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J. PHILLIP CARVER  
General Attorney

BellSouth Telecommunications, Inc.  
150 South Monroe Street  
Room 400  
Tallahassee, Florida 32301  
(404) 335-0710

November 3, 1999

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

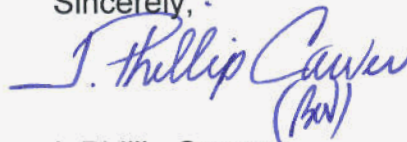
Re: Docket No. 990649-TP

Dear Ms. Bayó:

Enclosed are an original and 15 copies of BellSouth Telecommunications, Inc.'s corrected version of the Surrebuttal Testimony of D. Daonne Caldwell. When the testimony was filed on October 15, 1999, it contained a formatting error (the line numbers did not line up with the text on pgs. 6-10). Please file this document in the captioned matter to replace the previously-filed testimony.

A copy of this letter is enclosed. Please mark it to indicate that the original was filed and return the copy to me. Copies have been served to the parties shown on the attached Certificate of Service.

Sincerely,



J. Phillip Carver

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Enclosures

cc: All parties of record  
M. M. Criser, III  
N. B. White  
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FPSC-RECORDS/REPORTING

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

7 **Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

8  
9 A. My name is D. Daonne Caldwell. My business address is 675 W. Peachtree St.,  
10 N.E., Atlanta, Georgia. I am a Director in the Finance Department of BellSouth  
11 Telecommunications, Inc. (hereinafter referred to as "BellSouth"). My area of  
12 responsibility relates to economic costs.

13  
14 **Q. ARE YOU THE SAME D. DAONNE CALDWELL WHO FILED DIRECT**  
15 **AND REBUTTAL TESTIMONY IN THIS DOCKET?**

16  
17 A. Yes. I filed direct testimony on August 11, 1999, that outlined requirements  
18 BellSouth believes should be imposed on recurring and nonrecurring cost  
19 preparation for unbundled network elements ("UNEs"), combinations of network  
20 elements, and deaveraged offerings. Additionally, I addressed the underlying cost  
21 methodology, the models, and the major inputs BellSouth believes are appropriate  
22 in cost support development. On September 10, 1999, I filed rebuttal testimony in  
23 response to cost methodology issues raised by other parties in this docket.

24  
25 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

1

2 A. The purpose of my surrebuttal testimony is to respond to comments made in  
3 rebuttal testimony with respect to cost development. In particular, I wish to clarify  
4 misinterpretations and misrepresentations of my filed testimony. Specifically, I  
5 reply to COVAD witness, Ms. Terry Murray, Sprint witness, Mr. Kent Dickerson,  
6 and Florida Digital Network witness, Ms. Jeanne Senatore. There are several key  
7 issues that need to be addressed: (1) use of "older" technology in a forward-looking  
8 cost study, (2) "actual" costs in a TELRIC study, and (3) the relationship between  
9 recurring and nonrecurring cost development.

10

11 **Q. OTHER PARTIES HAVE PORTRAYED BELL SOUTH'S COST STUDY**  
12 **METHODOLOGY AS EMBEDDED. PLEASE COMMENT.**

13

14 A. An embedded methodology would match the books of the company. Thus, the  
15 technologies would reflect exactly what BellSouth has placed in the past. For  
16 example, analog switches, older carrier systems (T or N carrier), and limited fiber  
17 deployment would be included. This is not what BellSouth proposes to include in  
18 its cost studies. Rather, BellSouth proposes that the studies include forward-  
19 looking currently available technologies.

