

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

SUPPLEMENTAL REBUTTAL TESTIMONY OF

CATHERINE E. PITTS

ON BEHALF OF

AT&T COMMUNICATIONS OF THE SOUTHERN STATES, INC.

AND MCI WORLDCOM, INC.

Docket No. 990649 - TP

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1       **1. INTRODUCTION**

2       **Q.     PLEASE STATE YOUR NAME, PRESENT POSITION AND**  
3           **BUSINESS ADDRESS.**

4       **A.     My name is Catherine E. Pitts. I am a District Manager with AT&T in**  
5           **Law and Government Affairs, 295 North Maple Avenue, Basking Ridge,**  
6           **New Jersey.**

7       **Q.     ARE YOU THE SAME CATHERINE PITTS THAT FILED**  
8           **REBUTTAL TESTIMONY IN THIS PROCEEDING?**

9       **A.     Yes, I filed rebuttal testimony on July 31, 2000.**

10       **2. PURPOSE AND SUMMARY OF TESTIMONY**

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

12       **A.     The purpose of my testimony is to report my findings regarding**  
13           **BellSouth's revised switch cost study filed on August 16, 2000.**

14       **Q.     PLEASE SUMMARIZE THE MAIN POINTS OF YOUR**  
15           **TESTIMONY.**

16       **A.     BellSouth's revised study uses a new version of SCIS/MO (2.6.1b) that**  
17           **purportedly fixes errors in the SCIS model, but many errors in BellSouth's**  
18           **overall switch cost study remain. BellSouth essentially has produced an**  
19           **entirely new cost study with every number changed, but the switch**  
20           **element cost results have only changed minimally in all cases but three.**

21                   BellSouth's revised cost studies do not correct the hardware errors  
22                   or other feature cost errors identified in my Rebuttal Testimony and

1 BellSouth continues to use inappropriate melded discount inputs that are  
2 heavily biased in favor of high growth line pricing.

3 The criticism regarding an SCIS/MO ISDN error that was raised in my  
4 Rebuttal Testimony apparently has been corrected in the new SCIS/MO  
5 patch release used by BellSouth in the revised cost study. The SCIS/MO  
6 error, however, was not the only error impacting ISDN costs.

7 BellSouth corrected one mathematical error in the feature hardware study  
8 that reduced the Composite feature port additive by 6.59%, but did not  
9 correct any of the other hardware study errors pointed out in my Rebuttal  
10 Testimony.

11 BellSouth has introduced a new element that uses switch costs –  
12 P.3.2. 2-wire DID Port for Combinations. BellSouth uses an inappropriate  
13 discount for this new element that causes the cost to be overstated.

14 Mr. King's cost restatement contained in his Rebuttal Testimony is  
15 still valid for switch-related costs.

16 **3. BELLSOUTH'S REVISED STUDY HAS MINIMAL IMPACTS ON**  
17 **MOST SWITCH-RELATED COSTS**

18 **Q. WHAT DO YOU CONSIDER "MINIMAL"?**

19 **A. I am using the word minimal to describe changes less than 2.3%.**

1       **Q.     WHAT SWITCH ELEMENTS WERE IMPACTED MORE THAN**  
2           **2.3%?**

3       A.     BellSouth's revised 2-wire ISDN Port (B.1.5) and its related 2-wire ISDN  
4           Line Side Port Combination (P.4.2.) have increased 6.92% and 7.86%,  
5           respectively.

6                     A third element, Features per Port (B.4.13) decreased 6.59%.

7       **Q.     WHY DID THE ISDN LINE PORTS INCREASE?**

8       A.     Apparently, BellSouth knew of the ISDN error and had tried to incorporate  
9           its own correction into the SST model. When the SCIS/MO patch was  
10          run, it produced higher numbers than BellSouth's estimated original filing.

11      **Q.     WHY DID THE FEATURES PER PORT ELEMENT DECREASE?**

12      A.     BellSouth made one mathematical correction to its hardware study to  
13          apply a discount to the Call Waiting Tone investment.

14      **Q.     ARE BELLSOUTH'S REVISED SWITCH-RELATED ELEMENTS**  
15          **NOW CORRECT?**

16      A.     No. BellSouth's revised study uses a melded discount that assumes only  
17          45% of line purchases from 1999 through 2002 will be for "new" lines and  
18          55% of the purchases will be at the higher-priced growth. BellSouth uses  
19          only 3 years of demand, rather than the entire demand associated with the  
20          switching element. This inappropriate assumption allows BellSouth to

1 calculate a much higher percentage of BellSouth's total lines in Florida at  
2 higher, growth switch prices.<sup>1</sup>

3 BellSouth's new switch element, 2-Wire DID Port for  
4 Combinations (P.3.2) in the revised study uses the inappropriate melded  
5 discount error described above (as do all the switch-related elements).

6 **Q. DID BELLSOUTH CORRECT THE CENTREX FUNCTIONALITY**  
7 **ELEMENT (B.4.10)?**

8 A. No. BellSouth's revised cost statement continues to show an \$.8903 cost  
9 which is incorrect as explained in my Rebuttal Testimony.

10 **Q. DID BELLSOUTH CORRECT THE FEATURES PER PORT**  
11 **ELEMENT (B.4.13)?**

12 A. No. BellSouth's revised cost statement corrected only one mathematical  
13 error that was already accounted for in Mr. King's restatement. The  
14 remaining errors outlined in the Rebuttal Testimony were not corrected.

