



ORIGINAL

Florida Cable Telecommunications Association

Steve Wilkerson, President

VIA HAND DELIVERY

June 8, 2000

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

RE: Docket No. 990649-TP

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen (15) copies of the Rebuttal Testimony and Exhibits of William J. Barta on behalf of the Florida Cable Telecommunications Association. Copies have been served on the parties of record pursuant to the attached certificate of service.

Please acknowledge receipt of filing of the above by stamping the duplicate copy of this letter and returning the same to me.

Thank you for your assistance in processing this filing. Please contact me with any questions.

Sincerely,

Michael A. Gross
Vice President, Regulatory Affairs &
Regulatory Counsel

- APP _____
- CAF _____
- JMP 5/10/00
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Enclosure

cc: All Parties of Record
Steven E. Wilkerson
William J. Barta

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Rebuttal Testimony and Exhibits of William J. Barta on behalf of the Florida Cable Telecommunications in Docket 990649-TP has been served upon the following parties by U.S. Mail this 8th day of June, 2000:

Kimberly Caswell, Esquire
GTE Florida Incorporated
P.O. Box 110, FLTC0007
Tampa, FL 33601

Nancy H. Sims
BellSouth Telecommunications, Inc.
150 S. Monroe Street, Suite 400
Tallahassee, FL 32301-1556

Peter M. Dunbar, Esquire
Marc W. Dunbar, Esquire
Pennington, Moore, Wilkinson, Bell &
Dunbar, P.A.
P.O. Box 10095
Tallahassee, FL 32302-2095

Patrick Wiggins, Esquire
Charles Pellegrini, Esquire
Wiggins Law Firm
P.O. Drawer 1657
Tallahassee, FL 32302

Carolyn Marek
Vice President of Regulatory Affairs
Southeast Region
Time Warner Communications
2333 Bramerton Court
Franklin, Tennessee 37069

Rhonda P. Merritt
AT&T Communications of the Southern
States, Inc.
101 N. Monroe St., Suite 700
Tallahassee, FL 32301

Kenneth A. Hoffman
Rutledge, Ecenia, Underwood,
Purnell & Hoffman, P.A.
P.O. Box 551
Tallahassee, FL 32302-0551

Donna Canzano McNulty
MCI metro Access Transmission
Services LLC
325 John Knox Road, Suite 105
Tallahassee, FL 32301

Angela Green, Esq.
Florida Public Telecommunications
Association
125 S. Gadsden Street, #200
Tallahassee, FL 32301

David V. Dimlich, Esq.
Supra Telecommunications & Information
Systems, Inc.
2620 SW 27th Avenue
Miami, FL 33133

Floyd Self, Esquire
Messer, Caparello & Self, P.A.
P.O. Box 1876
Tallahassee, FL 32302

ACI Corp.
7337 S. Revere Parkway
Englewood, CO 80112

003910

American Communications Services, Inc.
d/b/a e.spire Comm
James Falvey
133 National Business Parkway
Suite 200
Annapolis Junction, MD 20701

Blumemfeld & Cohen
Elise Kiely/Jeffrey Blumenfeld
1615 M. Street, NW, Suite 700
Washington, DC 20036

CompTel
Terry Monroe
1900 M Street, NW, Suite 800
Washington, DC 20036

Florida Competitive Carriers Assoc.
c/o McWhirter Law Firm
Vicki Kaufman
117 S. Gadsden St.
Tallahassee, FL 32301

Hopping Law Firm
Richard Melson
P.O. Box 6526
Tallahassee, FL 32314

Intermedia Communications, Inc.
Scott Sappersteinn
3625 Queen Palm Drive
Tampa, FL 33619-1309

McWhirter Law Firm
Joseph McGlothlin/Vicki Kaufman
117 S. Gadsden St.
Tallahassee, FL 32301

MGC Communications, Inc.
Susan Huther
3301 North Buffalo Drive
Las Vegas, NV 89129

Telecommunications Resellers Assoc.
Andrew Isar
P.O. Box 2461
Gig Harbor, WA 98335-4461

Pennington Law Firm
Time Warner AxS of Florida, L.P. d/b/a
Time Warner Telecom
2301 Lucien Way, Suite 300
Maitland, FL 32751

WorldCom Technologies, Inc.
Donna McNulty, Esq.
325 John Knox Road, Suite 105
Tallahassee, FL 32303

Covad Communications Company
Christopher V. Goodpaster, Esq.
9600 Great Hills Trail
Suite 150 W
Austin, TX 78759

Florida Digital Network, Inc.
c/o Swidler, Berlin Law Firm
390 North Orange Ave., Suite 2000
Orlando, FL 32801

Holland Law Firm
Bruce May
P.O. Drawer 810
Tallahassee, FL 32302

NorthPoint Communications, Inc.
Glenn Harris, Esq.
222 Sutter Street, 7th Floor
San Francisco, CA 94108

Office of Public Counsel
Stephen C. Reilly
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400

003911

Sprint Communications Company Limited
Partnership
Monica Barone
3100 Cumberland Circle
Mailstop GAATLN0802
Atlanta, GA 30339

Sprint-Florida, Incorporated
Charles Rehwinkel
P.O. Box 2214
Tallahassee, FL 32316-2214

Swidler & Berlin Law Firm
Eric J. Branfman/Morton Posner
3000 K Street, NW, #300
Washington, DC 20007-5116

John McLaughlin
KMC Telecom, Inc.
Suite 170
3025 Breckinridge Blvd
Duluth, GA 30096

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

J. Jeffry Wahlen
Ausley & McMullen
P.O. Box 391
Tallahassee, FL 32302

George S. Ford
Chief Economist
Z-Tel Communications, Inc.
601 S. Harbour Island Blvd
Tampa, FL 33602

Jonathan E. Canis
Michael B. Hazzard
Kelley Drye & Warren, Llp
1200 19th Street, NW, 5th Floor
Washington, DC 20036

Jon C. Moyle, Jr., Esq.
Cathy M. Sellers, Esq.
The Perkins House
118 N. Gadsden Street
Tallahassee, FL 32301

Vicki Gordon Kaufman
117 S. Gadsden
Tallahassee, FL 32301

Norton Cutler
General Counsel
40 Church Street
24th Floor
Nashville, TN 37201

Michael Bressman
Associate General Counsel
401 Church Street
24th Floor
Nashville, TN 37201

Russell M. Blau
Marc B. Rothschild
Swidler Berlin Shereff Friedman, LLP
3000 K. Street, NW, Suite 300
Washington, DC 20007-5116

John Spilman
Director Regulatory Affairs & Industry
Relations
Broadslate Networks, Inc.
675 Peter Jefferson Parkway, Suite 310
Charlottesville, Virginia 22911


Michael A. Gross

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**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
TALLAHASSEE, FLORIDA
REBUTTAL TESTIMONY OF**

WILLIAM J. BARTA

JUNE 8, 2000

DOCKET NO. 990649-TP

I. QUALIFICATIONS

11 **Q. Please state your name and business address.**

12 A. My name is William Barta, and my business address is 7170 Meadow Brook
13 Court, Cumming, Georgia 30040.

14
15 **Q. What is your occupation?**

16 A. I am the founder of Henderson Ridge Consulting, Inc., a regulatory consulting
17 firm. The firm's practice focuses on the technical and policy issues confronting
18 the telecommunications and electric utility industries.

