in that
6 loop.

7 CHAIRMAN JOHNSON: Any further questions?
8 Show that approved as modified
9 unanimously.

10 That concludes Issue 4.

11 Issue 5? 5(a)? We have a 5(a) and 5(b).

12 COMMISSIONER DEASON: I can move Staff on
13 5(a).

14 COMMISSIONER CLARK: Second.

15 COMMISSIONER GARCIA: Can we move them on
16 both? Well, that's fine.

17 CHAIRMAN JOHNSON: Any discussion?

18 COMMISSIONER CLARK: I move 5(b) too.

19 COMMISSIONER GARCIA: I'll second that
20 one.

21 CHAIRMAN JOHNSON: We'll show 5(a)
22 approved unanimously.

23 COMMISSIONER CLARK: Move 5(b).

24 COMMISSIONER GARCIA: Second.

25 CHAIRMAN JOHNSON: Any discussion?

1 Show 5(b) approved unanimously.

2 Issue 6.

3 COMMISSIONER DEASON: We have a primary
4 and alternative.

5 CHAIRMAN JOHNSON: We have a primary, yes,
6 and Dale is the primary.

7 MR. MAILHOT: The primary.

8 COMMISSIONER DEASON: Commissioners, the
9 hour is getting late, and we have another pressing
10 matter, and I certainly don't want to curtail debate,
11 but I'm persuaded by the alternative.

12 COMMISSIONER GARCIA: Well, that's
13 unfortunate, because I think that the primary does
14 it.

15 COMMISSIONER DEASON: Well, it seems to me
16 that what we're here -- I know that this is really a
17 nonissue, that the parties didn't address it, but it's
18 really one more one of what is the correct thing to
19 do. And it seems to me that the correct thing to do
20 is try to establish the cost of an efficient provider
21 such that they can come in and effectively compete.
22 And if we're doing it on embedded costs which are so
23 much lower than that, we're basically -- it's going to
24 be difficult enough as it is to try to encourage
25 competition in rural areas, and for these small

1 companies, you're basically guaranteeing that it's not
2 going to be --

3 COMMISSIONER GARCIA: Well, again, I defer
4 to your knowledge of rural areas, since you live in a
5 rural area, so I'm going to give you deference there.
6 But one of the worries that I have is that the
7 alternative gives too much money, more money than they
8 asked for, and --

9 COMMISSIONER DEASON: They're not asking --
10 the small LECs would just as soon there is no
11 competition. They're not asking for this money.

12 COMMISSIONER GARCIA: Right. But the
13 problem is that they're going to get money whether it
14 happens or not, and they're going to get more than
15 what --

16 COMMISSIONER CLARK: Well, I think Terry's
17 point is, if the forward looking costs appears to be
18 more than the embedded cost, probably because it has
19 depreciated plant, people will not come into the area,
20 because they won't be able to compete. But if you set
21 it higher, they will be able use that support to begin
22 to compete in the rural areas.

23 Is that your point?

24 COMMISSIONER DEASON: Yes, and I believe
25 that's basically what David is saying also.

1 COMMISSIONER CLARK: I'm trying to
2 understand. Do we have to approve either one? Why
3 don't we send -- you know, say, "By the way, we did
4 it. We know we weren't required, and we didn't do
5 it."

6 COMMISSIONER DEASON: Well, that is the
7 recommendation, is that we basically -- it's not like
8 you totally -- the alternative was not totally
9 disregard the embedded, and this is the only way that
10 you should do it. But I think it was more in line to
11 what you suggested, is that we need to have full
12 disclosure and express our concern that if you did it
13 strictly on a embedded cost basis that you might not
14 get the result that was intended.

15 COMMISSIONER CLARK: That you might not get
16 competition.

17 COMMISSIONER DEASON: You might not get
18 competition.

19 COMMISSIONER GARCIA: See, I saw it --

20 CHAIRMAN JOHNSON: I see it just the
21 opposite.

22 COMMISSIONER GARCIA: I see it exactly the
23 opposite. I may be totally wrong, but I see it
24 exactly the opposite. I think what's going to happen
25 is that these locals are going -- it's not for or

1 against competition. It's just more money for what
2 they already have. And if you get competition,
3 they're just getting more money even if you get
4 competition.

5 COMMISSIONER CLARK: And another provider
6 can come in and provide that service, and that amount
7 of money would be given to that provider as opposed to
8 incumbent.

9 COMMISSIONER DEASON: And the criticism
10 you just levied, doesn't that also apply to Sprint,
11 BellSouth, and GTE? The only difference is, we don't
12 know what their embedded costs are.

13 CHAIRMAN JOHNSON: And I guess we could
14 back up a little bit, because we're talking -- with
15 the models, we're talking approximate costs. We
16 aren't talking actual costs, and I think some of this
17 discussion will probably occur in the report that will
18 be issued.

19 Commenting on what Commissioner Garcia
20 said, I guess I started looking at this too -- and
21 Terry, you made a good point. This analysis can be
22 made for both, and that's why we might want to be
23 cautious even suggesting that we need a universal
24 service fundd. And the Legislature needs to give us
25 guidance as to why we need one. Are we trying to keep

1 against competition. It's just more money for what
2 they already have. And if you get competition,
3 they're just getting more money even if you get
4 competition.

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17 discussion will probably occur in the report that will
18 be issued.