20

21 **Q. BOTH MR. DICKERSON AND MS. MURRAY CRITICIZE THE**  
22 **CONSIDERATION OF "OLDER" TECHNOLOGY IN A FORWARD-**  
23 **LOOKING STUDY. PLEASE COMMENT.**

24

25 A. The network design issue is really twofold: (1) what constitutes a forward-looking

1 architecture and (2) what is the most efficient network design. However, this is not  
2 an either/or decision, the design must fulfill both parts of the equation. In my  
3 rebuttal testimony I provided examples where deploying "older" technology makes  
4 economic sense, i.e., where it is a more efficient means to serve the demand. Often  
5 two or more efficient technologies certainly can coexist in the market. For  
6 example, while electric cars embody the "newest" technology, gasoline internal  
7 combustion engines are still efficient. "Older" technology does not necessarily  
8 denote inefficient technology.

9  
10 It would not be appropriate to establish a policy where costs must be calculated as  
11 if always using the newest technology. Forward-looking costs are those that reflect  
12 the value of resources that will be efficiently used in the future; such costs do not  
13 necessarily rely on the newest or latest technology. This would be inappropriate  
14 since it would ignore one-half of the design requirements, the efficiency standard.  
15 In the case of digital loop carrier equipment, both integrated systems and universal  
16 systems will continue to be deployed as forward-looking, least-cost technologies.  
17 Thus, Mr. Dickerson's statement on page 3 of his testimony that "old" technology,  
18 in reference to universal digital loop carrier systems, means embedded plant is  
19 wrong. The mix of technologies used in the cost studies will reflect the forward-  
20 looking projected distribution of technologies, not the embedded, current mix.

21  
22 **Q. IS DETERMINING THE EFFICIENT, FORWARD-LOOKING DESIGN**  
23 **MORE DIFFICULT THAN SIMPLY CHOOSING THE NEWEST**  
24 **TECHNOLOGY?**

25

1 A. Yes. One of the reasons that determining a forward-looking, efficient network  
2 design is difficult is the fact that the ultimate design must reflect the total network,  
3 not a subset of that network. Thus, a mixture of technologies is appropriate  
4 because there is, and there will remain, just such a mixture in BellSouth's network.  
5 However, the amount of "older" technology is based on economic considerations.  
6 Ms. Murray comments that "future technology mix [that] departs from the least-  
7 cost, most-efficient technology" has no place in a TELRIC study. (Page 21  
8 Murray Rebuttal) I agree, but again, because the study needs to reflect the total  
9 network, a mixture of technologies does reflect the least-cost, most-efficient  
10 technology. In slow growth areas, BellSouth will deploy current generation (as  
11 opposed to next generation) systems because it is more cost efficient. These  
12 current generation systems require that the whole system be non-integrated  
13 (universal) if there are any requirements for non-switched lines. This contrasts  
14 with next generation systems in which one may mix integrated and non-integrated  
15 lines on a shelf basis rather than on a system basis. In summary, incremental cost  
16 methodology anticipates how resources will be deployed in the future, not how the  
17 resources were deployed in the past. However, if future deployment plans reflect  
18 a mix of technologies, the cost analysis appropriately should also reflect that future  
19 mix.

20  
21 **Q. ARE THERE ANY DIRECTIVES IN THE FCC ORDER THAT ADDRESS**  
22 **FORWARD-LOOKING DESIGN?**

23  
24 A. Yes. Any conclusion with respect to network design made by this Commission  
25 must be tempered with the FCC's desire to reflect the costs the incumbent will

1 incur. The FCC states that an essential consideration in adopting its definition of  
2 forward-looking design is that it “most closely represents the incremental costs that  
3 incumbents actually expect to incur in making network elements available”. (¶685  
4 FCC Order) In fact, Ms. Murray appears to agree that the only relevant costs are  
5 “the *incumbent’s* forward-looking economic costs.” (Page 2 Murray Rebuttal  
6 Testimony) Thus, I have difficulty understanding her conclusion on page 21 “that  
7 forward-looking cost studies should assume whatever technology the incumbent  
8 plans to deploy” is false. Obviously, only by considering what BellSouth plans to  
9 deploy can one ascertain the costs BellSouth will incur. Again, let me emphasize  
10 that what BellSouth plans to deploy is both forward-looking and efficient and does  
11 not reflect an embedded network. BellSouth’s deployment objectives are to  
12 provide the most forward-looking telecommunications network, in the most cost  
13 efficient manner.