19
20 **Q. Please provide a summary of your education and professional experience.**

21 A. From 1975 through 1978, I attended The Lindenwood Colleges where I received
22 a Bachelor of Arts degree, cum laude, with a study emphasis in accounting.
23 Upon graduation, I held accounting staff positions with a privately-held
24 corporation and with a division of a large, public corporation. The primary
25 responsibilities of these positions were to perform financial ratio analysis, cost

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1 accounting functions, and to supervise the monthly book close and preparation of
2 the financial statements. In 1980, I enrolled in the graduate business program at
3 Emory University and received my Masters of Business Administration with
4 concentrations in finance and marketing.

5
6 After graduating from Emory University in 1982, I joined the Bell System as an
7 Account Executive where I was responsible for the sale/lease of regulated
8 products and services to large business customers. In late 1983, I transferred to
9 AT&T Communications where I provided a broad range of accounting regulatory
10 support functions to the nine state Southern Region.

11
12 From 1986 through 1988, I held various positions in the regulatory departments
13 of Contel Corporation, an independent local exchange carrier. My responsibilities
14 ranged from tariff support to ratemaking and rate design issues to line of business
15 feasibility studies.

16
17 In April 1988, I joined the firm of J. Kennedy and Associates, Inc., a regulatory
18 and economic consulting firm. As a Manager at Kennedy and Associates, I
19 directed or supported the ratemaking investigations of major telecommunications
20 and electric utilities. My work covered rate design, revenue requirements
21 analysis, and the determination of the appropriate cost of capital and other issues
22 associated with traditional rate base/rate of return regulation.

23 I have conducted management and compliance audits of regulated
24 telecommunications and electric utilities. I have examined utilities' filings
25 regarding other matters such as merger proposals, alternative regulation requests,

1 affiliate relationships, network modernization proposals, and emerging
2 competition.

3
4 Since the passage of The Telecommunications Act of 1996, I have participated in
5 numerous regulatory proceedings initiated in response to the Act's pro-
6 competitive mandates. The policy and technical issues addressed in these
7 proceedings include universal service and access charge reform, interim and
8 permanent pricing for local interconnection and unbundled network elements,
9 avoided retail cost studies for resale purposes, evaluation of local number
10 portability cost studies, assessment of Contract Service Arrangements, reciprocal
11 compensation for intercarrier local exchange traffic, and the mediation of joint
12 use pole disputes.

13
14 **Q. Do you hold any professional certifications?**

15 A. Yes. I am a Certified Fraud Examiner and a Certified Public Accountant with an
16 active license to practice in the State of Georgia.

17
18 **Q. Please provide a brief overview of your experience that is germane to this
19 proceeding.**

20 A. The Florida Public Service Commission has initiated the instant proceeding in
21 order to establish permanent, deaveraged rates for unbundled network elements
22 ("UNEs") that the incumbent local exchange carriers must provide to requesting
23 carriers in Florida. I have been involved and/or testified in state regulatory
24 proceedings that have addressed the policy and cost issues surrounding the
25 implementation of UNE rates. In these proceedings, I have had the opportunity

1 to become familiar with the cost methodology and the cost proxy models
2 sponsored by the carriers in support of their proposed UNE rates. During the
3 course of my analysis, I have reviewed the model platform and default input
4 values of the TELRIC Calculator, the Benchmark Cost Proxy Model, the
5 Integrated Cost Model, the Hatfield Model, and most recently, the Hybrid Cost
6 Proxy Model ("the HCPM") developed by the Staff of the Federal
7 Communications Commission ("the FCC"). The output of some of these
8 forward-looking economic cost models is being considered in this proceeding in
9 support of the rates for deaveraged UNEs and UNE combinations.
10

11 Additional detail with respect to my qualifications can be found in
12 Exhibit__(WJB-1).
13

14 **Q. On whose behalf are you testifying in this proceeding?**

15 A. I am testifying on behalf of the Florida Cable Telecommunications Association
16 ("the FCTA").
17

18 **Q. What is the purpose of your testimony?**

19 A. The purpose of my testimony is to discuss many of the issues that the
20 Commission has ordered to be addressed in the prefiled testimony to be
21 submitted on June 8, 2000. Specifically, my testimony addresses Issue nos. 6,
22 7(b), 7(c), 7(d), 7(t), 7(u), 9(b), and 13 of the Commission's list of issues.
23

24 **Q. Please summarize your testimony.**
25

1 A. The Commission has initiated this proceeding in order to establish permanent
2 prices for unbundled network elements and UNE combinations. The primary
3 consideration of the Commission in its efforts to establish permanent rates for
4 unbundled network elements and UNE combinations is to base the rates upon
5 fully supported cost studies that closely follow the appropriate costing
6 methodology. If appropriate cost-based rates are developed, then the attendant
7 concerns of regulators, the incumbent local exchange carriers, and other parties
8 should be satisfied. Appropriate cost-based rates will promote fair and
9 responsible competitive entry under the requirements of the Telecommunications
10 Act of 1996 and will protect the incumbent local exchange carriers as the
11 providers of the facilities necessary to provision the unbundled network elements
12 and UNE combinations.

13
14 The complexity and magnitude of the ILECs' filings have prohibited a
15 comprehensive examination of the key areas of the TELRIC studies within the
16 ordered procedural schedule. Nevertheless, it is evident from the initial review of
17 the carriers' cost studies that the expenses subject to recovery (and the resulting
18 UNE rates) appear overstated.

19
20 There are many examples within the cost studies that suggest the costs are higher
21 than would be expected on a forward-looking basis. For instance, recurring
22 capital costs are overstated as a result of the carriers adopting aggressive capital
23 recovery rates and assuming high costs of capital. In addition, the forecasted
24 operating expenses exceed existing levels which is contrary to the carriers' own
25 declining cost trends experienced over the last several years. Finally, the

1 proposed common costs do not exclude the appropriate amount of avoided retail
2 costs, thereby burdening the wholesale UNE market with unnecessary expenses.
3

4 The Commission is urged to modify the carriers' TELRIC studies in order to
5 develop more reasonable rates for unbundled network elements and UNE
6 combinations. It is also important that opportunities be afforded to undertake a
7 comprehensive examination of each area of the ILECs' TELRIC studies.
8

9 **Q. When is it appropriate for nonrecurring costs to be recovered through**
10 **recurring rates (Issue 6)?**

11 A. As a general principle, the recovery of the ILECs' one-time costs should be
12 recovered through nonrecurring charges. But it is a common practice in the
13 telecommunications industry to recover nonrecurring costs through recurring
14 charges. In many instances, it may be more appropriate for the ILEC to recover
15 its nonrecurring costs through recurring rates over a reasonable period of time.
16 For instance, construction costs incurred by the ILEC to provide an individual
17 subscriber or CLEC a requested telecommunications service may be recovered
18 over period of time rather than through a nonrecurring charge. The ability to
19 spread the nonrecurring charge over a reasonable period of time reduces the
20 immediate financial burden that would be imposed upon the requesting party.
21

22 The ILECs' costs to develop operational support systems ("OSS") and the
23 electronic interfaces that will provide connectivity for competing local exchange
24 carriers should also be recovered through recurring rates in lieu of nonrecurring
25 charges. The benefits of the enhanced OSS will extend beyond the one time,

1 nonrecurring cost charged to a competing carrier. Instead, the ILECs should
2 capitalize the expenses associated with the development of electronic gateways
3 and system enhancements over the economic life of the OSS. This will more
4 appropriately match the costs with the expected benefits of the investment.