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<sup>1</sup> Note, however, that AT&T/WorldCom do not recommend the use of any melded discount; rather, as stated in Rebuttal Testimony, a new switch discount should be used to approximate the cost an efficient provider would incur in a competitive market.

1           4. THE RESTATED SWITCH-RELATED COSTS IN MR. KING'S  
2           REBUTTAL TESTIMONY ARE CORRECT

3           Q.     PLEASE EXPLAIN WHY MR. KING'S RESTATED PORT AND  
4           MINUTE OF USE (MOU) COSTS ARE STILL VALID.

5           A.     BellSouth's use of the corrected SCIS/MO program resulted in a small  
6           increase in the ISDN 2-wire port (B.1.5) costs. This small increase was  
7           seen in AT&T/WorldCom's analysis as well when we removed the wire  
8           centers that seemed to be calculated incorrectly. AT&T/WorldCom's  
9           revisions to BellSouth's SST-P and SST-U models already accounted for  
10          this increase. Our restated costs declined because of the dominant impact  
11          of the discount input correction.

12                     The switch portions of the other port and MOU elements (B.1.1-  
13           B.1.4 and B.1.6-B.1.7 and C.1.1-C.2.2) were only minimally impacted  
14           downward by the changes BellSouth made in its revised cost study. It is  
15           unclear why these costs declined, but most declined less than one percent.<sup>2</sup>  
16           Given the extremely small changes in the SCIS/MO results, even if  
17           AT&T/WorldCom recomputed the corrections to BellSouth's costs, the  
18           differences from Mr. King's restated costs would be insignificant.

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<sup>2</sup> At the time of this testimony's preparation, there were problems getting BellSouth's new SCIS patch program to run. AT&T/WorldCom may file additional supplemental testimony, if necessary, when it has the opportunity to review the SCIS/MO program and its results that support BellSouth's revised switch study.

1       **Q.     PLEASE EXPLAIN WHY THE FEATURE ELEMENT RESTATED**  
2       **COSTS ARE CORRECT IN MR. KING'S RESTATED COSTS.**

3       A.     The Centrex Functionality Element should have been set to 0 as shown in  
4       Mr. King's restatement. The error associated with this element is  
5       associated with methodology, as outlined in Rebuttal Testimony, rather  
6       than calculation errors or SCIS/MO errors. Our proposed 0 cost for this  
7       rate element is independent of Bellsouth's revised cost study that  
8       implements SCIS/MO corrections.

9                 Although BellSouth did reduce its Features per Port element 6.59%  
10       by correcting a simple spreadsheet arithmetic error, that error was not  
11       contained in Mr. King's restatement and therefore no adjustment needs to  
12       be made to AT&T/WorldCom's restated costs. The Rebuttal Testimony  
13       included Proprietary Exhibit CEP4 that shows discounts were calculated  
14       correctly. Mr. King's restated costs are correct as described in Rebuttal  
15       Testimony.

16       **Q.     PLEASE DESCRIBE HOW THE NEW 2-WIRE DID PORT FOR**  
17       **COMBINATIONS NEEDS TO BE CORRECTED.**

18       A.     Based on the information I have now, I would propose to reduce the 2 wire  
19       DID Port for combinations rate by the same percentage<sup>3</sup> as the 2-wire DID

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<sup>3</sup> From Mr. King's Exhibit JAK-1, page 6 for Element B.1.3:  $(\$9.60 - \$3.58)/\$9.60 = 63\%$

Reducing the \$9.36 for the new P.3.2 element in Bellsouth's revised cost study by 63% produces a Revised Recurring Cost of  $\$9.36 * (1 - .63) = \$3.46$ .

1 Port (B.1.3), resulting in a proposed restated cost of \$3.46. My  
2 recommendation may need to be revised once we have had an opportunity  
3 to more thoroughly review and run the revised cost studies filed by  
4 BellSouth.

5 **5. SUMMARY AND CONCLUSION**

6 **Q. PLEASE SUMMARIZE YOUR FINDINGS.**

7 A. BellSouth's revised cost study, although using new SCIS/MO inputs, has  
8 minimal impact on most of the switch element costs and only a small  
9 impact on three others.

10 BellSouth's revised cost study makes only one ISDN adjustment,  
11 but does not make any of the changes required that are documented in  
12 Rebuttal Testimony, the most critical being:

13 The use of melded discounts that presume a majority of  
14 BellSouth's lines are purchased at higher growth prices.

15  
16 Investment, capacity and utilization problems in the feature  
17 hardware study cause seriously overstated feature costs.

18 **Q. PLEASE STATE YOUR CONCLUSION.**

19 A. BellSouth's revised switch element cost study does not correct even the  
20 most basic errors highlighted in Rebuttal Testimony. In addition,  
21 AT&T/WorldCom's restated costs already accounted for the few errors  
22 that BellSouth's revised study did correct and so Mr. King's restated costs  
23 are valid in the face of Bellsouth's revised study.



1           BellSouth's revised cost study did not correct the underlying cost  
2           methodology concerns such as incorrect aggregation and costing of  
3           features into categories, nor the misallocation of fixed costs to traffic  
4           sensitive elements. As these errors were not fixed, AT&T/WorldCom  
5           continues to propose to use BellSouth's corrected SCIS/MO results using  
6           an alternate allocation methodology that more accurately reflects true cost  
7           causation as described in Rebuttal Testimony.

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

9           A. Yes.