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January 28, 2002

Mrs. Blanca S. Bayó
Director, Division of the Commission
Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

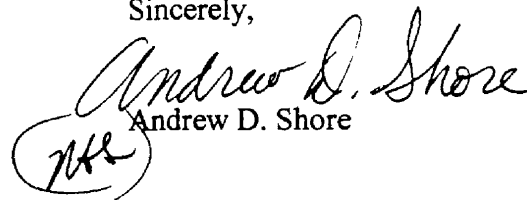
Re: Docket No. 990649-TP (UNE Docket)

Dear Mrs. Bayó:

Enclosed is an original and fifteen copies of BellSouth Telecommunications, Inc.'s revised Direct Testimony of Daonne D. Caldwell, and an original and fifteen copies of the revised Surrebuttal Testimony of Daonne D. Caldwell, which we ask that you file in the captioned docket. Please note, that in order to assist the Commission and the parties in identifying the changes to the testimony, we have also attached a redlined version of the 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,


Andrew D. Shore

Cc: Parties of Record
Marshall M. Criser III
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Nancy B. White

00990-02 thru 00993-02

CERTIFICATE OF SERVICE
Docket No. 990649A-TP

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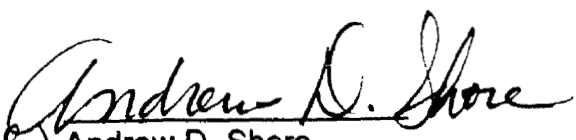
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Andrew D. Shore
(NS) **(+) Signed Protective Agreement**

1 **BELLSOUTH TELECOMMUNICATIONS, INC.**
2 **SURREBUTTAL TESTIMONY OF D. DAONNE CALDWELL**
3 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
4 **DOCKET NO. 990649A-TP**
5 **(120-DAY ITEMS)**
6 **DECEMBER 26, 2001**
7 **AMENDED JANUARY 28, 2002**

8
9 **Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

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

15
16 **Q. ARE YOU THE SAME D. DAONNE CALDWELL THAT PREVIOUSLY**
17 **FILED TESTIMONY IN THIS DOCKET?**

18
19 A. Yes.

20
21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

22
23 A. The purpose of my testimony is to respond to cost development issues raised in the
24 testimony filed by intervening parties. Specifically, I respond to allegations made
25 by AT&T/MCI WorldCom witnesses Greg Darnell, John Donovan, and Brian

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1 Pitkin and Florida Digital Network ("FDN") witness Michael Gallagher.

2 **MULTIPLE SCENARIOS**

3 **Q. MR. DARNELL CLAIMS THAT THE FLORIDA PUBLIC SERVICE**
4 **COMMISSION ("COMMISSION") FOUND THAT "BELLSOUTH'S**
5 **METHOD OF DEVELOPING UNE LOOP RATES WAS NOT**
6 **ACCEPTABLE." (PAGE 2, LINES 20-21) DO YOU AGREE?**

7

8 A. Absolutely not. First, the argument presented by Mr. Darnell concerns multiple
9 scenario use by the BellSouth Telecommunications Loop Model[®] ("BSTLM").
10 This issue was not identified by the Commission as a "120-day" issue and thus, is
11 not properly before the Commission. Mr. Darnell is attempting to argue a topic
12 that has been reviewed, resolved, reconsidered, and rejected by the Commission.
13 Second, Mr. Darnell has selectively extracted a single statement contained in the
14 discussion of this issue from the order and has ignored the Commission's
15 conclusion. In fact, the Commission stated: "Accordingly, at this time we find that
16 the record supports that the BST2000 is an appropriate basis for determining the
17 costs of stand-alone UNE loop offerings, while the Combo run is appropriate only
18 for certain integrated loop/port combinations." (Page 155, Order No. PSC-01-
19 1181-FOF-TP) Further, WorldCom argued the same points contained in Mr.
20 Darnell's testimony in its request for reconsideration on this issue. After review of
21 the reconsideration arguments, the Commission ruled:

22

23 the Movants' Motion for Reconsideration on this point is denied. The Movants

24

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1 have not identified a mistake of fact or law in our decision. Disagreement with
2 our interpretation of the law does not equate to [a] mistake in our decision. (Page
3 19, Order No. PSC-01-2051-FOF-TP)

4
5 Lastly, every Commission in BellSouth's region that has considered the argument
6 raised again (and inappropriately) by Mr. Darnell has, like this Commission,
7 rejected the argument and ruled that it is appropriate to use multiple scenarios in
8 the BSTLM to calculate rates for different UNEs. Mr. Darnell offers nothing in his
9 testimony that should cause the Commission to overturn its previous ruling.

10

11 **DAILY USAGE FILES ("DUFs")**

12 **Q. MR. DARNELL ASSERTS: "DUF CHARGES ARE THE SAME COSTS**
13 **THAT BELLSOUTH USED IN ITS DEVELOPMENT OF THE COMMON**
14 **COST FACTOR." (PAGE 11, LINES 17-18) IS HE CORRECT?**

15

16 A. No. Mr. Darnell is wrong. As the input sheets to the DUF studies filed as part of
17 BellSouth's cost study show, the costs reflect the computer resources,
18 programming effort and support labor directly attributable to the processing and
19 delivery of the ALECs' daily usage files ("DUFs"). These costs are incremental to
20 costs associated with normal call measurement detail. BellSouth developed unique
21 programs at the ALECs' request in order to extract the billing data they requested,
22 in a format they can use to bill their end-users. The costs associated with this on-
23 going process and the computer resources required to implement and support the
24 programs are appropriately reflected in BellSouth's cost study. Also, the cost of
25 recording is not included in the DUF studies. There is a separate element for

1 recording (element M.2.1) that is only charged to facility-based providers who
2 purchase operator services from BellSouth. Second, the DUF products were
3 developed to extract data in a format unique to the ALEC. For example, Enhanced
4 Optional Daily Usage File ("EODUF") is designed to capture the call details from
5 what would have "normally" been a flat-rated customer. It is evident that these
6 ALEC-caused costs are in addition to BellSouth's normal billing process and
7 therefore are appropriately charged to the ALEC.