5
6 **Q. How are depreciation charges recovered in the ILECs' TELRIC studies**
7 **(Issue 7(b))?**

8 A. Depreciation charges are treated as a recurring capital cost in the ILECs'
9 TELRIC studies.

10
11 **Q. What are the appropriate standards that the ILECs should follow in**
12 **developing depreciation lives for the purpose of their TELRIC studies?**

13 A. Since the ILECs are required to submit forward-looking economic cost studies,
14 economic depreciation rates that reflect the forward-looking lives of the network
15 facilities and the economic value of those assets should be used in the TELRIC
16 studies. Theoretically, the economic depreciation rate results in the systematic
17 reduction in the book value of the asset that makes the book value equal to its
18 market value. The plant specific depreciation lives that are used to develop
19 TELRIC costs should be based upon the expected economic lives at the least
20 cost, currently available plant.

21
22 Depreciation lives based upon forward-looking economic cost concepts are
23 commonly referred to as projection lives or "P-Lives." P-Life depreciation rates
24 are distinct from other depreciation lives, such as remaining lives or average
25 service lives, that reflect historical plant deployments.

1
2 **Q. What information is available regarding projection lives for**
3 **telecommunications plant?**

4 A. The Federal Communications Commission prescribes a range of projection lives
5 for over thirty categories of telecommunications plant on an individual carrier
6 basis. The FCC developed the projected depreciation lives based upon detailed
7 analysis that considered the most recent plant retirement patterns, the individual
8 carrier's plans, and the current technological developments and trends.

9
10 **Q. Do you believe the projection lives developed by the FCC represent the best**
11 **information available regarding a local exchange carrier's capital recovery?**

12 A. Yes. The FCC has conducted extensive studies of each major local exchange
13 carrier's network facilities. In the course of its depreciation studies, the FCC
14 reviews each carrier's plant studies and future network plans. The projection
15 lives are developed in consideration of the carrier's plant studies as well as
16 industry trends and technological advances and patterns. In addition, the FCC
17 meets with the state Commission Staffs in order to discuss market conditions
18 confronting individual carriers and the status of its network.

19
20 **Q. Do you recommend that the FCC depreciation lives be used in the ILECs'**
21 **TELRIC studies?**

22 A. Yes. Based upon the FCC's broad industry experience and expertise, its
23 prescribed projection lives and future net salvage estimates should be used to
24 calculate the ILECs' TELRIC estimates. The forward-looking depreciation lives
25 and future net salvage estimates prescribed by the FCC are grounded in a

1 comprehensive examination and offer an objective alternative to the capital
2 recovery rates proposed by the carriers.

3
4 The FCC has not prescribed rates in the case of the Sprint operating companies.
5 In lieu of FCC specific rates, the capital recovery rates adopted by the FPSC for
6 Sprint should be used in the cost proxy model. It should be noted that Sprint has
7 already adopted these rates as its model input values: "In this filing, however,
8 Sprint has made what it hopes the Commission will find to be an appropriate and
9 practical concession, and has used the depreciation lives ordered by this Florida
10 Commission in the Universal Service Fund Docket No. 990696-TP" (Direct
11 Testimony of Mr. Kent W. Dickerson, page 11, lines 11 through 15).

12
13 The carrier proposed rates and the FCC-prescribed rates for BellSouth and GTE
14 can be found in Rebuttal Exhibit ___ (WJB-2).

15
16 **Q. Is there any support that the FCC's prescribed projection lives and future**
17 **net salvage rates for BellSouth and GTE have resulted in forward-looking**
18 **economic depreciation rates?**

19 Yes. A review of the relationship between the depreciation reserve level and the
20 balance of plant in service reported by BellSouth and GTE through the carriers'
21 ARMIS filings suggest that the FCC's prescribed depreciation rates have resulted
22 in forward-looking, economic depreciation rates. The depreciation reserve level
23 is frequently used as an indicator of the efficiency of the capital recovery process.
24 It is equal to the accumulation of historic depreciation accruals net of plant
25

1 retirements. The depreciation reserve level reflects the amount of the ILECs'
2 original investment that has been returned to the carriers by its customers.

3
4 A key relationship exists between a carrier's depreciation reserve level and its
5 plant in service balance. In the face of a growing plant in service balance, the
6 carrier would be expected to report a lower depreciation reserve level relative to
7 the plant in service balance, absent any change in the level of its depreciation
8 accruals and its normal retirement pattern. On the other hand, a higher
9 percentage of depreciation reserve level relative to the plant in service balance
10 would tend to indicate that the carrier is recovering the return of its investment
11 over a more accelerated period of time through its depreciation accruals. The
12 higher depreciation accruals suggest that the economic lives of the plant in
13 service have been shortened to reflect technological and/or market
14 considerations.

15
16 The plant in service balance of BellSouth has increased nearly 36% from \$8.9
17 billion to \$12.1 billion during the period of 1991 through 1999. In 1991, the
18 depreciation reserve level represented 50.37% of BellSouth's plant in service
19 balance. By 1999, the depreciation reserve level had grown to reflect 67.25% of
20 the company's plant in service balance.

21
22 The plant in service balance of GTE has grown nearly 47% from \$3.2 billion in
23 1991 to \$4.7 billion in 1999. The accumulated depreciation reserve level,
24 however, has outpaced the growth in the carrier's plant in service. In 1991, the
25 depreciation reserve level represented 41.93% of GTE's plant in service balance.

1 By 1999, the depreciation reserve level represented 68.64% of the company's
2 plant in service balance.

3
4 The fact that the growth in the carriers' depreciation reserve levels has exceeded
5 the substantial growth in the plant in service balances is evidence of the FCC's
6 commitment to prescribe forward-looking, economic depreciation rates. An
7 analysis of the carriers' depreciation reserve levels and plant in service balances
8 can be found in Rebuttal Exhibit __ (WJB-3).

9
10 **Q. What overall cost of capital has been assumed by each of the ILECs in their**
11 **cost proxy models (Issue 7(c))?**

12 A. In developing its TELRIC studies, BellSouth uses a cost of debt of 7.0% and a
13 cost of equity of 14.08%. A debt ratio of 40% is used which results in an overall
14 cost of capital of 11.25%. The projected overall cost of capital mirrors the
15 current interstate rate of return of 11.25% authorized by the FCC. BellSouth
16 asserts that the default model input value of 11.25% is reasonable and that its
17 actual investor-required rate of return, as estimated by its cost of capital witness,
18 is in the range of 14.61% to 14.91%.

19
20 The 12.737% overall cost of capital projected by GTE for use in the ICM is
21 based upon a cost of debt of 7.03% and a cost of equity of 14.3627%. The
22 capitalization ratios are assumed to be a debt ratio of 22.1657% and an equity
23 ratio of 77.8343%.

1 Sprint forecasts an overall cost of capital of 13.19% for use in the BCPM 3.1.
2 The 13.19% overall rate of return is comprised of a cost of debt of 8.08% and a
3 cost of equity of 13.78%. A capital structure consisting of 10.36% debt and
4 89.64% equity is assumed.