14

15 **Q. ARE THERE OTHER ASPECTS OF THE COST STUDY THAT MUST**  
16 **MEET THE FORWARD-LOOKING REQUIREMENT, AS ESTABLISHED**  
17 **BY THE FCC?**

18

19 A. Yes. The FCC Order also states that the cost of money and the depreciation rates  
20 must be forward-looking. BellSouth feels that it can best evaluate the projected  
21 cost of debt and equity and the associated structure of that debt and equity.  
22 Additionally, BellSouth will present depreciation studies to this Commission that  
23 best reflect the future depreciation rates for telecommunications equipment.

24

25 **Q. ON PAGE 8 OF HER TESTIMONY, MS. SENATORE IMPLIES THAT**

1       **YOU ADVOCATE USING ACTUAL COSTS. IS THIS CORRECT?**

2

3       A. No. BellSouth witness, Mr. Varner uses the term “actual cost” in his discussion of  
4       how rates should be set, not as part of the cost development. As Mr. Varner  
5       discussed, it is BellSouth’s position that in establishing rates, consideration must be  
6       given to all of BellSouth’s cost to provision UNEs and interconnection. Mr. Varner  
7       presented BellSouth’s position before this Commission in the UNE docket  
8       in which BellSouth requested approval of a residual recovery requirement. The  
9       fact that BellSouth proposed the residual recovery requirement separate from  
10      BellSouth’s TELRIC study, is evidence that BellSouth’s cost studies do not include  
11      embedded cost. From a cost methodology perspective, BellSouth’s cost studies  
12      should, and do, reflect the costs BellSouth will incur in deploying a forward-  
13      looking design in the future.

14

15      **Q. ON PAGE 9 OF HER TESTIMONY, MS. MURRAY ALLEGES YOU**  
16      **SUPPORT AN “AD HOC” APPROACH TO DEVELOPING NON-**  
17      **RECURRING COSTS.” PLEASE COMMENT.**

18

19      A. Ms. Murray references page 17 of my direct testimony with no quote as support for  
20      her allegation. I have re-read that page and fail to find any support for her  
21      argument that I propose using two different network designs, one for recurring cost  
22      development and another for nonrecurring cost development. BellSouth uses  
23      network personnel, familiar with the forward-looking provisioning guidelines, to  
24      identify the tasks and time involved in providing network elements, either  
25      individually or in combination. Their estimates are based on the same network

1 used to identify the investments needed to provide the network elements. Thus,  
2 both studies are "in-synch".

3

4 Ms. Murray also references page 7 of my direct testimony. Below is an excerpt  
5 from that page (emphasis added):

6

7 The cost methodology for combinations should not differ from the cost  
8 methodology used for unbundled elements since they will both be used to  
9 support rates for items offered to competitors. Thus, the methodology should  
10 be based on an efficient network, designed to incorporate currently available  
11 forward-looking technology. However, some of the **inputs** into a combination  
12 study may differ from UNE inputs depending on the final list of UNEs and any  
13 resulting currently combined UNEs that BellSouth is obligated to provide. For  
14 example, if BellSouth must provide a currently combined loop and port,  
15 integrated digital loop carrier would be considered to be in the mix of  
16 technologies providing that existing combination. In the UNE study,  
17 integration is not an option since each element is unbundled and provided  
18 separately. Thus, integrated digital loop carrier is not appropriate for individual  
19 UNEs. This distinction results from the cost object being studied rather than  
20 the underlying methodology.

21

22 With respect to nonrecurring cost development, I stated:

23

24 Additionally, based on the caveats surrounding the definition of a  
25 "combination", nonrecurring **inputs** may differ. A combination defined as



1 "switch-as-is" has substantially lower work times than the work times required  
2 to combine two UNEs.