19 Commenting on what Commissioner Garcia
20 said, I guess I started looking at this too -- and
21 Terry, you made a good point. This analysis can be
22 made for both, and that's why we might want to be
23 cautious even suggesting that we need a universal
24 service fundd. And the Legislature needs to give us
25 guidance as to why we need one. Are we trying to keep

1 rates low? Are we trying to promote competition?
2 What is the real purpose, and what are they trying to
3 achieve? Because you can look at some of the models
4 and some of the numbers that we have for the small
5 companies, particularly if you look at some of the
6 embedded numbers, yes, they're usually lower than the
7 proxy numbers are spitting out. There are a couple of
8 exceptions.

9 And as I look at that from a competitive
10 standpoint, if the cost of service for -- I won't use
11 a company name, but say the embedded cost was \$40, and
12 then the forward-looking cost was \$75, and we decided
13 we don't want customers paying any more than \$30 or
14 whatever. My math may be off, \$30. Then that means
15 they're going to both get a subsidy of \$45. If the
16 incumbent's real cost was only \$40, he gets a subsidy
17 of only --

18 COMMISSIONER DEASON: Isn't that the same
19 argument from BellSouth?

20 CHAIRMAN JOHNSON: Exactly. That's what I
21 said. So the argument --

22 COMMISSIONER DEASON: So it's allowing --
23 taking one class of telephone companies and treating
24 them differently, if the philosophical argument is the
25 same regardless.

1 CHAIRMAN JOHNSON: We're not. I think one
2 of the things that we're doing, we're showing the
3 legislature we do have the numbers, so we can show
4 them both and allow them to make that decision as to
5 what are we really trying to achieve. Do we want more
6 -- you know, are we trying to promote competition, and
7 how do we go about doing that? And they could look at
8 these numbers and say, "Whoo, maybe we ought to look
9 at embedded costs for the other companies." You know,
10 they might do that, but at a minimum, we show them
11 this, and they --

12 COMMISSIONER DEASON: I'm not saying we
13 hide that we've got embedded cost data. There's no
14 need to hide it. I mean, obviously, you report it,
15 and I think David recommends we do that as well.

16 But I think that it would be naive and
17 perhaps not being totally truthful to give any
18 impression that basing a universal service fund based
19 upon embedded costs was going to somehow stimulate
20 competition. I'm not so sure that that would be
21 totally correct to even insinuate that.

22 COMMISSIONER CLARK: I think it would be
23 appropriate to send Staff all the information over
24 there and then sort of give an explanation based on
25 the discussion we've just had. You might be able to

1 inspire more competition, because people coming into
2 the area would get the kind of support they need if
3 they were going to put it in now.

4 COMMISSIONER GARCIA: I think that's
5 important, because Leon is looking troubled.

6 COMMISSIONER JACOBS: This is exactly a
7 point that I brought out early. I think there's a
8 broader discussion here, i.e., to what extent will
9 price signals promote competition?

10 I really think that there needs to be a
11 real concise discussion of that, because this creams
12 it exactly. We can do all these things and promote
13 this great model, but if it doesn't in essence promote
14 competition when it's all said and done, we've
15 contorted the marketplace. And I really think that
16 there's a real honest discussion that needs to be had
17 on that very issue, and more specifically on this
18 point.

19 COMMISSIONER DEASON: And I agree with
20 you. And that really is -- that's something that's
21 going to have to be dealt with in terms of structuring
22 a universal service fund, assuming there's even going
23 to be one. We don't know.

24 Our charge from the Legislature is, they
25 told us, "Tell us how much it costs to provide

1 service." And they did give us the option to at least
2 look at it from the small companies based upon an
3 embedded cost basis. And that was written into the
4 law, and I certainly respect that, and I think we need
5 to give that information.

6 But I for one think that if the purpose of
7 this whole exercise is to try to determine the cost
8 level that's going to stimulate competition, that
9 doing it on embedded cost is not necessarily going to
10 do it. In fact, it may have the opposite effect.
11 But, you know, full disclosure, and then let the
12 decision-makers decide what is appropriate. But I --
13 if it's good, if forward-looking costs for an
14 economic, efficient provider is good for the large
15 companies, the same standard should apply to the small
16 companies.

17 COMMISSIONER CLARK: Well, I just think
18 since it has been done, even if we don't send it over
19 formally, they will get the information, and we might
20 as well put that information out and give a
21 discussion.

22 COMMISSIONER GARCIA: So we don't vote it
23 out? We just leave both and discuss both?

24 COMMISSIONER CLARK: Yes. I think we would
25 -- but I think that is what the alternative is

1 recommending.

2 MR. DOWDS: Not really, no, it's not.

3 COMMISSIONER GARCIA: No, it's not.

4 COMMISSIONER CLARK: Well, then I disagree
5 with it. I think we should send both information and
6 then just kind of frame the debate for them.

7 MR. DOWDS: May I comment?

8 COMMISSIONER CLARK: Yes.

9 MR. DOWDS: And I would like to refer you
10 to the statutory language. This is a zero sum issue,
11 in my opinion. What you do in the report, you have
12 infinite leeway. But it says here in .025(4)(b), to
13 assist the Legislature in establishing a permanent
14 universal service mechanism, and so forth. And that
15 paragraph precedes -- it's .025(4)(b), and it talks
16 about establishing a cost proxy model, which you've
17 already concluded applies at a minimum to the big
18 three. Then .025(4)(c) continues, and it says, in
19 determining the cost of providing basic local, and it
20 gives you an opt-out.

21 You basically have three options, in my
22 opinion. One is, .025(4)(b), or (c) says you don't
23 have to use the same model for the big LECs as the
24 little LECs.