5
6 **Q. What observation do you have regarding the cost of capital assumed by the**
7 **carriers in the cost proxy models?**

8 A. The most striking observation is the widely divergent capital structures that are
9 projected to be employed by the carriers. Sprint and GTE assume that their
10 capital structures will consist of approximately 90% and 78% equity,
11 respectively. BellSouth, on the other hand, is much more realistic and projects a
12 capital structure with a debt ratio of 40%. As a fundamental operating principle,
13 the carriers are obligated to their shareholders, customers, and regulators to
14 deploy the most efficient, low cost capital structure. But equity ratios that
15 approach 80% or 90%, in tandem with high cost of equity estimates,
16 unnecessarily increase the overall cost of capital. To the detriment of retail and
17 wholesale customers, the inflated cost of capital will be designed into the
18 carriers' rates. The equity-rich capital structures proposed by Sprint and GTE
19 should be rejected in favor of the more realistic debt ratio presented by
20 BellSouth.

21
22 **Q. Do you believe the FCC's benchmark rate of return is a suitable proxy for**
23 **use in the carriers' forward-looking economic cost models?**

24 A. Not necessarily. It is likely that the forward-looking cost of capital for each of
25 the ILECs falls below the FCC's benchmark rate of return of 11.25% which has

1 been used since 1990. The appropriate cost of capital should recognize current
2 capital market conditions as well as those that are likely to be encountered during
3 the rate effective period. In addition, the cost of capital should reflect the lower
4 business risk attributed to the inherent efficiencies derived from the incumbent
5 local exchange carriers' network economies of scale and scope.

6
7 The authorized intrastate cost of capital for a regulated utility is typically decided
8 by the Commission after hearing testimony from the parties participating in the
9 proceeding. The cost of capital input value in each of the ILECs' cost proxy
10 models should be adjusted once the Commission reaches its decision regarding
11 the appropriate forward-looking cost of capital.

12
13 **Q. What tax rates should be used in the cost proxy models (Issue 7(d))?**

14 A. The tax rates used in the cost proxy models should reflect the current federal and
15 state income tax rates. The currently effective ad valorem and property tax rates
16 should also be adopted for use in the cost proxy models. The carriers'
17 approaches to estimating the currently effective ad valorem and property tax rates
18 appear reasonable. The composite income tax factor used in the cost proxy
19 models reflects a state corporate income tax rate of 5.5%.

20
21 **Q. How significantly do the assumptions regarding operating expenses affect
22 the results of the models (Issue 7(t))?**

23 A. The level of operating expenses greatly affects the cost estimates generated by
24 the models to provide unbundled network elements and UNE combinations. The
25 carriers' assumptions regarding inflation and productivity, as well as the reliance

1 upon historic relationships between expense and investment levels, can result in
2 TELRIC studies that overstate the ILECs' need for cost recovery.
3

4 **Q. How are the operating expenses developed in the ILECs' cost proxy models?**

5 A. The operating expenses proposed to be recovered by the ILECs are estimated by
6 massaging base period expense levels through a series of adjustments and
7 factors. The base year expenses may then be adjusted through inflation factors
8 and productivity offsets as well as "normalization" adjustments in an effort to
9 make the baseline data representative of forward-looking conditions. Other
10 adjustments may also be proposed such as an avoided retail expense adjustment,
11 activity based cost adjustments, special study adjustments, and shared and
12 common cost adjustments. Annual charge factors are also developed under a
13 costing pool methodology that assigns individual plant and expense account
14 activity to one or more cost pools.
15

16 **Q. What analyses have you conducted to determine the reasonableness of the**
17 **ILECs' estimate of the forward-looking operating expenses included in their**
18 **TELRIC studies?**

19 A. I am in the process of reviewing the carriers' cost proxy model input values,
20 formulas, and other documentation supporting the cost study methodology. A
21 comprehensive review is difficult to complete in a timely manner due to a
22 number of considerations. The cost proxy models are complex and the
23 supporting documentation is voluminous. Tracing the unadjusted base year
24 individual account expenses through a series of adjustments made to recast the
25 cost information as forward-looking is, at best, a time-consuming task.

1 Nevertheless, it is important to understand how the cost proxy models develop
2 the forward-looking expenses and how the ultimate expense levels can be
3 affected by the modifications that may be proposed by the parties challenging the
4 ILECs' cost studies.

5
6 **Q. Have you reached any tentative conclusions regarding the reasonableness of
7 the level of operating expenses included in the ILECs' cost studies?**

8 A. Yes. The results of my preliminary analyses suggest that the operating expenses
9 included in BellSouth's and GTE's TELRIC studies appear overstated and not
10 representative of forward-looking conditions. For instance, the inflation factor of
11 3.2% to 3.5% assumed by BellSouth exceeds the productivity offset of 3.1%
12 resulting in a growing level of expenses each year during the forecast period.
13 GTE has made an initial series of adjustments to its base year expenses (i.e. 1998
14 ARMIS data) that actually increase the operating expenses prior to other
15 adjustments.

16
17 One would expect lower levels of operating expenses to be projected on a
18 forward-looking basis assuming the network configurations of the cost proxy
19 models embrace the most efficient, least cost technology and the engineering and
20 operating practices of the carrier reflect productivity enhancements. Indeed, as
21 depicted in Rebuttal Exhibit__(WJB-4), the trend of BellSouth's and GTE's
22 Florida operations indicate declining expense levels on a per access line basis
23 over the last several years. Therefore, an ILEC's proposal to recover a level of
24 operating expenses that exceeds its incurred costs should undergo rigorous
25 scrutiny. I will continue to conduct analyses of the operating expenses included

1 in the ILECs' TELRIC studies. Depending upon the materiality of my findings,
2 it may be necessary to submit supplemental direct testimony.

3
4 **Q. What are common costs (Issue 7(u))?**

5 A. Common costs refer to those costs that are common to all products and services
6 of the ILECs. These costs cannot be identified with the provision of any specific
7 service or group of services.

8
9 **Q. How do the ILECs propose to recover the common costs that have been
10 identified?**

11 A. The carriers propose to recover their projected common costs through a uniform
12 mark-up applied to the unbundled network elements and UNE combinations.
13 BellSouth proposes a mark-up of 6.24%, GTE advocates a "fixed allocator" of
14 18.1%, and Sprint caps the common cost mark-up at 15.00%.

15
16 **Q. Have you had the opportunity to fully examine the cost studies supporting
17 the ILECs' proposed common costs?**

18 A. No. The magnitude and complexity of all of the carriers' filings have prohibited
19 me from conducting a comprehensive analysis of the cost studies supporting the
20 ILECs' proposed common costs. Nevertheless, my initial review has identified
21 an item that materially overstates the level of BellSouth's and GTE's proposed
22 common costs.

23
24 As part of their effort to develop forward-looking expenses subject to recovery
25 through UNE rates, the carriers have made an adjustment to exclude the retail

1 costs that will be avoided in the wholesale environment. The avoided retail cost
2 adjustment, however, appears to understate the level of costs that should be
3 excluded from the TELRIC studies. BellSouth claims that the percentage of
4 retail costs to be excluded on a forward-looking basis is 11.20%. The results of
5 the GTE TELRIC studies indicate that only 8.30% of its forward-looking
6 expenses are attributed to retail costs.

7
8 The avoided retail cost adjustment should reflect the wholesale percentage
9 discount ordered by the Florida Public Service Commission for each carrier. In
10 the case of BellSouth, the FPSC ordered a resale discount of 21.83% for
11 residential customers and 16.30% for business customers. The avoided retail
12 cost discount ordered for GTE is 13.04%. The impact of substituting the
13 Commission-ordered wholesale percentage discounts for each carrier's proposed
14 avoided retail costs can be found in Rebuttal Exhibit __ (WJB-5).