8
9 Even though Mr. Darnell provides no support for his argument, he may have based
10 his "double recovery" claim on the fact that the same expense accounts (6124,
11 6623, and 6724) appear in both the DUF studies and in the shared and common
12 cost factors. However, BellSouth identified and **removed** costs that are directly
13 assigned in the cost studies from the development of the shared and common
14 factors. In fact, file EXPPRJ00.XLS, contained in the cost study, outlines the
15 adjustments BellSouth made to remove the directly identified costs. Thus,
16 BellSouth's "currently approved common cost factor does not include certain
17 forward-looking common costs," as Mr. Darnell contends. (Darnell Testimony,
18 Page 11, Lines 21-22)

19
20 Finally, Mr. Darnell's recommendation that "[I]f the amount of the cost directly
21 assigned to DUF charges is so insignificant that it does not effect the common cost
22 percentage when this cost is removed from the percentage, the Commission should
23 reject DUF charges" is both a self-serving pronouncement and a faulty conclusion.
24 (Darnell Testimony, Page 12, Lines 17-20) ALECs directly cause these costs to be
25 incurred and BellSouth does not benefit from the production of daily usage files.

1 Thus, BellSouth may appropriately recover these costs. Mr. Darnell's accusation
2 of BellSouth engaging in "costing mischief" is wholly unfounded.

3

4 **HYBRID COPPER/FIBER LOOP**

5 **Q. MR. DARNELL AND MR. GALLAGHER COMMENT ON THE HYBRID**
6 **COPPER/FIBER LOOP FILED BY BELLSOUTH. PLEASE RESPOND TO**
7 **THEIR CRITICISMS.**

8

9 A. My response will center on the way in which the costs were developed. BellSouth
10 witness Jerry Kephart will comment on the product design and network
11 requirements of this offering and Tommy Williams will discuss BellSouth's
12 unbundling requirements as and expand on how it relates to Line Sharing and Line
13 Splitting.

14

15 Mr. Darnell claims that the nonrecurring charge for channel activation (A.20.4)
16 should be set to zero since "the nonrecurring charges for element A.2.2 subloop
17 already recover those costs." (Darnell Testimony, Page 17, Lines 22-23) Mr.
18 Darnell's contention that these costs have already been recovered is wrong. The
19 input file for the A.20.4 element clearly identifies a work group and associated
20 work activity not contained in the input file of the sub-loop element A.2.2. The
21 Data Support Group (wage scale 32) was not a component of the A.2.2 cost
22 development. Clearly since the Hybrid Copper/Fiber Loop is designed to handle
23 data transmissions, while the distribution sub-loop is primarily designed to carry
24 only voice traffic, it is not surprising that additional work activity by the Data
25 Support Group is required. Mr. Darnell makes the same incorrect allegation

1 concerning the nonrecurring costs associated with the Hybrid Copper/Fiber DS1,
2 i.e., that an incremental cost does not exist. Again, Mr. Darnell is wrong. The
3 same Data Support Group activity is required on the DS1 as on the distribution
4 portion of the Hybrid Copper/Fiber Loop.

5

6 Both Mr. Darnell and Mr. Gallagher question the difference in recurring costs
7 between the Hybrid Copper/Fiber DS1 and the sub-loop feeder DS1. Their
8 concern is unfounded. As I explained in my direct testimony: “this sub-loop
9 feeder DS1 is not the same as the unbundled sub-loop feeder – 4-wire DS1
10 (element A.9.2) also filed in this docket. The sub-loop feeder DS1 (A.9.2) includes
11 the feeder portion of all DS1 loops. These include DS1 loops served by both
12 copper feeder and those served by fiber feeder facilities to a remote DLC terminal.
13 The Hybrid Copper/Fiber DS1 (element A.20.1), on the other hand, only considers
14 locations served via a remote DLC terminal served by fiber. Thus, all of the
15 locations used in the calculation of the sub-loop feeder DS1 (A.9.2) are not
16 included in the cost calculation of the Hybrid Copper/Fiber DS1.” Therefore, Mr.
17 Gallagher’s conclusion that this difference is due to BellSouth’s “fail[ure] to utilize
18 a single unified design in the determination of its unbundled DS1 subloop rates” is
19 incorrect. (Gallagher Testimony, Page 26, Lines 22-23) Even if BellSouth had
20 used only one scenario in running the BSTLM, there would still have been a
21 difference between the two DS1 elements because they are defined differently.
22 The sub-loop DS1 (A.9.2) considers both copper and fiber facilities, while the
23 hybrid DS1 (A.20.1) is purely fiber and is longer in length since, in the BSTLM,
24 DS1s are provisioned on fiber-fed digital loop carrier systems (“DLCs”) only if the
25 DS1 loop length is greater than 12,000 feet. In fact, the average length of the DS1

1 sub-loop (A.9.2) is 10,407 feet while the average length of the hybrid DS1 (A.20.1)
2 is 21,029 feet.

3

4 Mr. Darnell's contention on page 18 of his testimony that the inclusion of a portion
5 of the remote terminal costs violates TELRIC principles because the remote
6 terminal is "scorched" is incorrect. In a long-run study, such as a TELRIC study,
7 all costs are considered variable, i.e., that they will exhaust. Since the deployment
8 of the Hybrid Copper/Fiber loop utilizes components of the remote terminal, they
9 are appropriately considered in the cost development.

10

11 Finally, without any evidence, Mr. Darnell alleges that; "the material prices (i.e.
12 DSLAM, Hub Bay and DS1 Card) and installation times (i.e. service inquiry) that
13 BellSouth has used for the development of proposed DSLAM recurring and non-
14 recurring rates do not reflect those of a forward looking, least cost
15 telecommunications service provider." (Darnell Testimony, Page 18, Lines 21-25)
16 Since Mr. Darnell did not provide an example of what he believes are "forward
17 looking, least cost" rates I cannot specifically address his concerns. Thus, I can
18 only state that the cost study accurately reflects the product description provided by
19 the product team and the equipment and labor resources identified by subject
20 matter experts in BellSouth's Network department.