25 COMMISSIONER GARCIA: Right.

1 MR. DOWDS: That's the first sentence, and
2 it's got a period. I would infer that you can do that
3 if you want. But if you opt not to do that, then you
4 have two decisions. I think you have to make one of
5 them. And it says the Commission shall calculate a
6 small local exchange telecommunications company's cost
7 of providing basic local service, telecommunications
8 services based on one of the following options, a
9 different proxy model or -- and it goes into this
10 thing about a fully distributed allocation of embedded
11 costs, identifying high cost areas within the local
12 exchange area the company serves, including all
13 embedded investments and expenses incurred by the
14 company for the provision of universal service. It
15 says shall calculate.

16 I respectfully would opine, you can't punt
17 on this. You can turn around in the report and say
18 what we -- we had to make a decision, and we weren't
19 comfortable with the decision. But I believe you
20 can't punt.

21 CHAIRMAN JOHNSON: Thank you, Attorney
22 Dowds.

23 COMMISSIONER CLARK: Well, let me ask the
24 question.

25 CHAIRMAN JOHNSON: What do you think,

1 Will?

2 COMMISSIONER CLARK: What is the --

3 MR. COX: I concur with Mr. Dowds.

4 COMMISSIONER CLARK: What we're sending
5 over there is not a decision to do something. It's
6 the information we're sending them for them to make a
7 decision.

8 MR. DOWDS: I don't think so.

9 COMMISSIONER GARCIA: They asked us to do
10 this, to give them an answer.

11 COMMISSIONER DEASON: So you're saying we
12 have to send over one cost study and say, this is it?

13 COMMISSIONER GARCIA: Well, after our
14 research, our professional --

15 COMMISSIONER CLARK: I disagree.

16 MR. D'HAESELEER: Commissioners, we have
17 to, in my opinion, do what they asked us to do. Now,
18 in our report, we can, "Say don't do this. It's a
19 dumb idea," not in those words, but --

20 COMMISSIONER CLARK: I'm not even
21 advocating that. I'm just saying, "Here's the
22 information. Here's the rationale for them. You can
23 use what you want to."

24 COMMISSIONER DEASON: Do we have the option
25 of choosing, for example, the BCPM as modified for the

1 large LECs and say, "This should be the cost
2 methodology used for the small LECs"?

3 MR. DOWDS: That's essentially what the
4 alternative recommendation says. It says -- it
5 acknowledges there's a paucity of data that's specific
6 to the cost structure of small LECs. But for
7 comparison purposes, what we would send over under the
8 alternatives would be a BCPM 3.1 run based on data --
9 what we do have that's applicable to small LECs, with
10 caveats.

11 And I believe it also indicates that if and
12 when something actually occurs in the legislative
13 session, there may be a likelihood that the cost
14 inputs for all LECs should be -- may need to be
15 revisited.

16 COMMISSIONER CLARK: Let me ask it a
17 different way. If we have to make a choice and we
18 send that over, are they bound by our choice?

19 MR. DOWDS: I don't think so.

20 COMMISSIONER GARCIA: No, they're not.
21 They're not bound by any of this.

22 COMMISSIONER CLARK: So really, this is
23 just advice to them.

24 COMMISSIONER DEASON: Correct.

25 COMMISSIONER GARCIA: But if they're

1 want to do is submit primary and then provide the
2 alternative information there and specify that this
3 may be -- some of the rationale Commissioner Deason
4 has stated is very strong.

5 I mean, obviously, I'm pushing mine, but we
6 can do it the other way around if would you like. I
7 just think that the alternative gives them much more
8 than they asked for. And I think it's an important
9 issue that we might want to address, because they are
10 the ones that are wrestling with that question, is
11 cost -- is this an indicator for competition. And if
12 that's the case, they may very well want to pick the
13 alternative.

14 COMMISSIONER JACOBS: Can we go to your
15 appendix that looks at this real quickly and make sure
16 I understand what the impact of this would be?

17 Now, what I have is a table that was given
18 us yesterday, the package that came out yesterday, the
19 last page of that. Is that what you're talking about?

20 MR. DOWDS: I'm sorry. I don't know what
21 you're --

22 COMMISSIONER JACOBS: This is a table
23 that's labeled "Rural LEC Summary by Wire Center." Do
24 you have that?

25 COMMISSIONER CLARK: Let me see if I can

1 frame a -- I'm sorry. When they've answered your
2 question, I'll frame an issue.

3 COMMISSIONER JACOBS: Do you have it?

4 I got it from Martha.

5 COMMISSIONER GARCIA: Where are you, Leon?

6 CHAIRMAN JOHNSON: This is the package that
7 came out with the summaries table, the very last page.

8 MR. DOWDS: Got you. Okay. I just didn't
9 know which one --

10 CHAIRMAN JOHNSON: The one from yesterday
11 that wasn't part --

12 COMMISSIONER JACOBS: Yes, it came out
13 yesterday.

14 MR. DOWDS: The one that Greg prepared for
15 you.

16 COMMISSIONER JACOBS: Yes. Okay. It
17 appears that what you have for the embedded study is
18 one price per company.

19 MR. DOWDS: That's correct.

20 COMMISSIONER JACOBS: For the primary.
21 The embedded study would have one price per company.
22 And the alternative would go by what we're suggesting
23 and do it per wire center.

24 Now, you then -- and in your analysis, you
25 averaged that out per line, David; is that correct?

1 David, in your analysis, the alternative analysis, you
2 go down per wire center, and you come up with a
3 difference for each wire center between what the
4 embedded study would have had and what you came out
5 with, and then you look at the number of lines in that
6 wire center; is that correct?