15
16 **Q. Subject to the standards of the FCC's Third Report and Order, should the**
17 **Commission require ILECs to unbundle any other elements or combinations**
18 **of elements? If so, what are they and how should they be priced (Issue**
19 **9(b))?**

20 **A.** At this time, the non-rural ILECs should be required to adhere to the network
21 unbundling standards identified by the FCC in its Third Report and Order in CC
22 Docket 96-98. But if access to any of the unbundled network elements that have
23 been removed from the FCC's list of minimum unbundling requirements proves
24 to be only available at noncompetitive rates, or under unacceptable service
25

1 quality levels, then the Commission should initiate proceedings to investigate the
2 unbundling of the network elements at issue.

3
4 **Q. When should the recurring and nonrecurring rates and charges take effect**
5 **(Issue 13)?**

6 A. The ILECs should be provided reasonable time to conform their billing and any
7 other administrative systems to incorporate the deaveraged network unbundling
8 requirements ordered by the Commission. It seems reasonable that the rates
9 should become effective 30 days to 90 days after the Commission issues its order
10 in the proceeding unless the carriers are able to demonstrate that they cannot
11 comply within the specified timeframe.

12
13 **Q. Does this conclude your testimony?**

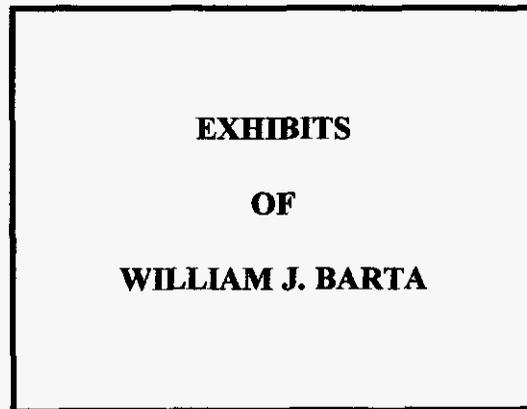
14 A. Yes.
15
16
17
18
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25

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
TALLAHASSEE, FLORIDA**

**In re: Investigation into
pricing of unbundled network
elements.**

)
)
)

Docket No. 990649-TP



**ON BEHALF OF THE
FLORIDA CABLE TELECOMMUNICATIONS ASSOCIATION
HENDERSON RIDGE CONSULTING, INC.
CUMMING, GEORGIA
JUNE 8, 2000**

003931

WILLIAM J. BARTA
President, Henderson Ridge Consulting, Inc.

EDUCATION

Emory University	M.B.A. (1982)
Marketing and Finance	
The Lindenwood Colleges	B.A. with Honors (1978)
Business Administration and Accounting	

PROFESSIONAL CERTIFICATION

Certified Public Accountant
Certified Fraud Examiner

PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants
Georgia Society of Certified Public Accountants
Association of Certified Fraud Examiners

EMPLOYMENT HISTORY

1996 - present	Henderson Ridge Consulting	President and Founder
1988 - 1995:	J. Kennedy and Associates	Manager
1986 - 1988:	Contel Corporation	Financial Planning Coordinator
1982 - 1986:	AT&T	Financial Analyst and Account Executive
1981	Simmons, U.S.A.	Special Projects Staff (summer internship)
1979 - 1980:	Gould, Inc.	Senior Accountant
1978 - 1979:	SCNO Barge Lines, Inc.	Staff Accountant

REPRESENTATIVE EXPERIENCE

The Telecommunications Act of 1996:

Addressed policy and technical issues in regulatory proceedings initiated in response to the pro-competitive mandates of the 1996 Act. Subject areas include universal service and access charge reform, interim and permanent pricing for local interconnection and unbundled network elements, avoided retail cost studies for resale purposes, evaluation of local number portability cost studies, assessment of Contract Service Arrangements, and mediation of joint use pole disputes.

Management Audits:

Conducted comprehensive and focused management audits of a major electric investor owned utility, a generation and transmission electric cooperative, distribution electric cooperatives, a Bell Operating Company, and independent local exchange carriers.

Merger Evaluations:

Evaluated the administrative and operational synergies projected in a merger between two electric investor owned utilities and the level of savings and operational efficiency to be achieved from the combination of separate subsidiaries within a Bell Regional Holding Company.

Demand Side Management Program Analyses:

Performed a comprehensive review of the assumptions used in the development of proposed Demand Side Management ("DSM") programs and the benefit/cost ratios of implementing proposed DSM programs as determined by standard regulatory tests. Of particular interest was the nonregulated revenue potential resulting from a load management program designed to achieve spinning reserve status by providing real time communications between the residential customer and the operating dispatch center.

Affiliate Transactions Reviews:

Conducted extensive cost allocation studies and transaction audits of a Bell Regional Holding Company's and independent telephone companies' affiliate transactions, the sale of an electric utility's generating facilities to (and subsequent participation in) a joint venture between the utility and three of its largest industrial customers, the integrated sale of an electric utility's mining operation and long-term coal purchase agreement, the provisions under which a nonregulated subsidiary of an electric utility would market the excess telecommunications capacity of a Demand Side Management program, and the potential cross-subsidy of a regulated electric utility's non-regulated telecommunications operations.

Accounting and Finance Investigations:

Performed comprehensive earnings investigations and revenue requirements studies of AT&T, a Bell Operating Company, independent local exchange carriers, electric investor owned utilities, a generation and transmission electric cooperative, and electric distribution cooperatives.

Expert Testimony Appearances

<u>Date</u>	<u>Case No.</u>	<u>Jurisdiction</u>	<u>Company</u>	<u>Subject Matter</u>
July 1989	333-272	Louisiana	South Central Bell Telephone & Telegraph	Realized and projected rates of return.
August 1989	U-17970	Louisiana	AT&T Communications	Earnings investigation, network modernization, and alternative regulation.
October 1989	U-17282	Louisiana	Gulf States Utilities	Operating expense analysis and nonregulated joint venture evaluation.
January 1990	U-17282	Louisiana	Gulf State Utilities	Regulatory treatment of gain on sale of utility property.
July 1991	4004-U	Georgia	GTE Telephone	Network modernization and depreciation rescription.
October 1991	U-17282	Louisiana	Gulf States Utilities	Results of comprehensive management audit.
Dec. 1992	U-17949 Subdocket A	Louisiana	South Central Bell Telephone and Telegraph	Network technology and modernization and construction program evaluation.
Dec. 1992	U-19904	Louisiana	Entergy/Gulf States	Non-fuel O&M merger related synergies.
March 1993	93-01-E1 EFC	Ohio	Ohio Power Company	Accounting and regulatory treatment of the sale of an affiliate's investment.

