

1                   **BELLSOUTH TELECOMMUNICATIONS, INC.**  
2                   **SURREBUTTAL TESTIMONY OF WALTER S. REID**  
3                   **BEFORE THE**  
4                   **FLORIDA PUBLIC SERVICE COMMISSION**  
5                   **DOCKET NO. 990649-TP**  
6                   **OCTOBER 15, 1999**

7  
8 Q.    PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION  
9        WITH BELLSOUTH TELECOMMUNICATIONS, INC.

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11 A.    My name is Walter S. Reid and my business address is 675 West  
12        Peachtree Street N. E., Atlanta, Georgia. My position is Senior  
13        Director for the Finance Department of BellSouth  
14        Telecommunications, Inc. (hereinafter referred to as "BellSouth").

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16 Q.    ARE YOU THE SAME WALTER S. REID WHO PREVIOUSLY FILED  
17        DIRECT TESTIMONY IN THIS DOCKET?

18  
19 A.    Yes.

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21 Q.    WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

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23 A.    The purpose of my surrebuttal testimony is to respond to certain  
24        issues raised in the rebuttal testimonies of Sprint Witness Kent W.  
25        Dickerson and Florida Digital Network Witness Jeanne Senatore.

1 The issues that I will address relate to comments in these  
2 testimonies regarding the methodology proposed by BellSouth to  
3 identify a reasonable amount of shared and common costs to  
4 include its total UNE cost.

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6 Q. PLEASE IDENTIFY THE ISSUES IN MR. DICKERSON'S REBUTTAL  
7 TESTIMONY TO WHICH YOU WILL RESPOND?

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9 A. I will respond to the following issues raised by Mr. Dickerson in his  
10 rebuttal testimony: 1) his opinion as stated on pages 6 of his  
11 testimony that a decision cannot be made in this phase of the  
12 docket regarding whether BellSouth's methodology meets the FCC's  
13 TELRIC pricing rules from the high level discussion contained in my  
14 direct testimony; 2) his concern expressed on page 7 of his  
15 testimony regarding the fact that BellSouth's methodology assigns  
16 the cost of switches 100% to the wholesale operation, and; 3) his  
17 concern expressed on page 8 of his testimony regarding the  
18 classification of certain costs as shared costs instead of common  
19 costs.

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21 Q. WHAT IS YOUR RESPONSE TO THE FIRST ISSUE YOU IDENTIFIED  
22 REGARDING MR. DICKERSON'S REBUTTAL TESTIMONY?

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24 A. Mr. Dickerson's rebuttal testimony beginning on page 6, first states  
25 that he does not believe a decision can be made from the high level

1 discussion contained in my testimony. He then goes on to indicate  
2 that he believes a decision can only be made regarding any parties'  
3 shared and common cost methodology in Phase II of this docket  
4 (i.e., after the inputs and results have been analyzed). His concerns  
5 seem to be as much directed at the structure of this docket into  
6 phases as they are to the level of discussion contained in the  
7 testimony.

8  
9 Mr. Dickerson fails to recognize that BellSouth's shared and  
10 common cost methodology that is being presented in this docket is  
11 based on a methodology which has been previously adopted by this  
12 Commission. My direct testimony, beginning on page 4, notes the  
13 modifications which BellSouth has made to the methodology that it  
14 filed in Dockets Nos. 960757-TP, 960833-TP and 960846-TP to  
15 incorporate the Commission's decisions in those dockets.

16  
17 Mr. Dickerson also fails to recognize that BellSouth utilizes the basic  
18 attribution principles of its Cost Allocation Manual ("CAM"), and the  
19 underlying cost pools and sub-pools which it maintains for cost  
20 attribution purposes as the underlying methodology for determining  
21 the desired breakdown of wholesale costs into categories. By  
22 utilizing a document and principles which are well known in the  
23 industry and are publicly available, BellSouth conveys a good deal of  
24 information to the reader without having to go into exhaustive  
25 detail.

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Q. CAN THE COMMISSION MAKE A DECISION IN THIS PHASE OF THE DOCKET THAT BELLSOUTH'S METHODOLOGY FOR TREATING SHARED AND COMMON COST IS REASONABLE AND WILL RESULT IN AN APPROPRIATE ASSIGNMENT OF SHARED AND COMMON COST TO UNEs?

A. Yes. BellSouth's proposed methodology for allocating shared and common cost to UNEs meets all reasonable criteria for such a study. BellSouth's study starts with verifiable sources, it is forward looking in nature and the allocations of cost are based on cost causative relationships. The methodology also includes modifications which the Commission previously determined were appropriate.