7 MR. DOWDS: Yes.

8 COMMISSIONER JACOBS: Okay. So --

9 COMMISSIONER DEASON: I need to interrupt
10 just a second. Wire center in relation to the
11 embedded cost study?

12 MR. DOWDS: No.

13 COMMISSIONER JACOBS: No, no, no. He does
14 a comparison.

15 COMMISSIONER DEASON: Oh, okay, because
16 there's no -- I mean, embedded cost is something --

17 MR. DOWDS: What Staff did is, we ran BCPM
18 3.1 --

19 COMMISSIONER DEASON: Oh, to get the
20 results.

21 MR. DOWDS: -- with actual wire center line
22 counts for the small LECs. And I believe where there
23 was geographically specific inputs, we used GTE's as a
24 surrogate. It was a coin toss. We just didn't have a
25 choice. I mean, we didn't have an alternative.

1 COMMISSIONER DEASON: Okay. I got you.

2 COMMISSIONER JACOBS: Okay.

3 CHAIRMAN JOHNSON: Any other questions,
4 Commissioners?

5 COMMISSIONER DEASON: Yes. David, I'm a
6 little unclear as to exactly what you're recommending
7 in your alternative. Could you explain that briefly?

8 MR. DOWDS: Certainly. My perspective on
9 what the statute requires is, it requires the
10 Commission to determine and report for ten local
11 exchange companies what the cost of basic local
12 telecommunications service is. For the big three, as
13 you've already decided, you have to use the BC -- the
14 model you've already selected with the inputs you've
15 already selected.

16 As we indicated a minute ago, you've got
17 three options for the small LECs, but you have to pick
18 something. In my opinion, you have to make a decision
19 as to what you think should be reported. And as
20 Mr. D'Haeseleer said, if you -- because in my opinion,
21 that's what the statute requires. As Mr. D'Haeseleer
22 said, we can turn around and tell them, "We did what
23 you told us to do, but we think it was dumb."

24 COMMISSIONER DEASON: No, we won't say
25 that.

1 MR. DOWDS: Not being facetious, but you
2 know what I'm saying.

3 Anything you want to say is potentially
4 fair game, I guess, in the report. But in my opinion,
5 you have to pick something.

6 Mr. Mailhot and I merely disagree on a
7 philosophical matter. He believes it is appropriate
8 to submit results of the small LECs based upon
9 embedded costs. I, on the other hand, differ. And
10 I'm not thrilled about the model runs I have for the
11 small LECs, but I have no alternative, because in my
12 opinion, I can't in good conscience come up with a
13 rationale for having two disparate cost standards that
14 might be used for universal service funding. In my
15 opinion, you need to do one or the other. But I can't
16 come up with a rationale for using both.

17 And that's basically the alternatives. So
18 what I've recommended is, for illustrative purposes,
19 because the Legislature told us to submit something,
20 is to submit the results that are in Appendix B for
21 the small LECs, which is a result of using the proxy
22 model with wire center line counts for the small LECs
23 and large LEC inputs. And I believe I've acknowledged
24 in the alternative writeup that it's quite possible
25 and likely for certain instances that the small LEC

1 costs are actually higher than that, because they lack
2 certain economies of scale and scope that you would
3 expect BellSouth to have and Northeast might not.

4 It's merely a philosophical difference of
5 opinion.

6 COMMISSIONER CLARK: Let me see if I can
7 make a motion that we can all agree on. Can we say --
8 can the motion be that under 364.025 -- what is it?
9 (4) (c)? The alternative we chose between a different
10 cost proxy study and a fully distributed embedded cost
11 is the embedded cost study. However -- and we have
12 included that study in this report. Though we were
13 not required to, we also did a study using the same
14 cost proxy model we used for the large companies and
15 also are reporting that to you, and then say the
16 reason we're doing it is so that you have the
17 information you would need to make a choice with
18 respect to the purposes -- you can make a choice so
19 you accomplish the purposes you were trying to in
20 setting the universal service fund.

21 COMMISSIONER GARCIA: Can you repeat that?

22 MR. D'HAESELEER: Susan, I'm confused
23 now. Are you talking for the report to the
24 Legislature?

25 COMMISSIONER CLARK: Yes.

1 MR. D'HAESELEER: Or are you talking about
2 the order that you have to put out in this docket?

3 COMMISSIONER CLARK: Well, are they
4 different?

5 MR. D'HAESELEER: Yes.

6 COMMISSIONER CLARK: As a matter of fact, I
7 do on Issue 6 or the last issue, I wonder why we're
8 putting out an order?

9 COMMISSIONER GARCIA: Because we were told
10 by law to do this.

11 MS. BROWN: Commissioner Clark, if you
12 word it fairly close to the way you tried to describe
13 it, I think it can go in the order and still comply
14 technically with the terms of the statute, because
15 you've made a decision. But in explaining that
16 decision, you have explained the limitations of it and
17 why you have given them more than they asked for, and
18 I don't think there's anything the matter with that,
19 in the order or in the report.

20 COMMISSIONER DEASON: But see, we're not
21 giving anybody more than they asked for. This is not
22 a rate proceeding where we're establishing somebody's
23 rates.

24 MS. BROWN: Well, I just meant in terms of
25 the way that statute is worded, that people were

1 thinking that it forced you to make a choice between
2 one or the other, just in that term, in those terms.
3 I think if you word it, you're just telling them you
4 did both, just as Commissioner Clark suggested, and I
5 don't think there's anything the matter with that.