Expert Testimony Appearances - continued

<u>Date</u>	<u>Case No.</u>	<u>Jurisdiction</u>	<u>Company</u>	<u>Subject Matter</u>
March 1993	U-19994	Louisiana	Entergy/Gulf States	Merger related synergies.
August 1993	U-19972	Louisiana	Ringgold Telephone Company	Earnings investigation, network modernization, and construction program.
October 1993	U-17735	Louisiana	Cajun Electric Power	Earnings investigation.
May 1994	U-20178	Louisiana	Louisiana Power & Light Company	Analysis of Least Cost Integrated Resource Plan and Demand Side Management programs.
October 1994	5258-U	Georgia	Southern Bell Telephone & Telegraph	Price regulation and incentive rate plan review.
June 1995	3905-U	Georgia	Southern Bell Telephone & Telegraph	Rate design and alternative regulation.
June 1996	96-02-002	California	Pacific Bell Telephone & Telegraph	ISDN TSLRIC study evaluation
August 1996	U-22020 (Direct)	Louisiana	BellSouth Telecomm. Inc.	Avoided retail cost study
Sep. 1996	U-22020 (Rebuttal)	Louisiana	BellSouth Telecomm. Inc.	Avoided retail cost study
Oct. 1997	97-01262 (Direct)	Tennessee	BellSouth Telecomm. Inc.	Permanent pricing for local interconnection and UNEs
Oct. 1997	97-01262 (Rebuttal)	Tennessee	BellSouth Telecomm. Inc.	Permanent pricing for local interconnection and UNEs

Expert Testimony Appearances - continued

Nov. 1997	97-00888	Tennessee		Universal service policy issues
Dec. 1997	P-100, Sub 133b	North Carolina		Universal service FLEC models
Dec. 1997	P-100, Sub 133d	North Carolina		Permanent pricing for local interconnection and UNEs
Jan. 1998	P-100, Sub 133b (Rebuttal)	North Carolina		Universal service FLEC models
Mar. 1998	P-100, Sub 133d (Rebuttal)	North Carolina		Permanent pricing for local interconnection and UNEs
Mar. 1998	P-100, Sub 133g	North Carolina		Universal service policy issues
Mar. 1998	97-07488 (Direct)	Tennessee	Electric Power Board of Chattanooga	Affiliate transactions
Aug. 1998	980696-TP (Direct)	Florida		Universal service FLEC models
Sep. 1998	980696-TP (Rebuttal)	Florida		Universal service FLEC models
Sep. 1998	U-22252, Subdocket D (Initial)	Louisiana		Avoided retail cost study for CSAs/SBAs
Sep. 1998	97-07488 (Rebuttal)	Tennessee	Electric Power Board of Chattanooga	Affiliate transactions

Expert Testimony Appearances - continued

Sep. 1998	U-22252 Subdocket D (Final)	Louisiana	BellSouth	Avoided retail cost study for CSAs/SBAs
July 1999	10288-U	Georgia	Accucomm Telecomm, Inc.	Compliance audit results and affiliate transactions
August 1999	990649-TP	Florida (Direct)		Unbundled network element policy issues
Sep. 1999	990649-TP	Florida (Rebuttal)		Unbundled network element policy issues
March 2000	99-00909	Tennessee (Direct)	Memphis Light, Gas & Water	Affiliate transactions
March 2000	U-24714	Louisiana (Direct)	BellSouth	Interim, deaveraged rates for unbundled network elements

BellSouth Telecommunications, Inc.
State of Florida

Forward-looking Economic Depreciation Lives and Future Net Salvage Rates
Federal Commission Communications Prescribed and BellSouth Proposed

	<u>FCC Prescribed</u>			<u>BellSouth Proposed</u>	
	<u>P-lives</u>		<u>FNS</u>	<u>Life</u>	<u>Salvage</u>
2112	Motor vehicles - light	4.7	10	8.0	16
2112	Motor vehicles - other	10.0	10	8.0	16
2114	Special purpose vehicles	7.0	0	7.0	0
2115	Garage work equipment	12.0	0	12.0	0
2116	Other work equipment	15.0	1	15.0	0
2121	Buildings	48.0	4	45.0	0
2122	Furniture	11.0	14	15.0	10
2123	Office support equipment	10.5	10	11.5	5
2123	Company communications equipment	7.0	10	7.0	10
2124	General purpose computers	5.5	0	4.5	2
2211	Analog electronic switching equipment	-	0	-	0
2212	Digital electronic switching equipment	16.0	0	10.0	0
2220	Operator systems	10.0	0	10.0	0
2231	Radio systems	7.0	-5	9.0	-5
2232	Circuit - DDS	6.0	0	8.0	2
	Circuit - Digital	10.5	0	9.0	0
2311	Station apparatus	8.0	0	-	0
2341	Large PBX	5.0	0	6.0	5
2351	Public telephone terminal equipment	7.0	10		
2362	Other terminal equipment	6.0	-4	6.0	5
2411	Poles	35.0	-75	36.0	-55
2421	Aerial cable - metallic	18.0	-11	15.0	-14
2421	Aerial cable - fiber	25.0	-11	20.0	-14
2422	Underground cable - metallic	23.0	-7	14.0	-8
2422	Underground cable - fiber	25.0	-6	20.0	-8
2423	Buried cable - metallic	18.0	-8	15.0	-7
2423	Buried cable - fiber	25.0	0	20.0	-7
2424	Submarine cable	18.0	-5	15.0	-5
2426	Intrabuilding network cable	20.0	-12	20.0	-10
2441	Conduit systems	55.0	-7	55.0	-10

Source: Federal Communications Commission and 2000 Florida Depreciation Study (Exhibit GDC-2), page 018.

GTE Florida, Inc.
State of Florida

Forward-looking Economic Depreciation Lives and Future Net Salvage Rates
Federal Commission Communications Prescribed and GTE Proposed

	FCC Prescribed			GTE Proposed	
	P-lives	FNS		Life	Salvage
2112	Motor vehicles	7.5	18	8.0	10
2115	Garage work equipment	12.0	0	10.0	0
2116	Other work equipment	12.0	0	10.0	0
2121	Buildings	40.0	0	35.0	0
2122	Furniture	15.0	9	10.0	0
2123	Office support equipment	10.0	8	10.0	0
2123	Company communications equipment	7.0	-5	10.0	0
2124	General purpose computers	6.0	0	5.0	0
2211	Analog electronic switching equipment	-	0	-	0
2212	Digital electronic switching equipment	16.0	0	10.0	0
2220	Operator systems	8.0	0	10.0	0
2231	Radio systems	9.0	-5	10.0	0
2232	Circuit equipment	9.0	3	8.0	0
2351	Public telephone terminal equipment	7.0	0		
2362	Other terminal equipment	5.0	-5	5.0	0
2411	Poles	25.0	-75	25.0	-75
2421	Aerial cable - metallic	20.0	-35	15.0	-30
2421	Aerial cable - nonmetallic	25.0	-25	20.0	-20
2422	Underground cable - metallic	25.0	-17	15.0	-20
2422	Underground cable - nonmetallic	25.0	-9	20.0	-10
2423	Buried cable - metallic	20.0	-10	15.0	0
2423	Buried cable - nonmetallic	25.0	-10	20.0	0
2424	Submarine cable - metallic	20.0	-5	15.0	-10
2424	Submarine cable - nonmetallic	25.0	-5	20.0	-10
2426	Intrabuilding network cable	20.0	-10	15.0	0
2431	Aerial wire	8.0	-7	15.0	-30
2441	Conduit systems	50.0	-10	40.0	-10

Source: Federal Communications Commission and Allen E. Sovereign, Direct Exhibit AES-2