21

22 In preparing the cost study that was filed on November 8, 2001, the Final Cost
23 Summary failed to reflect the total System, DS1, and Activation costs associated
24 with the Hybrid Copper/Fiber Loop; i.e., the individual components were not
25 summed. Exhibit DDC-3_120 Day, filed on a separate CD, explains how to

1 manually correct the rate list file, contains a corrected rate list file, and includes the
2 revised Final Cost Summary. A paper copy of the revised Final Cost Summary is
3 also attached to my testimony.

4

5 **“BOTTOMS-UP INPUTS”**

6 **LOADING FACTORS**

7 **Q. MR. PITKIN CONTENDS THAT BELL SOUTH’S MATERIAL LOADING**
8 **FACTORS ARE OVERSTATED. (PAGES 8-12) IS HE CORRECT?**

9

10 A. No. First, he alleges that because these ratios are developed based on historical
11 data that makes their application embedded. That is not true. The Miscellaneous
12 Material loading factor develops a relationship between exempt material and non-
13 exempt material. Thus, when these factors are applied to forward-looking material
14 prices the result is forward-looking. Mr. Pitkin also criticizes BellSouth for using
15 only one-year’s worth of data. This criticism is also unfounded. By using the
16 latest data available at the time of the study’s filing, the resulting factors are the
17 best indication of future trends.

18

19 Both Mr. Donovan and Mr. Pitkin advocate the inclusion of exempt material cost
20 in the labor rates. In addition, Mr. Donovan throws out an unsupported cap on his
21 proposed Exempt Material load on labor rates of 20%. Besides being arbitrary,
22 Mr. Donovan’s method is inappropriate. Exempt material varies by field reporting
23 code; the amount of exempt material associated with aerial placements is not the
24 same as buried or underground placements. Furthermore, the amount of exempt
25 material associated with cable provisioning varies vastly between copper and fiber

1 placements. On the other hand, labor rates do not vary. A splicer is paid the same
2 per hour whether he is splicing aerial, buried, or underground cable. Mr.
3 Donovan's method distorts these facts. Thus, BellSouth's use of the ratio of
4 exempt to non-exempt material produces representative results.

5

6 **Q. MR. PITKIN ASSERTS THAT "BECAUSE THE BSTLM EXPLICITLY**
7 **MODELS THE COSTS OF NIDs AND DROPS, THE EXEMPT MATERIAL**
8 **LOADING FACTOR SHOULD EXCLUDE THESE ITEMS." (PAGE 10,**
9 **LINES 12-13) IS THIS TRUE?**

10

11 A. No. Mr. Pitkin pulls a quote from my reply affidavit filed in connection with
12 BellSouth's current application with the FCC to provide in-region long distance
13 service. The affidavit, however, fully explains why he is wrong. As I stated:

14

15 The labor-related costs of placing service drop wires and the
16 associated NIDs are assigned to Asset Category Code ("ACC") 248
17 (Aerial cable – Metallic Drop) and ACC 548 (Buried Cable –
18 Metallic Service Drop). The material costs of the service drop
19 wires and associated NID units are classified to exempt material.
20 The cost of exempt material, however, is distributed as part of the
21 monthly allocations process to the various ACCs (including ACC
22 248 and ACC 548) based on the direct labor dollars associated with
23 each ACC. In the development of in-plant factors for ACC 022
24 (Aerial Cable – Metallic) and ACC 045 (Buried Cable – Metallic),
25 BellSouth does not include any of the assignments to ACC 248 or
ACC 548. Therefore, the costs of placing service drops and NIDs
are not reflected in the in-plant factors. (Caldwell Reply Affidavit,
CC Docket 01-277, ¶ 37, emphasis added)

23

24 Again, BellSouth excluded ACCs 248 or 548, the asset accounts containing
25 NID/drop costs, in the development of the material loading factors. Thus, Mr.

1 Pitkin's claim is without merit.

2

3 **Q. MR. DONOVAN STATES THAT "EXEMPT MATERIAL IS ALREADY**
4 **INCLUDED IN THE FULLY LOADED LABOR RATE PROPOSED BY**
5 **BELLSOUTH." (PAGE 53, LINES 6-7) PLEASE COMMENT.**

6

7 A. Mr. Donovan is wrong. The following extract from the original cost study
8 narrative (Section 5) filed in this docket details the categories of costs included in
9 the labor rates:

10

DIRECT SALARIES AND WAGES

11 1.

Direct Labor - Productive (RESOURCE TYPE CODE (RTC) 111, 121)

12

Represents the wage and salary costs associated with work reporting employees for regularly scheduled time and overtime spent performing productive work. Also includes the costs of salaries paid to management employees when performing productive work. Classified and unclassified productive hours are used as the basis for Direct Labor Costs.

13

14

15 2.

Direct Labor - Premium (RTC 122)

16

Represents the wage and salary costs associated with premium hours paid for hours worked beyond the normally scheduled work period.

17

18 3.

Direct Labor - Other Employee (RTC 199, 19B, 19C, 193)

19

Covers the costs associated with the periodic incentive compensation payments made to management employees based on corporate service and financial performance, the annual bonus paid to non-management employees, all costs associated with commissions paid to employees, cash awards paid for any approved program, etc.

20

21

22 4.

Direct Labor - Annual Paid Absence (RTC 132, 19E)

23

Identifies the cost of payments to be made over the year to occupational work reporting employees for accrued costs of holidays, vacations, and excused days.

24

25 5.