3  
4 Nowhere do I propose using two different architectures for the network. I merely  
5 state that the inputs into the cost study are dependent upon the object being  
6 studied. The definition of the cost object can also influence the appropriate  
7 technologies reflected in the cost study for that object. For example, the loop as an  
8 unbundled network element is a stand-alone offering. Therefore, the unbundled  
9 loop terminates on the main distributing frame ("MDF") and is not integrated into  
10 the switch. Thus, the discussion of integrated digital loop is included carrier in my  
11 direct testimony.

12

13 **Q. AS BELLSOUTH'S COST WITNESS, CAN YOU SUMMARIZE WHAT**  
14 **YOU SEE AS THE KEY ISSUES THAT HAVE TO BE RESOLVED WITH**  
15 **RESPECT TO COST METHODOLOGY?**

16

17 A. From my involvement in both arbitration cases and generic cost dockets and from  
18 the testimony presented in this docket, I can summarize the key issues that need to  
19 be resolved as:

20

21 1) The definition of a forward-looking network. - Other parties have advocated  
22 abandoning all ties with reality and building a hypothetical network, a network no  
23 telecommunication provider can attain. BellSouth feels the network should be  
24 grounded in the realities of a network that can be built and will provide reliable  
25 telecommunications service.

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2) The inclusion of BellSouth-specific input versus "expert" estimated values - Other parties have attempted to portray inputs based on company specific data as embedded. First, BellSouth's studies provide forward-looking costs since historical inputs are only used as a starting point in the study. Projected, future data is used to determine the inputs used in the studies. Second, only BellSouth-specific data will reflect the costs BellSouth will incur.

3) The provisioning of element combinations - BellSouth studies currently have not considered this possibility since it was felt combinations replicate existing network services, not unbundled elements. Since the network capabilities are yet to be defined, it is premature to argue this point. However, it is important to recognize that input into combination studies will differ from unbundled element studies because of the item (cost object) that is studied.

4) Modeling techniques - The choice is between a theoretical model that totally redesigns the network from scratch or one that considers costs BellSouth will actually incur, constrained by the forward-looking criterion. BellSouth advocates the second option. Also, as I mentioned previously the FCC supports this method. Thus, the wire center locations and digital loop carrier sites would remain as they are currently. However, the facilities serving these locations would be redesigned to meet forward-looking, efficient design criteria. In other words, the key issue to be resolved by this Commission will be the selection of a model that most accurately reflects the forward-looking costs BellSouth will incur in providing unbundled network elements.

1

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

3

4 **A. Yes.**

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25

**CERTIFICATE OF SERVICE  
Docket No. 990649-TP**

I HEREBY CERTIFY that a true and correct copy of the foregoing was served via

U.S. Mail this 3rd day of November, 1999 to the following:

William Cox  
Staff Counsel  
Florida Public Service  
Commission  
Division of Legal Services  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850  
Tel. No. (850) 413-6204  
Fax. No. (850) 413-6250

Joseph A. McGlothlin  
Vicki Gordon Kaufman  
McWhirter, Reeves, McGlothlin,  
Davidson, Decker, Kaufman, Arnold,  
& Steen, P.A.  
117 South Gadsden Street  
Tallahassee, FL 32301  
Tel. No. (850) 222-2525  
Fax. No. (850) 222-5606  
Attys. For FCCA

Andrew O. Isar  
Telecommunications Resellers Assoc.  
4312 92<sup>nd</sup> Avenue, N.W.  
Gig Harbor, WA 98335  
Tel. No. (253) 265-3910  
Fax. No. (253) 265-3912

Tracy Hatch  
101 North Monroe Street  
Suite 700  
Tallahassee, FL 32301  
Tel. No. (850) 425-6364  
Fax. No. (850) 425-6343  
Attys. for AT&T