BellSouth Telecommunications, Inc.
State of Florida

Total Plant in Service and Total Reserve Balances
1991 - 1999

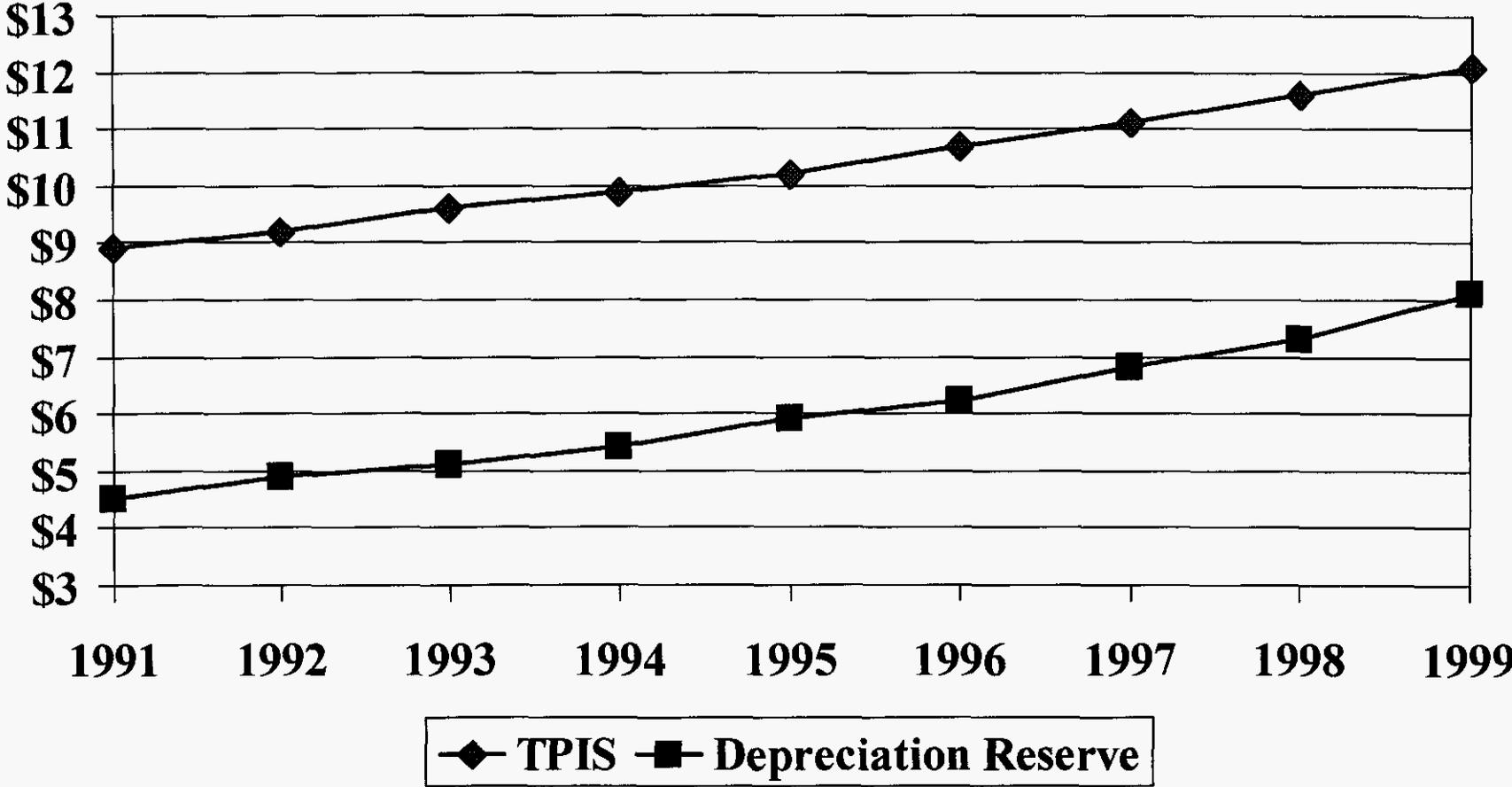
<u>Year</u>		<u>Plant in Service</u>		<u>Total Reserve</u>	<u>Total Reserve as a % of Plant in Service</u>
1991	\$	8,889,369	\$	4,477,320	50.37%
1992		9,217,442		4,938,713	53.58%
1993		9,591,000		5,102,399	53.20%
1994		9,857,337		5,421,203	55.00%
1995		10,215,553		5,886,366	57.62%
1996		10,694,368		6,236,576	58.32%
1997		11,115,772		6,795,990	61.14%
1998		11,603,105		7,286,879	62.80%
1999		12,052,757		8,105,884	67.25%
\$ growth	\$	3,163,388	\$	3,628,564	
% growth		35.59%		81.04%	

Source: ARMIS 43-04 report.

BellSouth Telecommunications, Inc.

State of Florida

Total Depreciation Reserve and Telecommunications Plant in Service
1991 - 1999
In Billions of Dollars



-003941

GTE Florida, Inc.
 State of Florida

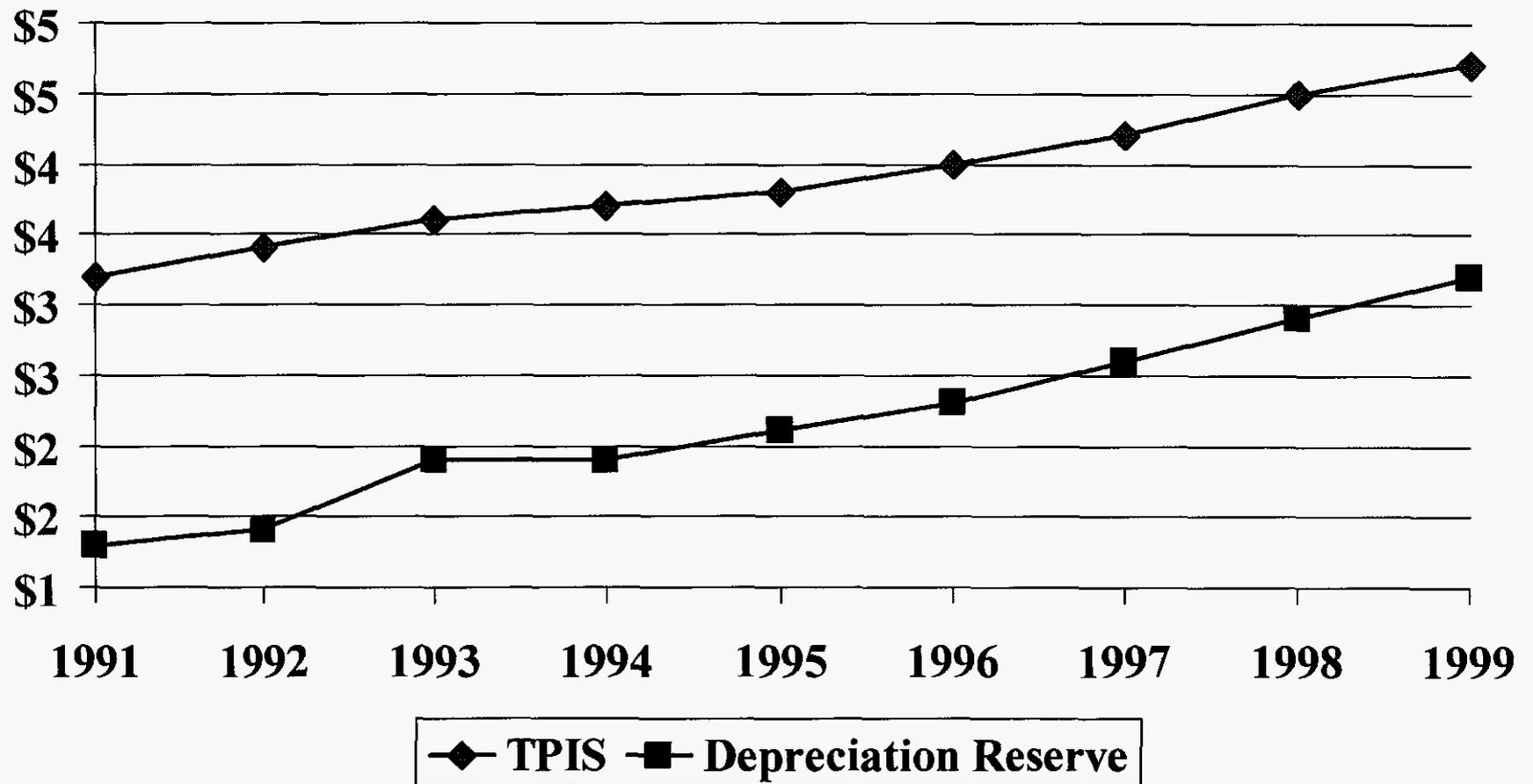
Total Plant in Service and Total Reserve Balances
 1991 - 1999