Direct Administration (RTC 111, 121, 122, 199, 19B, 19C, 19E, 193, 132)

Identifies the costs of salaries paid during the month to the first level of supervision responsible for supervising occupational work reporting employees, and salaries and wages paid to employees and immediate supervisors who perform

- 1 basic office services for occupational work reporting employees. Also included
2 are the wages paid to occupational work reporting employees loaned to perform
supervisory or clerical functions.
- 3 6. Other Tools - Salaries (RTC CQR)
4 Identifies the salary portion of the distributed costs associated with tools.
- 5 7. Motor Vehicles - Salaries (RTC COM)
6 Identifies the salary portion of the plant motor vehicle expenses distributed to
7 construction, removal or plant specific operations expense accounts based on the
classified productive hours of the labor groups using the motor vehicles.
- 8 OTHER DIRECT
- 9 1. Direct Labor - Other Costs (Various RTCs)
10 Identifies the costs incurred for office, traveling and other costs of employees
11 whose wage and salary costs are direct labor.
- 12 2. Other Tools - Benefits (RTC COS)
13 Identifies the distributed benefits costs associated with tools.
- 14 3. Other Tools - Rents (RTC COK)
15 Identifies the distributed rent costs associated with tools.
- 16 4. Other Tools - Other (RTC COL)
17 Identifies the distributed other expense costs associated with tools.
- 18 5. Motor Vehicles - Benefits (RTC CON)
19 Identifies the benefits portion of the plant motor vehicle expenses distributed to
20 construction, removal or plant specific operations expense accounts based on the
classified productive hours of the labor groups using the motor vehicles.
- 21 6. Motor Vehicle - Rents (RTC COP)
22 Identifies the rents portion of the plant motor vehicle expenses distributed to
23 construction, removal or plant specific operation expense accounts based on the
classified productive hours of the labor groups using the motor vehicles.
- 24 7. Motor Vehicle - Other (RTC COO)
25 Identifies the other costs portion of the plant motor vehicle expenses distributed to
construction, removal or plant specific operations expense accounts based on the
classified productive hours of the labor groups using the motor vehicles.
- 26 8. Benefits (RTC KB1)
Identifies amounts for the payroll related benefits and taxes. These costs include
pension accruals; company matching portion of savings plan; dental, medical, and

1 group insurance plan reimbursements; and company portion of social security and
unemployment payroll taxes.

2
3 As can be ascertained from reviewing this list, exempt material is not included.

4 On page 54, Mr. Donovan also claims "direct supervision and other indirect
5 expenses are already components of BellSouth's fully loaded labor rate." While it
6 is true that direct supervision is included in the labor rates, it is not included in the
7 Other – Indirect factor created for this filing. As explained in Appendix B,
8 Attachment 5 of the cost study filed on November 8, 2001, the salaries, benefits,
9 and other indirect costs are for "supervision and support **above the first level of**
10 work reporting plant labor employees." (Emphasis added) These costs are not
11 direct supervision costs, as Mr. Donovan claims.

12
13 **Q. IN DISCUSSING THE INTEREST DURING CONSTRUCTION**
14 **COMPONENT OF THE OTHER FACTOR, MR. DONOVAN STATES**
15 **"BELLSOUTH INPUTS HAVE MISAPPLIED SUCH A CHARGE IN THIS**
16 **CASE." (PAGE 55, LINES 2-3) IS HIS CLAIM CORRECT?**

17
18 A. No. BellSouth adheres to the rules outlined by the Federal Communications
19 Commission ("FCC") Part 32 Rules and Regulations that discusses such costs as
20 described below:

21
22 FCC Part 32 Rules 32.2000 (c)

23 (1) Telecommunications plant represents an economic resource
24 which will be used to provide future services, the cost of which
25 will be allocated in a rational and systematic manner to the future
periods in which it provides benefits. In accounting for
construction costs, the utility shall charge to the

1 telecommunications plant accounts, where applicable, all direct
and indirect costs.

2 (2) Direct and indirect costs shall include, but not be limited to:

3 ... (x) Allowance for funds used during construction
4 ("AFUDC") provides for the cost of financing the construction of
5 telecommunications plant. AFUDC shall be charged to Account
6 2003, Telecommunications Plant Under Construction, and credited
7 to Account 7340. The rate for calculating AFUDC shall be
8 determined as follows: If financing plans associate a specific new
9 borrowing with an asset, the rate on that borrowing may be used
10 for the asset; if no specific new borrowing is associated with an
11 asset or if the average accumulated expenditures for the asset
12 exceed the amounts of specific new borrowing associated with it,
13 the capitalization rate to be applied to such excess shall be a
14 weighted average of the rates applicable to other borrowing of the
15 enterprise. The amount of interest cost capitalized in an
16 accounting period shall not exceed the total amount of interest cost
17 incurred by the company in that period.

18 Mr. Donovan offers no support for his criticism. Furthermore, Interest During
19 Construction constitutes a small fraction of the sum of the Other loading factor.
20 Also, the source of the data used in the development of these "bottoms-up" factors
21 is the same source as originally used in the development of the in-plant factors – a
22 1998 base year extract from the Resource Tracking Analysis and Planning
23 ("RTAP") system. Thus, no new system, extract, or methodology was used to
24 gather the data needed to develop this factor.