Richard D. Melson  
Gabriel E. Nieto \*  
Hopping Green Sams & Smith, P.A.  
Post Office 6526  
123 South Calhoun Street  
Tallahassee, FL 32314  
Tel. No. (850) 222-7500  
Fax. No. (850) 224-8551  
Atty. For MCI  
Atty. for ACI \*

Dulaney L. O'Roark  
MCI Telecommunications Corporation  
6 Concourse Parkway  
Suite 600  
Atlanta, GA 30328  
Tel. No. (770) 284-5498  
Fax. No. (770) 284-5488

Floyd Self  
Norman H. Horton, Jr. \*  
Messer, Caparelo & Self  
Post Office Drawer 1876  
215 South Monroe Street  
Suite 701  
Tallahassee, FL 32302-1876  
Tel. No. (850) 222-0720  
Fax. No. (850) 224-4359  
Attys. for WorldCom  
Atty. for NorthPoint \*  
Atty. for e.spire \*

**Terry Monroe**  
Vice President, State Affairs  
Competitive Telecomm. Assoc.  
1900 M Street, N.W.  
Suite 800  
Washington, D.C. 20036  
Tel. No. (202) 296-6650  
Fax. No. (202) 296-7585

**Susan Huther**  
Rick Heapter  
MGC Communications, Inc.  
3301 Worth Buffalo Drive  
Las Vegas, Nevada 89129  
Tel. No. (702) 310-4272  
Fax. No. (702) 310-5689

**Patrick K. Wiggins**  
Wiggins & Villacorta, P.A.  
2145 Delta Boulevard  
Suite 200  
Tallahassee, FL 32303  
Tel. No. (850) 385-6007  
Fax. No. (850) 385-6008  
Attys. for Intermedia

**James C. Falvey, Esq.**  
e.spire Communications, Inc.  
133 National Business Parkway  
Suite 200  
Annapolis Junction, Maryland 20701  
Tel. No. (301) 361-4298  
Fax. No. (301) 361-4277

**Jeffrey Blumenfeld**  
Elise Kiely  
Blumenfeld & Cohen  
1625 Massachusetts Ave., Ste. 300  
Washington, D.C. 20036  
Tel. No. (202) 955-6300  
Fax. No. (202) 955-6460

**Kimberly Caswell**  
GTE Florida Incorporated  
One Tampa City Center  
201 North Franklin Street (33602)  
Post Office Box 110, FLTC0007  
Tampa, Florida 33601-0110  
Tel. No. (813) 483-2617  
Fax. No. (813) 204-8870

**Peter M. Dunbar, Esq.**  
**Marc W. Dunbar, Esq.**  
Pennington, Moore, Wilkinson &  
Dunbar, P.A.  
Post Office Box 10095  
Tallahassee, Florida 32302  
Tel. No. (850) 222-3533  
Fax. No. (850) 222-2126

**Carolyn Marek**  
Vice President of Regulatory Affairs  
Southeast Region  
Time Warner Communications  
233 Bramerton Court  
Franklin, Tennessee 37069  
Tel. No. (615) 376-6404  
Fax. No. (615) 376-6405

**David Dimlich, Legal Counsel**  
Supra Telecommunications &  
Information Systems, Inc.  
2620 S.W. 27th Avenue  
Miami, FL 33133  
Tel. No. (305) 476-4236  
Fax. No. (305) 443-6638

**Donna Canzano McNulty, Esq.**  
MCI WorldCom, Inc.  
325 John Knox Road  
The Atrium Bldg., Suite 105  
Tallahassee, FL 32303  
Tel. No. (850) 422-1254  
Fax. No. (850) 422-2586

**Michael A. Gross**  
VP Reg. Affairs & Reg. Counsel  
Florida Cable Telecomm. Assoc.  
310 North Monroe Street  
Tallahassee, FL 32301  
Tel. No. (850) 681-1990  
Fax. No. (850) 681-9676