6 COMMISSIONER CLARK: Will somebody explain
7 to me why we're doing an order and then a report?
8 What requires us to do an order?

9 MR. DOWDS: 025(4)(b). It says after
10 opportunity for a hearing, you have to have an order
11 on the issues identified in this proceeding. And one
12 of the issues is, should you treat the small LECs --

13 COMMISSIONER CLARK: What is the difference
14 going to be between the order and the report?

15 CHAIRMAN JOHNSON: The report is going to
16 talk about the fair and reasonable rates and
17 everything.

18 COMMISSIONER CLARK: Oh, you mean, this is
19 going to --

20 CHAIRMAN JOHNSON: Aren't you?

21 MR. DOWDS: Wrong report.

22 CHAIRMAN JOHNSON: Oh, that's --

23 MR. D'HAESELEER: In my opinion, the report
24 can say anything you want it to say about the cost,
25 the need for a fund. You know, you could have 100

1 different things. But this specifically asks you to
2 pick a model and to report the findings to the
3 Legislature. But that isn't all, I don't think,
4 you're going to send over there. You're going to send
5 a lot of things over.

6 COMMISSIONER GARCIA: Susan, could you
7 repeat your motion?

8 COMMISSIONER CLARK: Yes. Under Section
9 364.025(4)(c), the alternative we chose between a
10 different cost study or a fully distributed embedded
11 cost -- and there I would use what's in the statute --
12 is the embedded cost study, and we have included that
13 study in our order. Though we were not required to,
14 we also did a study using the same cost proxy model we
15 used for the large companies and are also reporting
16 that, including that in our order.

17 COMMISSIONER JACOBS: To assist the
18 Legislature.

19 COMMISSIONER CLARK: Well, then we can -- I
20 personally don't see the need to draw these bright
21 lines between the order and the report.

22 COMMISSIONER GARCIA: I don't either, and I
23 think maybe the point --

24 COMMISSIONER CLARK: Unless Staff feels the
25 necessity.

1 COMMISSIONER GARCIA: Maybe the point is
2 that when we do the report, we can explore it a little
3 bit more.

4 COMMISSIONER CLARK: That would be my
5 motion.

6 CHAIRMAN JOHNSON: Is there a second?

7 COMMISSIONER GARCIA: I imagine you'll
8 second it, Terry.

9 COMMISSIONER JACOBS: I second it.

10 COMMISSIONER DEASON: Oh, no, I won't
11 second that.

12 CHAIRMAN JOHNSON: There's a motion and a
13 second.

14 COMMISSIONER DEASON: I mean, I appreciate
15 the attempt to accommodate my concern, but that motion
16 still -- the one cost standard that we are adopting
17 for the small LECs is embedded cost. I think that's
18 fundamentally wrong.

19 COMMISSIONER CLARK: But with all due
20 respect, Commissioner Deason, it tells us that we have
21 to choose one of those alternatives, and I think
22 that's the Staff's point. We have to at least --

23 COMMISSIONER DEASON: Oh, I'm all for it.
24 I'm choosing one. I choose the BCPM for the small
25 companies. That should be the cost model that's

1 center that's got a cost of \$100 and fund it, but
2 you've got an aggregate cost for a rural telephone
3 company on an embedded cost basis of \$40? I don't
4 think that's right either. And I would tell you that
5 you're a whole lot more likely you're going to see
6 competition in that rural wire center in BellSouth's
7 territory that's got a universal service fund based
8 upon a \$100 per line cost than you will an aggregate
9 cost in a rural telephone company based upon embedded
10 cost.

11 COMMISSIONER JACOBS: I would tend to with
12 you, but I think it's going to be premised by growth,
13 by density. I suspect that what will happen is, the
14 density will come to that area.

15 COMMISSIONER GARCIA: If this is what we're
16 doing on this, I can just imagine on the report.

17 CHAIRMAN JOHNSON: We're going to have fun.

18 COMMISSIONER JACOBS: But let me not steer
19 away from where I was going originally. If you look
20 at the total number of lines that we're talking about
21 for these companies here, you know, what these
22 differences are going to be spread across, is that a
23 particularly large percentage of the total lines we're
24 talking about for the whole cost of the fund? Do you
25 understand what I'm saying? The effect of what the

1 alternative does is to calculate a variety of
2 differences which would be used.

3 MR. DOWDS: The alternative in this
4 recommendation is totally 100% silent on any scheme
5 you might want to come up with to fund or not to fund
6 the universal service fund.

7 COMMISSIONER JACOBS: I understand. What
8 I'm --

9 MR. DOWDS: All we're talking here is --

10 COMMISSIONER JACOBS: What I'm suggesting
11 to you is that whatever -- there will be some
12 benchmark. Okay? And that benchmark will be probably
13 some number, and we won't speculate what that number
14 will be, whereas, under the embedded, you would have
15 probably a fairly narrow band of differences from
16 whatever that benchmark number is. Under the
17 alternative, you're going to have a much broader band
18 of differences. Would you agree with me on that?

19 MR. DOWDS: I'm not sure I understand your
20 statement. May I restate it?

21 COMMISSIONER JACOBS: Yes.

22 MR. DOWDS: The whole purpose of a proxy
23 model from day one was to acknowledge that there are
24 high cost areas and there are low cost areas, and the
25 intuition was that the averaging that occurs under the

1 existing mechanism when you smoosh everything on a
2 study area basis overlooked the high -- excuse me. It
3 may be underfunding high cost areas and overfunding
4 low cost areas.