25 **Q. MR. PITKIN CLAIMS THAT "BELLSOUTH USES INFLATION RATES
THAT ARE TOO HIGH AS WELL AS UNRELIABLE." (PAGE 12, LINE
15) PLEASE COMMENT.**

A. This Commission has extensively reviewed the inputs and methodology used by
BellSouth to account for changes in the price of goods in this proceeding. In fact,

1 the Commission's decision with respect to the application of inflation factors was a
2 specific issue for which BellSouth sought reconsideration. Thus, the Commission
3 not only reviewed inflation factors in issuing its original order, but also reviewed
4 them again as part of BellSouth's request for reconsideration. In Order No. PSC-
5 01-2051-FOF-TP, this Commission stated: "we hereby reconsider our decision to
6 reject BellSouth's proposed inflation factor, because it was based upon a
7 misinterpretation of the facts presented." (Page 5) Thus, this Commission has
8 ruled that BellSouth's inflation factors, as originally filed, are appropriate.
9
10 Mr. Pitkin claims that "BellSouth has provided no information supporting its
11 development of these inflation factors." (Pitkin Testimony, Page 13, Lines 3-4)
12 Mr. Pitkin is wrong. BellSouth has provided the spreadsheet used to develop its
13 inflation factors as part of the original cost study filed in this docket, file
14 InfnLv2.xls. Additionally, BellSouth has responded to data requests in this docket
15 concerning inflation factor development and application. Indeed, in response to
16 Staff's 10th set of interrogatories/ production of documents ("PODs"), BellSouth
17 provided the back up to the development of these factors. (POD Item #94) In fact,
18 it is Mr. Pitkin who offers no evidence or support for his inflation factors beyond a
19 vague reference to C. A. Turner Telephone Plant Indices. Further, Mr. Pitkin's
20 "inflation factors" as shown in Exhibit BFP-5 do not even differentiate by field
21 reporting code. To imply that computer equipment (530C), a declining account,
22 and copper cable, increasing accounts, experience the same trend in material prices
23 is simply wrong. Further, to present an almost 5% decline for 2000 for any
24 account makes little sense. Exhibit DDC-4_120 Day illustrates the actual trend in
25 cable-related accounts for 1995-1997. (This is an extract from the Inflation Factor

1 Methodology contained in the BellSouth Cost Calculator. Also, refer to
2 BellSouth's response #105 to the Staff's 7th Set of Interrogatories.) Note that with
3 the exception of the digital carrier equipment (357C), not one of the accounts
4 reflects an overall decrease of 5%. It is improbable that from 1998-2000 the trends
5 would change dramatically. In reviewing Mr. Pitkin's comparison of inputs,
6 Exhibit BFP-7, it is interesting to note that he uses different inflation factors for
7 different accounts, but never explains how he transitions from one exhibit to the
8 other. For these reasons, Mr. Pitkin's concerns are unfounded and his proposed
9 adjustments should be ignored.

10

11 **OTHER BSTLM "BOTTOMS-UP" INPUTS**

12 **Q. ON PAGES 11 THROUGH 16 OF MR. DONOVAN'S TESTIMONY, HE**
13 **DISCUSSES BELL SOUTH'S ENGINEERING FACTORS USED IN ITS**
14 **FILING. PLEASE COMMENT.**

15

16 A. First, Mr. Donovan claims that "BellSouth has ignored the Commission's FL
17 UNE Order, and has filed costs using a linear Engineering Factor." (Donovan
18 Testimony, Page 11, Lines 4-5) I disagree with Mr. Donovan. The underlying
19 premise of this 120-day proceeding was that since BellSouth had a model (the
20 BSTLM) with the functionality to do a bottoms-up study, BellSouth should
21 make use of that functionality so as to allow the Commission to compare the
22 results produced using that methodology with those produced using in-plant
23 factors currently adopted by the Commission.

24

25 The BSTLM, as originally filed, was designed to calculate engineering as a

1 percentage of non-exempt material in the same manner as the BellSouth Cost
2 Calculator functions. However, upon embarking on the Commission-ordered
3 bottoms-up study, BellSouth discovered that the BSTLM contained only one
4 engineering factor that would be applied to all categories of plant. While
5 modifying the model to allow for multiple engineering factors for various plant
6 types, BellSouth attempted to add modifications to make the engineering expense
7 less linear by reflecting engineering costs as a factor of material and installation
8 costs. ~~The engineering factors used in the bottoms up study are the same factors~~
9 ~~used in BellSouth's Outside Plant Construction Management ("OSPCM") system.~~
10 ~~BellSouth witness Mr. Kophart discusses the OSPCM system in further detail in~~
11 ~~his testimony.~~

12

13 **Q. ON PAGE 16, MR. DONOVAN FINALLY RECOMMENDS TO THE**
14 **COMMISSION THAT AN ENGINEERING FACTOR OF 10% BE**
15 **USED. PLEASE COMMENT.**

16

17 ~~A.A.~~ The 10% is an arbitrary factor selected by Mr. Donovan simply because the
18 Federal Communications Commission ("FCC") uses that figure in its universal service
19 model. He provides no other support for using 10%. Mr. Donovan states that
20 BellSouth, as a co-sponsor of the BCPM advocated the use of an engineering
21 component of 5% of outside plant costs. While it is true the BCPM was populated
22 with a 5% default value, BellSouth did not use that input when running the model. In
23 fact, BellSouth does not use a 5% engineering factor in any of its UNE, retail service,
24 or universal service (BCPM) cost studies. In all of these situations, engineering costs
25 have been captured through in-plant factors developed as a percentage of material

1 costs. The engineering factors used by BellSouth in the “bottoms-up” study reflect
2 values consistent with previously used in-plant factors. ~~BellSouth engineers have~~
3 ~~found to best estimate actual engineering costs incurred. These factors, as Mr. Kephart~~
4 ~~discusses, are used in BellSouth’s own planning tools.~~

5

6 **A. MR. DONOVAN CLAIMS THAT BELLSOUTH IS ATTEMPTING TO**
7 **RECOUP NON-TELRIC EXPENDITURES THROUGH A “CLOSING**
8 **FACTOR” SPREAD OVER ALL STRUCTURE COSTS. (PAGE 18) IS**
9 **HE CORRECT?**

10

11 A. Absolutely not. BellSouth developed outside plant contractor costs by
12 reviewing the actual activity occurring in Florida and developing BSTLM
13 inputs based on those activities. It is true that BellSouth included
14 miscellaneous contractor costs totaling 25.43% of costs. These are real costs
15 that are often overlooked in other proxy models such as the HAI and the FCC’s
16 Synthesis Model. However, as Mr. Kephart explains, these are legitimate
17 costs, and they certainly belong in a TELRIC study. A complete list of all
18 miscellaneous items was included in Attachment 3 to BellSouth’s bottoms-up
19 filing (CostCode Misc).