<u>Year</u>		<u>(Account 2001) Plant in Service</u>		<u>Total Reserve</u>	<u>Total Reserve as a % of Plant in Service</u>
1991	\$	3,204,891	\$	1,343,832	41.93%
1992		3,431,520		1,449,930	42.25%
1993		3,628,913		1,869,072	51.51%
1994		3,661,373		1,931,397	52.75%
1995		3,807,067		2,075,801	54.52%
1996		3,994,272		2,318,758	58.05%
1997		4,251,554		2,634,518	61.97%
1998		4,515,260		2,867,343	63.50%
1999		4,710,790		3,233,456	68.64%
\$ growth	\$	1,505,899	\$	1,889,624	
% growth		46.99%		140.61%	

Source: ARMIS 43-04 report.

GTE Florida, Inc. State of Florida

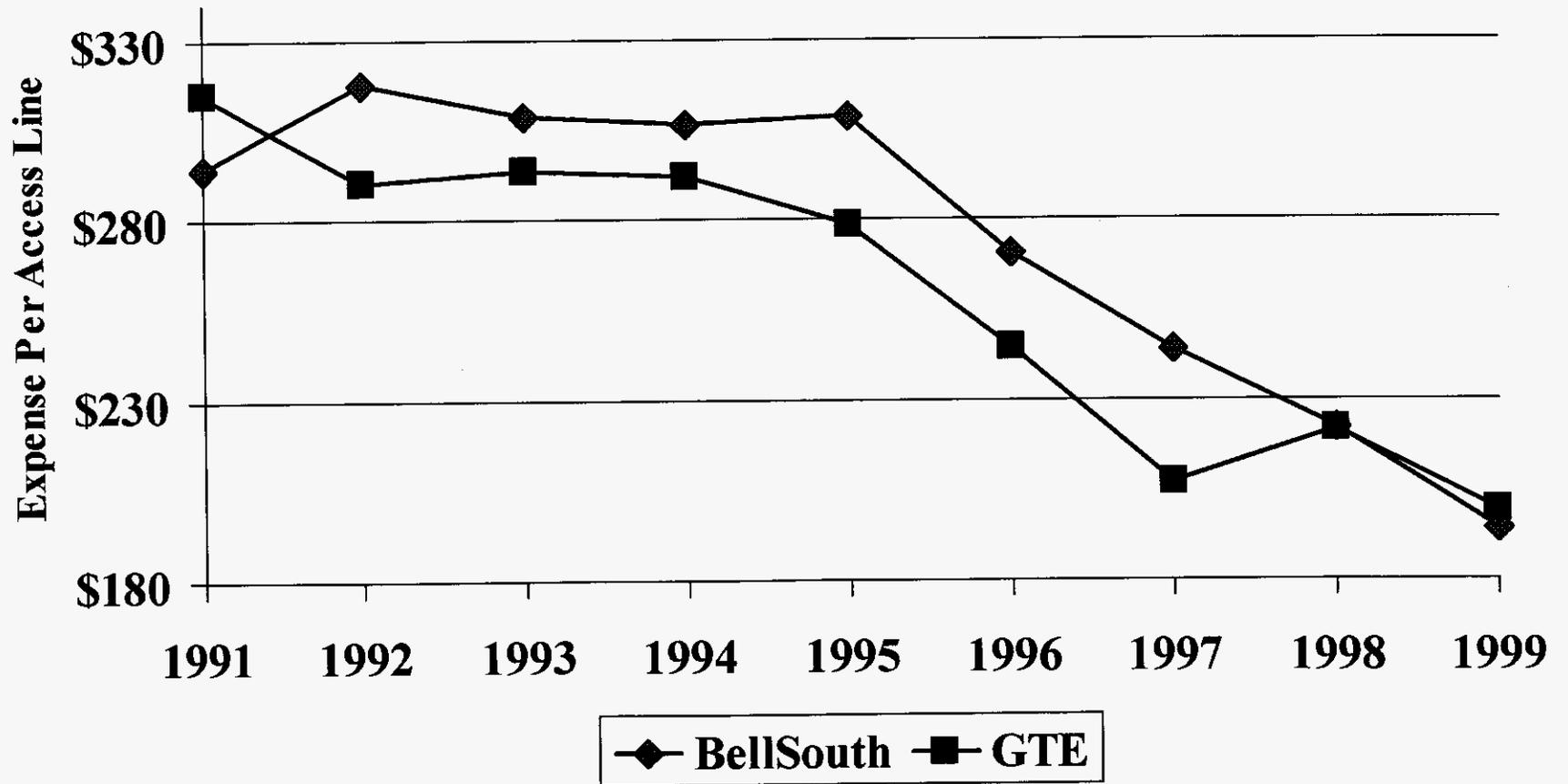
Total Depreciation Reserve and Telecommunications Plant in Service
1991 - 1999
In Billions of Dollars



003943

BellSouth Telecommunications, Inc. and GTE Florida, Inc. State of Florida

(Total Operating Expense - Depreciation Expense) Per Access Lines
1991 - 1999



003944

**Analysis of Forward-looking Avoided Retail Costs vs. Commission-ordered Discount
BellSouth and GTE**

<u>Line no.</u>		<u>BellSouth</u>		<u>GTE</u>	<u>Sprint</u>
1	Total retail costs to be avoided per cost study	\$ 2,188,369,392	\$	88,966,793	(study not performed)
2	Total expenses subject to recovery per cost study	19,534,404,596		1,064,237,565	
3	Avoided retail cost percentage	11.20%		8.36%	
4	Commission-ordered avoided retail cost percentage	21.83%		13.04%	
5	Difference between carrier avoided retail cost percentage and Commission-ordered avoided retail cost percentage	10.63%		4.68%	
6	Additional retail costs to exclude from TELRIC studies	\$ 2,075,991,131	\$	49,809,785	

Source:

Residential wholesale percentage discount for BellSouth per FPSC Order PSC-96-1579-FOF-TP issued December 31, 1996.
GTE wholesale percentage discount per FPSC Order PSC-97-0064-FOF-TP issued January 17, 1997.

003945