**ACI Corp.**  
7337 S. Revere Parkway  
Englewood, CO 80112  
Tel. No. (303) 476-4200  
Fax. No. (303) 476-4201

**Florida Public Telecomm. Assoc.**  
Angela Green, General Counsel  
125 South Gadsden Street  
#200  
Tallahassee, FL 32301-1525  
Tel. No. (850) 222-5050  
Fax. No. (850) 222-1355

**Intermedia Communications, Inc.**  
Scott Sapperstein  
Sr. Policy Counsel  
3625 Queen Palm Drive  
Tampa, FL 33619-1309  
Tel. No. (813) 829-4093  
Fax. No. (813) 829-4923  
Represented by Wiggins Law Firm

**TCG South Florida**  
c/o Rutledge Law Firm  
Kenneth Hoffman  
P.O. Box 551  
Tallahassee, FL 32302-0551  
Tel. No. (850) 681-6788  
Fax. No. (850) 681-6515

**Time Warner AxS of FL, L.P.**  
2301 Lucien Way  
Suite 300  
Maitland, FL 32751  
Represented by Pennington Law Firm

**Glenn Harris, Esq.**  
NorthPoint Communications, Inc.  
222 Sutter Street  
7th Floor  
San Francisco, CA 94108  
Tel. No. (415) 365-6095  
Fax. No. (415) 403-4003

**Monica M. Barone**  
Sprint Comm. Co. LP  
Sprint PCS  
3100 Cumberland Circle  
Atlanta, GA 30339  
Tel. No. (404) 649-6225

**Charles J. Rehwinkel**  
Sprint-Florida, Inc.  
P.O. Box 2214  
Tallahassee, FL 32399-2214  
MC FLTLHO0107  
Tel. No. (850) 847-0244

**Laura L. Gallagher**  
Laura L. Gallagher, P.A.  
101 E. College Avenue  
Suite 302  
Tallahassee, FL 32301  
Tel. No. (850) 224-2211  
Fax. No. (850) 561-3611  
Represents MediaOne

**James P. Campbell**  
MediaOne  
7800 Belfort Parkway  
Suite 250  
Jacksonville, FL 32256  
Tel. No. (904) 619-5686  
Fax. No. (904) 619-3629

**Brian Sulmonetti**  
MCI WorldCom, Inc.  
6 Concourse Parkway  
Suite 3200  
Atlanta, GA 30328  
Tel. No. (770) 284-5500

Christopher V. Goodpastor, Esq.  
Senior Counsel  
Covad Communications Company  
9600 Great Hills  
Suite 150 W  
Austin, TX 78759  
Tel. No. (512) 502-1713  
Fax. No. (419) 818-5568

Charles J. Beck  
Deputy Public Counsel  
Office of the Public Counsel  
111 West Madison Street  
Room 812  
Tallahassee, FL 32399-1400

Eric J. Branfman  
Morton J. Posner  
Swidler Berlin Shereff Friedman, LLP  
3000 K Street, N.W., Suite 300  
Washington, D.C. 20007-5116  
Tel. No. (202) 424-7500  
Fax. No. (202) 424-7645  
Represents Florida Digital Network, Inc.  
Represents KMC, KMC II & KMC III

John McLaughlin  
KMC Telecom. Inc.  
Suite 170  
3025 Breckinridge Boulevard  
Duluth, GA 30096  
Tel. No. (770) 931-5260  
Fax. No. (770) 638-6796

Bettye Willis  
ALLTEL Communications  
Services, Inc.  
One Allied Drive  
Little Rock, AR 72203-2177

J. Jeffrey Wahlen  
Ausley & McMullen  
P.O. Box 391  
Tallahassee, FL 32302  
Tel. No. (850) 425-5471  
Atty. for ALLTEL

  
J. Phillip Carver