20

21 **Q. MR. DONOVAN STATES THAT BELLSOUTH HAS INCORRECTLY**
22 **ASSIGNED RESTORATION COSTS ONTO “BURIED CABLE” AND**
23 **“BORE BURIED CABLE” ACTIVITIES RATHER THAN**
24 **REFLECTING THOSE COSTS UNDER THE PROPER CATEGORIES**
25 **IN THE BSTLM. (PAGE 23) DO YOU AGREE?**

1
2 A. No. While Mr. Donovan seems to agree that these restoration costs are
3 appropriate costs to include in the bottoms-up study, he appears to disagree
4 with the manner in which BellSouth has spread those costs over buried cable
5 placement and boring costs. Rather than argue about subject matter expert
6 based estimates in the BSTLM of how often these restoration costs actually
7 occur, BellSouth chose to spread these costs out over buried cable placements,
8 underground placements, buried boring and underground boring to develop the
9 average placement costs based upon what actually occurred in Florida. If one
10 accepts Mr. Donovan's argument, that restoration costs should not be
11 associated with boring and chooses to spread all restoration costs over the
12 remaining excavation activities (less boring), the result is an increase in the
13 costs of those remaining activities. That is apparently what Mr. Donovan has
14 recommended since costs in the urban and suburban zones increase after his
15 modifications. However, BellSouth's proposed method of recovering these
16 restoration costs is a straightforward accurate method that reflects actual data
17 and should be adopted by this Commission.

18

19 **Q. ON PAGE 25, MR. DONOVAN CONTENDS THAT BURIED SPLICE**
20 **PIT COSTS BE EXCLUDED FROM THE STUDY. IS HE CORRECT?**

21

22 A. No. Mr. Donovan states that buried splice pits are not needed for normal buried
23 splicing operations because such splices are routinely placed in above ground
24 pedestals. Further, he states that since pedestals are exempt materials, all such
25 costs should be excluded from the study. First, the actual data, i.e., the 2000

1 contractor activity in Florida (Attachment 3 of BellSouth's filing), clearly shows
2 that costs associated with buried splice pits, including digging, shoring and other
3 costs, do occur. Furthermore, even if the Commission were to accept Mr.
4 Donovan's recommendation that all buried splices should occur above ground in
5 pedestals, he has not accounted for all of the costs in his proposed inputs. While
6 the pedestal material would be captured through the Miscellaneous Material
7 loading (i.e., the exempt material is calculated), the labor associated with placing
8 the pedestal is not currently reflected in the model. These pedestal placing costs
9 would need to be identified and included in the BSTLM costs.

10

11 **Q. MR. DONOVAN, ON PAGE 25, CLAIMS THAT BELLSOUTH SHOULD**
12 **HAVE INCLUDED THE COST OF STEEL PIPE, PVC PIPE AND FLEX-**
13 **PIPE IN WITH THE "PUSH PIPE AND PULL CABLE" CATEGORY OF**
14 **COSTS RATHER THAN SPREADING THE COST OF SUCH PIPE OVER**
15 **THE TOTAL BORING ACTIVITY COSTS. DO YOU AGREE?**

16

17 A. No. BellSouth's approach is based upon the contract, which lists the referenced
18 Steel Pipe, PVC pipe, and Flex pipe as added costs in the Bidding Agreement.
19 That is, these are actual incurred costs as a result of directional boring. As a result,
20 BellSouth loaded these added costs appropriately into the boring activity. This
21 resulted in every foot of boring assuming a fraction of pipe costs (less than 25%).
22 This is a reasonable and factually based approach for identifying the pipe costs. It
23 does not imply that every foot of boring requires a pipe of some sort. Mr.
24 Donovan prefers to identify the cost of the pipe in the push pipe pull cable
25 category, in reality ignoring the contractual facts. In effect, Mr. Donovan's

1 approach is not based on fact and will result in inaccuracies. BellSouth sees no
2 reason for the Commission to require that BellSouth re-do its cost studies with Mr.
3 Donovan's approach since it is not factually based and is less accurate than
4 BellSouth's method.

5

6 **Q. MR. DONOVAN, ON PAGE 30 OF HIS TESTIMONY, STATES THAT HE**
7 **WAS UNABLE TO DETERMINE HOW BELL SOUTH WENT FROM ITS**
8 **PROPOSED CONDUIT MATERIAL COST PER FOOT PLUS THE 25.43%**
9 **MISCELLANEOUS LOADING TO THE INPUT VALUES USED IN THE**
10 **BSTLM FOR CONDUIT MATERIAL COST. CAN YOU EXPLAIN?**

11

12 A. Yes. The attached exhibit to this testimony, Exhibit DDC-5_120 Day, displays the
13 development of a factor applied to the conduit material costs.

14

15 **Q. WHY IS THIS LOADING APPROPRIATE?**

16

17 A. The miscellaneous material, sales tax, supply expense, and other loadings factors,
18 which provide for exempt material, sales tax, right of way, indirect plant labor,
19 interest during construction, etc., are developed as a ratio of non-exempt material
20 for all plant categories. The BSTLM then applies these factors to non-exempt
21 material computed by the model. However, BellSouth used the contracted conduit
22 costs as input into the model. The BSTLM, as currently constructed, places all
23 contractor costs into the EF&I columns in the model. Since these Conduit (and for
24 that matter, Manhole) material costs do not appear in the BSTLM's material fields,
25 the miscellaneous factor is not applied. Hence, if the miscellaneous loading

1 factors were applied to the conduit account (4C) as it applies to other accounts, the
2 factor would be multiplied by \$0 material costs and miscellaneous costs would not
3 be captured. Therefore, to properly capture these incurred miscellaneous material
4 costs for conduit, BellSouth developed a miscellaneous loading factor for Field
5 Reporting Code ("FRC") 4C as a percentage of total contractor installation costs
6 (which includes labor and material) and then applied these factors to the contractor
7 conduit costs (which include labor and material) outside of the BSTLM to properly
8 compute conduit miscellaneous costs. BellSouth's 40% factor for these loadings is
9 based on calculations set forth in Exhibit DDC-5_120 Day. This 40% value is
10 conservative and approximately equals the data for 1998. As can be seen on DDC-
11 5_120 Day, if later data had been used the factor would have been even higher
12 (49%).