5 COMMISSIONER JACOBS: Well stated. That's
6 exactly the point.

7 MR. DOWDS: That was the whole reason for
8 the proxy model.

9 Now, the fact that a proxy model says that
10 wire center number 32 has an indicated cost of \$100,
11 people can and will argue forever after the conclusion
12 of this docket as to whether the absolute magnitude of
13 that number is correct, I would imagine, in deciding
14 about a fund.

15 But I would opine that there's very little
16 argument that if you've got one that's 100 and you've
17 got one that's 30, then you know which one is the high
18 cost, so you can exclude the ones you don't worry
19 about. Now, in contrast --

20 COMMISSIONER JACOBS: Much better stated.

21 MR. DOWDS: If you're looking at a study
22 area number, then you've smooshed everything
23 together. You've averaged away the problem.

24 Now, if your sole purpose of doing that is
25 to keep a potential fund as low as possible, then

1 you've succeeded. If your purpose is to target
2 support, then you've failed, in my opinion, because by
3 definition, the greater the area over which you
4 average, the lower the numbers come out, under either
5 methodology, whether it's embedded or a proxy model
6 methodology.

7 COMMISSIONER JACOBS: I still think --

8 MR. DOWDS: But there are --

9 CHAIRMAN JOHNSON: So that was a second?

10 COMMISSIONER JACOBS: I still think we get
11 to it if we follow that rationale.

12 COMMISSIONER DEASON: How do you get to
13 that with an embedded cost study that aggregates all
14 costs over an entire company?

15 COMMISSIONER JACOBS: I think we get -- we
16 get the focus on that tissue. We don't necessarily
17 get to resolve the dispute. We get the focus on that
18 issue is I guess what I'm saying, because ultimately I
19 think you stated a policy question, whether or not you
20 want to focus -- I mean, that policy question was not
21 resolved.

22 COMMISSIONER DEASON: And I think that
23 policy question is inherent in which cost model you
24 choose.

25 MR. DOWDS: And I would respectfully agree

1 with the Commissioner.

2 COMMISSIONER JACOBS: I agree.

3 COMMISSIONER CLARK: I disagree with him.
4 I mean, depending on what you wanted to accomplish,
5 you choose one or the other.

6 COMMISSIONER DEASON: And what is it we
7 want to accomplish? We want to identify the cost of
8 providing telephone service on a forward-looking basis
9 of an efficient provider. That has nothing whatsoever
10 to do with embedded costs. If that were the case, why
11 wouldn't the Legislature give the option of looking at
12 embedded costs for Sprint and BellSouth and GTE? They
13 did not. It has no relevance.

14 COMMISSIONER CLARK: I would only point you
15 to the statute that says we shall make the calculation
16 of a different cost proxy model or a fully distributed
17 allocation of embedded costs. We did it on the
18 embedded costs, and we have an obligation to report it
19 to them. That's all I'm saying. I'm not saying --

20 COMMISSIONER DEASON: And I agree with it,
21 and I think our legal counsel agrees. That means
22 we've got three options. We can use the same cost
23 model that we use for the large companies, we can do a
24 different one, or we can use embedded.

25 COMMISSIONER CLARK: I disagree.

1 COMMISSIONER JACOBS: I never got to my
2 final point. When we look at the total number of
3 lines here, are we talking about a particularly
4 dramatic impact if we use an embedded study? I mean,
5 just going with that option, are we looking at a
6 tremendously dramatic impact on the total size of the
7 fund, whatever mechanism we choose, given the
8 proportion of the lines of all these companies here
9 versus the lines of the big three?

10 CHAIRMAN JOHNSON: You're talking about
11 like the total size of the fund?

12 COMMISSIONER JACOBS: Yes.

13 CHAIRMAN JOHNSON: How much bigger would it
14 really be?

15 MR. MAILHOT: I believe that it could be a
16 significant impact, because a large percentage of the
17 high cost lines are in these companies. Granted,
18 there's 10 million lines in Florida, but of that 10
19 million lines, you might determine that only 500,000
20 of them are high cost lines. I mean, there's only a
21 small percentage of lines in Florida that are actually
22 high cost under any measure, embedded or the models.
23 But this represents probably maybe a third of those
24 lines, and this represents a significant number of
25 high cost lines.

1 CHAIRMAN JOHNSON: I think you're right,
2 Commissioner Jacobs, in that this does frame the issue
3 for the Legislature. They're going to have to make
4 the determination. To the extent that they use
5 forward-looking cost models, and those numbers for
6 costs are higher than embedded, they're going to have
7 to make the determination is that what we want to do,
8 does that promote competition, because if the fund
9 gets larger, someone is going to pay for it, and are
10 we going to -- and this goes to the report, I know,
11 Walter, but are we going to increase rates for the
12 purpose of promoting competition, not just looking at
13 high cost, but looking at the competition area.

14 Those are going to be the kind of policy
15 arguments that I think we should tee up for the
16 Legislature for them to look at these and decide,
17 because there's a risk. Some economists might say, if
18 you put the forward-looking cost numbers out there and
19 the cost is higher than embedded, well, that's not
20 going to drive competition, because then the
21 incumbents can give it away for free. Others would
22 suggest that, no, that's just the kind of incentive
23 you would need to bring providers in. The Legislature
24 is going to have to make that determination, and we
25 need to provide them with our thoughts on that issue.

1 And we may have thoughts on both sides of the issue
2 for them to make the final determination. And I think
3 Susan's framing it that way puts both issues on the
4 table.