Q. WHAT IS YOUR RESPONSE TO THE SECOND ISSUE REGARDING THE ASSIGNMENT OF 100% OF THE COST OF SWITCHES TO THE WHOLESALE OPERATION?

A. While Mr. Dickerson is correct that BellSouth assigns 100% of switch costs to wholesale, he seems to be confused regarding the purpose of separating wholesale and retail costs in a shared and common cost methodology. The purpose is to identify retail costs that will be avoided when products are sold on a wholesale basis instead of a retail basis. BellSouth's methodology identifies those retail costs that will be avoided and excludes them from the total

1 wholesale costs considered in the UNE cost studies. The FCC's  
2 First Report and Order in CC Docket Nos. 96-98 and 95-185 ("  
3 Order"), discusses this issue in paragraph 694 as follows:  
4 "...Common costs also include costs incurred by the firm's  
5 operations as a whole, that are common to all services and  
6 elements (e.g., salaries of executives involved in overseeing all  
7 activities of the business), although for the purpose of pricing  
8 interconnection and access to unbundled elements, which are  
9 intermediate products offered to competing carriers, the relevant  
10 common costs do not include billing, marketing, and other costs  
11 attributable to the provision of retail service." The FCC footnotes  
12 this statement in the Order to the section of the Order describing  
13 avoided cost in the resale context. In this context, the cost of  
14 switches is certainly not retail costs that will be avoided. Mr.  
15 Dickerson is wrong in his contention regarding this issue.

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17 Q. PLEASE RESPOND TO THE FINAL ISSUE YOU IDENTIFIED IN  
18 MR. DICKERSON'S REBUTTAL TESTIMONY.

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20 A. On page 8 of his rebuttal testimony, Mr. Dickerson indicates he is  
21 wary of BellSouth's classification of General Purpose Computers,  
22 Land and Buildings (Non COE), Human Resources and Office  
23 Equipment as Shared Costs. He goes on to say he would expect  
24 these costs to be classic examples of common costs. It can be  
25 argued, as Mr. Dickerson seems to argue, that these costs could be

1 treated as common costs instead of shared costs. However, in its  
2 methodology, BellSouth has attempted to use the most cost  
3 causative relationships available. Because this cost causative goal  
4 is the same one that underlies its CAM, BellSouth selected its CAM  
5 as its guide for classifying costs such as these to the shared  
6 category instead of common. For example, Human Resources  
7 expenses are more directly related to salaries and wages of  
8 employees than to material prices, vouchers, etc. Therefore, rather  
9 than allocate Human Resource expense as an overall common cost,  
10 BellSouth allocates this expense in proportion to salaries and wages.

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12 BellSouth's treatment of these costs certainly appears more in tune  
13 with the spirit of the FCC's Order than does Mr. Dickerson's  
14 opinion. In paragraph 682 of the Order, the FCC states, "...More  
15 broadly, certain shared costs that have conventionally been treated  
16 as common costs (or overheads) shall be attributed directly to the  
17 individual elements to the greatest extent possible." BellSouth's  
18 methodology certainly attempts to comply with this guidance. The  
19 FCC obviously did not expect to see the classic common cost  
20 definition utilized in these studies.

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22 Q. WHAT IS YOUR RESPONSE TO MS. SENATORE'S REBUTTAL  
23 TESTIMONY?

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1 A. On page 9 of her rebuttal testimony, Ms. Senatore makes certain  
2 speculations about what will be included in BellSouth's shared and  
3 common costs. She points out that BellSouth plans to classify  
4 "External Relations" as a common costs and presumes that ALECs  
5 will be charged for BellSouth's advertising and public relations  
6 campaigns, and possibly political contributions. Basically, Ms.  
7 Senatore is resurrecting many of the same tired issues from  
8 traditional rate of return regulation days, and is trying to interject  
9 them into these proceedings. This would not be a good use of the  
10 Commission's or the parties' time in this proceeding.

11  
12 Responding specifically to her comments about BellSouth's  
13 treatment of external relations expense, the basic premise for her  
14 comments is simply incorrect. The regulated expenses that  
15 BellSouth uses in its methodology do not include expenses such as  
16 contributions, political action committee costs, etc. This type of  
17 expense is charged to Account 7370 and is not included in the cost  
18 study. In addition, the CAM methodology, which underlies  
19 BellSouth's shared and common cost allocations, assigns  
20 advertising expenses which are included in external relations to a  
21 marketing cost pool. BellSouth excludes these expenses as retail  
22 related in its shared and common cost methodology. Ms.  
23 Senatore's speculations are not accurate.

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25 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

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A. Yes.