13
14 In fact, in reviewing the above noted Conduit loading approach, BellSouth
15 discovered that it failed to apply the proper loading to the smaller manhole sizes
16 (1, 2, and 3) and to the underground excavation labor. Since the 4C loading was
17 based upon incurred contractor costs (material and labor), BellSouth intended to
18 apply it to all contractor costs. However, inadvertently the factor was only applied
19 to Conduit and the largest manhole. Thus, in effect BellSouth understated its
20 miscellaneous material costs associated with smaller sized manholes and all
21 underground excavation costs in the filed cost study. This error has been corrected
22 in the January 28, 2002 filing in order to accurately reflect the costs associated
23 with underground excavation and structure.

24
25

1 **Q. ON PAGES 33 AND 34, MR. DONOVAN RECOMMENDS THAT**
2 **BELLSOUTH'S PROPOSED STRUCTURE SHARING PERCENTAGES**
3 **BE REJECTED AND REPLACED WITH HIS PROPOSED SHARING**
4 **FACTORS. ARE HIS PROPOSALS REALISTIC AND APPROPRIATE**
5 **FOR THE COMMISSION TO ADOPT?**

6
7 **A. No, they are not realistic and should not be adopted by this Commission.**

8 BellSouth witness Mr. Kephart explains why Mr. Donovan's proposed inputs are
9 inappropriate. However, I will comment on his claim that BellSouth is "creating
10 severe barriers to entry" based on the amount structure sharing assumed in the cost
11 study. (Donovan Testimony, Page 33, Line16) Mr. Donovan compares BellSouth
12 cost study assumption that only .07% of conduit space is leased to Verizon's claim
13 that "more than 30 different companies occupy its conduits in Manhattan" to arrive
14 at his faulty conclusion. (Donovan Testimony, Page 33, Lines 14-15) First, it is
15 not valid to compare the entire state of Florida to Manhattan. Customer density
16 and dispersion and intensity of competition are very different between the two
17 areas. Second, without further information, it is impossible to know exactly what
18 Verizon was discussing. In other words, does the "30 different company" figure
19 reflect actual leasing arrangements in duct space in Verizon-owned conduit,
20 sharing of costs and ownership of underground excavation and conduit systems
21 with other companies, or merely access to conduit systems through the purchase of
22 unbundled elements?
23 Leasing of duct space is not the same as sharing the construction cost and
24 ownership of conduit. Duct leasing is included in BellSouth's studies in the
25 Conduit Plant-Specific factor. Expenses associated with BellSouth leasing duct

1 space in other parties' ducts are netted with revenues received from other parties
2 leasing BellSouth owned ducts and included in the conduit (4C) plant-specific
3 expenses. BellSouth used the percentage of duct space leased to other parties in
4 Florida as a surrogate of potential opportunities for underground structure sharing.
5 In effect, Mr. Donovan's proposal will double count the actual sharing since he
6 made no adjustment to the expense factors which already reflect sharing of
7 structures. As Mr. Kephart explains, Mr. Donovan's recommendation of assuming
8 a 50%/50% sharing in rural density zones is completely unrealistic and the
9 33%/33%/33% sharing in suburban and urban density zones is even less credible.
10 Such sharing assumptions along with the double counting would clearly result in a
11 significant under-recovery of a major portion of BellSouth's investments.

12

13 **Q. EXHIBIT BFP-8F REFLECTS A 50% REDUCTION TO MANHOLE**
14 **MATERIAL AND PLACING COSTS. IS THIS APPROPRIATE?**

15

16 A. No. The implication of such an adjustment is that BellSouth and the ALEC jointly
17 own the structure (i.e., the manhole). To my knowledge, no FCC or Commission
18 rule mandates that BellSouth "sell" a piece of the network to an ALEC. Further, if
19 BellSouth were to share in the material cost of the manhole, it implies that the
20 ALEC would have a free reign to go and come as it pleases. This "joint
21 ownership" arrangement is unmanageable, a security risk, and as stated previously,
22 is not required by any Commission or FCC order. From a cost perspective, the
23 only appropriate sharing of underground structures occurs on a very limited basis
24 through the leasing of conduits. Further, it is my understanding that the BSTLM
25 sizes the manhole based only upon BellSouth's conduit demand. This sizing

1 routine does not incorporate any conduits "owned" by ALECs. Thus, if Mr. Pitkin
2 wishes to adjust the manhole price for sharing, he must also adjust the manhole
3 sizing routine in the BSTLM, something he has not done. Therefore, Mr. Pitkin's
4 50% adjustment to the manhole material price is totally inappropriate and should
5 be discarded by this Commission.

6

7 **Q. MR. DONOVAN CLAIMS ON PAGES 30-32 THAT THE MANHOLE**
8 **COST DEVELOPMENT IS FLAWED. FROM A COST DEVELOPMENT**
9 **PERSPECTIVE, CAN YOU RESPOND?**

10

11 A. Yes. Mr. Donovan states, on pages 31 and 32, that BellSouth distributed the costs
12 of 207 manhole covers and collars over 7 installed manholes. While this is
13 mathematically correct, one must consider that it was BellSouth's aim in the input
14 development to create simple, understandable, and supportable inputs. In regard to
15 Manhole costs, BellSouth originally chose to use cubic feet as the approach to
16 develop costs. Thus, all incurred manhole costs were divided by the installed
17 cubic feet. In most areas and circumstances this simple method is appropriate.