5 COMMISSIONER CLARK: That would be my
6 motion, Madam Chair.

7 COMMISSIONER DEASON: Before you do that,
8 there's one thing. You indicated that probably a high
9 percentage or a high -- whatever the number of high
10 cost lines are out there -- and that all depends on
11 how you define high cost lines, and hopefully the
12 Legislature is going to do that. But whatever
13 percentage of those lines out there, a high percentage
14 of those are probably located in the small companies'
15 service territories. Am I paraphrasing correctly what
16 you --

17 MR. MAILHOT: Right, probably a third of
18 them.

19 COMMISSIONER DEASON: All right. If that's
20 the case, and the idea of what we're trying to do here
21 is actually identify the high cost areas, the high
22 cost customers, and give the support, target the
23 support where it's needed, why do we use an embedded
24 cost study which masks that and does it on an average
25 basis and gets it down to the point to where you're

1 not doing what you want to do and target high cost
2 areas?

3 MR. MAILHOT: Okay. In the case of the
4 small companies, there's a couple of reasons, I
5 believe. I believe the number one purpose here is to
6 provide support to a high cost area. And I understand
7 the concern about averaging. But a lot of these small
8 companies, they only consist of one or two wire
9 centers. I mean, breaking it down to the wire center
10 basis isn't hardly any different than a study area
11 basis.

12 Now, there's a couple of companies, ALLTEL
13 and St. Joe, which have more wire centers, so there is
14 a bit of averaging going on within those companies.
15 But virtually every exchange in ALLTEL or St. Joe's
16 territory is going to be high cost. I mean, it's not
17 like you're averaging Miami with Pahokee. You're
18 averaging St. Joe with Altha. They're both high cost,
19 no matter how you look at it.

20 So I guess the averaging doesn't bother me
21 that much, because you're averaging high cost areas
22 primarily.

23 COMMISSIONER DEASON: Okay. But you're
24 assuming then that embedded costs give a good
25 indicator of what costs are for an efficient provider

1 to come in and compete with an existing company?

2 MR. MAILHOT: No, I don't. I'm not saying
3 that --

4 COMMISSIONER DEASON: Then why are you
5 recommending it?

6 MR. MAILHOT: I'm not saying that these
7 represent the costs of an efficient provider coming in
8 to provide service. Like I said, I believe the
9 primary purpose right now, at least in the next five
10 to ten years, is to provide support to these areas, I
11 mean, to provide support for local basic service.

12 As far as the secondary question of
13 encouraging competition, that's a different question,
14 what will it take --

15 COMMISSIONER GARCIA: You're addressing it
16 not from a competition aspect.

17 MR. MAILHOT: Right.

18 COMMISSIONER GARCIA: What is necessary to
19 keep these areas going?

20 MR. MAILHOT: That's right.

21 COMMISSIONER GARCIA: You're not saying --
22 the issue you're addressing, at least the way I
23 perceive it, is that there's not going to be
24 competition here, and we shouldn't even be creating a
25 price to incentivize competition. These are high cost

1 areas. We need to figure out how to keep them going.

2 MR. MAILHOT: At least --

3 COMMISSIONER DEASON: Well, then why are we
4 going through this exercise for the large companies?

5 MR. MAILHOT: Because they were told to.

6 CHAIRMAN JOHNSON: And that's why they keep
7 saying let's wait till the report.

8 COMMISSIONER DEASON: But see, I think
9 that you're trying to -- never mind.

10 MR. MAILHOT: Well, at the bottom of page
11 292, I basically laid out the argument why I don't
12 think that providing a lot of extra support to these
13 areas --

14 COMMISSIONER GARCIA: Is going to make a
15 difference.

16 COMMISSIONER DEASON: And I read that, and
17 that argument applies equally well to the incumbent
18 large companies.

19 MR. MAILHOT: I agree. I agree totally.

20 COMMISSIONER CLARK: I just see this
21 argument as going to what we should be recommending to
22 them, not what we report, and that's the distinction I
23 make, and that was the basis for my motion. I think
24 that we have to report one or the other under (c), and
25 then we can also report the results of using the same

1 proxy model, and when we do the report we can lay out
2 for them the pros and cons of whichever, of using
3 either model, and that's what I would recommend.

4 So do you need me to make the motion again?

5 CHAIRMAN JOHNSON: No, it's been made.
6 There's a motion and a second. All those in favor
7 signify by saying "aye."

8 (Affirmative responses.)

9 CHAIRMAN JOHNSON: Opposed?

10 COMMISSIONER DEASON: Nay.

11 CHAIRMAN JOHNSON: Show it approved on a
12 four to one vote.

13 COMMISSIONER GARCIA: Move 7.

14 COMMISSIONER JACOBS: Second.

15 CHAIRMAN JOHNSON: Show it approved
16 unanimously. Thank you very much.

17 COMMISSIONER CLARK: Let me ask one
18 question. You know, looking over -- I'm looking at
19 page 483 in the middle. You see some really huge
20 numbers on monthly cost per line, and Julia tells me
21 this might be Eglin Air Force Base and another Air
22 Force base. Are we going to sort of provide any
23 explanation of those outliers?

24 CHAIRMAN JOHNSON: David?

25 MR. DOWDS: I don't know. I hadn't really

1 thought about it one way or the other.

2 COMMISSIONER CLARK: Well, you know, you
3 see numbers that are --

4 MR. DOWDS: We think we know the
5 explanation of this, but we don't really have any
6 record evidence. In other words, for example, the one
7 that's 257.23, I believe that's Hurlburt Field over in
8 Eglin, over in the Panhandle.

9 COMMISSIONER CLARK: Well, the one I'm
10 looking at is, the total cost is 736 for one and 849
11 for another.

12 MR. DOWDS: Right. The 842 or whatever it
13 is is Hurlburt Field. I can't say that very well.
14 And the other one --

15 COMMISSIONER CLARK: Well, you know, I'm
16 just saying that we need to look over that and be
17 prepared to respond to inquiries as to why they're way
18 out there.

19 MR. DOWDS: It's our understanding that
20 those are military installations, and the local
21 exchange companies don't know the exact number of
22 voice equivalent lines.

23 MR. COX: Commissioner Clark, by way of
24 clarification on your motion, I just want to make sure
25 I have this straight. It's not the primary or the

1 alternative that is your suggested modification to the
2 whole package?

3 COMMISSIONER CLARK: Right.

4 CHAIRMAN JOHNSON: Oh, I --

5 COMMISSIONER CLARK: We're not moving the
6 primary or alternative. We're looking at a
7 different --

8 CHAIRMAN JOHNSON: Right.

9 COMMISSIONER GARCIA: We're moving the --
10 but we're moving the --

11 CHAIRMAN JOHNSON: Let's clarify it.

12 COMMISSIONER GARCIA: Correct me if I'm
13 wrong, because maybe I voted wrong. And if you let
14 Commissioner Deason speak again, he may convince me of
15 his position, so I don't want to open the debate. But
16 I thought what Commissioner Clark moved is that we're
17 giving -- here's the choice we're giving you, and
18 here's the alternative that we looked at, because it
19 may be --

20 COMMISSIONER DEASON: And as I understand
21 that motion, which I voted against, it was the
22 interpretation of the law was that we only had two
23 choices.

24 COMMISSIONER CLARK: No.

25 COMMISSIONER GARCIA: No, no, no.

1 COMMISSIONER CLARK: We have to --

2 COMMISSIONER DEASON: That's what she said
3 earlier.

4 COMMISSIONER CLARK: We have to report one
5 of the two. We have to report --

6 COMMISSIONER GARCIA: She made the
7 decision. She made the decision, and then she said
8 this is something that we should look at.

9 COMMISSIONER CLARK: Let me just read it
10 again. Under 364.025(4)(c), the alternative we close
11 between a different cost proxy study and the fully
12 embedded cost is the fully embedded cost. We have
13 included that study in this order. Though we were not
14 required to, we also did a study using the same cost
15 proxy model we used for the large companies and are
16 also reporting that. And then when we get to the
17 recommendations, we can tell them why you would use
18 the embedded and why you wouldn't, or why you would
19 use the cost proxy or why you wouldn't.

20 CHAIRMAN JOHNSON: Do you understand?

21 MR. COX: I think so.

22 CHAIRMAN JOHNSON: That concludes this
23 item.

24 (Thereupon, the Special Conference Agenda
25 was concluded at 1:20 p.m.)

1
2 STATE OF FLORIDA)


3 : CERTIFICATE OF REPORTER
4 COUNTY OF LEON)

5
6 I, MARY ALLEN NEEL, RPR,

7 DO HEREBY CERTIFY that the Special Conference
8 Agenda in Docket No. 980696-TP was heard by the Full
9 Commission at the time and place herein stated; it is
10 further

11 CERTIFIED that I stenographically reported the
12 said proceeds; that the same has been transcribed
13 under my direct supervision; and that this transcript,
14 consisting of 171 pages constitutes a true
15 transcription of my notes of said proceedings.

16 DATED this 23rd day of December, 1998.
17
18
19

20 
21 MARY ALLEN NEEL, RPR
22 100 Salem Court
23 Tallahassee, Florida 32301
24 (850) 878-2221
25

<p>S</p> <p>\$1.39 [H] 83:25 84:7,17 85:9 \$10,000 [H] 126:1,3 127:11,22 \$100 [H] 54:8 157:1,8 159:10 \$30 [H] 99:14 137:13,14 \$40 [H] 137:11,16 157:3 \$45 [H] 137:15 \$49 [H] 119:6 \$5.14 [H] 108:15 110:6 \$50 [H] 32:15 99:13 \$60 [H] 34:24 \$75 [H] 137:12 \$90 [H] 54:9,10</p> <hr/> <p>0</p> <p>025(4)(b) [H] 141:12,15,22 153:9 025(4)(c) [H] 141:18</p> <hr/> <p>1</p> <p>1 [H] 3:3 4:10 7:2,4 30:25 1.39 [H] 86:3 1.7 [H] 34:20 1:20 [H] 171:25 10 [H] 38:18 130:6 162:18,18 10% [H] 53:21 54:20,22 113:23, 24 120:2 10,000 [H] 108:11,18 110:7 126: 20 127:2,8,16 129:24 130:19,23 131:11 132:1 10-minute [H] 97:17 100 [H] 153:25 159:16 100% [H] 12:5 158:4 100,000 [H] 3:25 106 [H] 57:22 11 [H] 88:14 11.25 [H] 37:2 56:2 59:10 12 [H] 40:19 41:2,13,17,20 42:2 43:1 44:9,22,23 45:9 48:15 58:8 89:13 90:4,24 91:12 92:19 94: 25 95:23 12,000 [H] 40:14 12-kilofoot [H] 42:16 12-pair [H] 87:22 88:1,10,14,15, 19 89:1,4,5,10,20 90:6 91:17 92: 1,11 94:5,13 126 [H] 67:20 139 [H] 83:4 143 [H] 71:20 72:9 76:4 146 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