18

19 *If the Commission finds that BellSouth's approach is improper, then it still should*
20 *not accept Mr. Donovan's inputs. In fact, Mr. Donovan failed to recognize that*
21 *BellSouth's simplified inputs also resulted in a "distortion" of the costs for large*
22 *manholes (Size 5) and the smaller manholes (Sizes 1, 2 and 3). According to the*
23 *contract, BellSouth incurs a much lower per cubic foot cost for the larger manholes*
24 *(above 351 cubic feet) than for smaller manholes (under 351 cubic feet). Thus, if*
25 *the Commission attempts to override BellSouth's simplified inputs on the manhole*

1 covers, it must also take the step of applying the appropriate contractor costs for
 2 the size of the manhole.

3

4 **Q. IF THE COMMISSION DECIDES TO IMPLEMENT MR. DONOVAN'S**
 5 **METHODOLOGY, DO YOU HAVE ANY RECOMMENDATIONS?**

6

7 A. Yes. Given the findings stated above (and BellSouth's failure to accurately apply
 8 the Miscellaneous loading factor, discussed previously) the following tables reflect
 9 the development of the inputs that should be used, ~~if Mr. Donovan's method is~~
 10 ~~accepted~~. These values are based upon the actual contractor incurred costs, the
 11 appropriate size manholes, the use of one (1) cover and collar per manhole (as Mr.
 12 Donovan advocates), and the proper application of the miscellaneous material
 13 loading.

14

15 Unit Cost Development from Contractor Table

16 (Attachment 3 of Appendix B of BellSouth's Cost Study details)

Contract Unit Cost	Source (see descriptions below table)	Applicable Manhole sizes	Contractor costs with Miscellaneous loading (Column a *(1+0.2643))	Contractor costs with miscellaneous loading and miscellaneous material loading (Column d * (1+0.4))
\$ 48.08	1	351 cu ft. <	\$ 60.28	\$ 84.39
\$ 16.90	2	>= 351 cu.ft.	\$ 21.20	\$ 29.68
\$ 246.48	3		\$ 309.16	\$ 432.82

23

Sources:

24 1: Per Cubic Foot based on M031A value in State Total sheet of the Contractor tables

25 2: Per Cubic Foot based on M031B value in State Total sheet of the Contractor tables

1 3: Per Cover costs developed as the sum of total incurred cover costs divided by the number of
covers using M045-M056 entries in the State Total sheet of the Contractor tables

2
3
4
5
6
7
8
9

10 **BSTLM Input Development**

Conduit Size	Manhole Dimensions	Manhole Cubic Feet (based on Column b)	Applicable Cubic Foot Costs	Manhole costs based on Total Cubic Feet (Column c * Column d)	Manhole Cover Costs	BSLTM Underground Contract Labor Inputs: Total Manhole Cost with Cover (Column e+ Column f)
1	3*4*6	72	\$ 84.39	\$ 6,076.39	\$ 432.82	\$ 6,509.21
2	3*4*6	72	\$ 84.39	\$ 6,076.39	\$ 432.82	\$ 6,509.21
3	4*8*7	224	\$ 84.39	\$ 18,904.33	\$ 432.82	\$ 19,337.15
5	6*12*7	502	\$ 29.68	\$ 14,897.72	\$ 432.82	\$ 15,330.54

18

19 BellSouth's revised cost study dated January 28, 2002 reflects the inputs shown in the
20 above table.

21

22 **Q. MR. DONOVAN, ON PAGES 36 AND 37 STATES THAT**
23 **BELLSOUTH'S POLE SPACING "DOES NOT APPEAR TO PASS THE**
24 **'RED-FACE' TEST." ADDITIONALLY, HE PROPOSES THAT**
25 **SPACING FOR ANCHORS AND GUYS IS 1,200 FEET RATHER THAN**

1 **THE VALUE OF 500 FEET RECOMMENDED BY BELLSOUTH.**

2 **PLEASE COMMENT.**

3

4 A. Mr. Donovan notes that none of the BCPM, HAI and HCPM default values for
5 pole spacing are less than 150 feet. As Mr. Donovan points out, BellSouth had
6 previously also agreed with pole spacing defaults used in the BCPM. However,
7 upon analysis of the number of poles owned by BellSouth in Florida, the number
8 of poles owned by power companies in Florida to which BellSouth cable is
9 attached, and the number of sheath feet of aerial cable in Florida, the facts clearly
10 reveal that these other model default values are understated. Clearly, some span
11 lengths may be 150, 200 or 250 feet depending on the size cables carried on the
12 span and a host of other factors. However, there are also those areas of the
13 network - for example, a road intersection with multiple cable routes intersecting -
14 where there are several poles at various corners of the intersection all in close
15 proximity to one another. While BellSouth agrees it is a simple task to ride in
16 one's car for a mile and count poles per mile, as Mr. Donovan suggests, this is in
17 no way superior to basing cost study inputs on real data. Spacing for both poles
18 and manholes are actually "designed" for each installation. For example, mid-span
19 clearances, joint use clearances, and right-of-way limitations drive most of the
20 design requirements for poles. Installations have unique characteristics for these
21 elements. In this case, the data speaks for itself – BellSouth's pole spacing of 120
22 feet is an accurate depiction of the reality of the number of poles required to
23 provide the number of sheath feet of aerial cable placed in the network and should
24 be accepted by the Commission.

25

1 BellSouth does not maintain records of the number of anchors and guys used, so an
2 approach to determine average spacing similar to that taken for poles was not
3 possible. Furthermore, the 1,200 foot anchor and guy spacing included as a filler
4 in the BSTLM was never modified or evaluated since BellSouth had no intention
5 of using that variable prior to this Commission's order for a bottoms-up study. To
6 refer to that value of 1,200 feet as a "default", as Mr. Donovan does, implies that it
7 is a recommended value when it certainly was not.

8

9 Spacing distances were previously reviewed and approved by the Florida Public
10 Service Commission in the Universal Service proceeding, Docket No. 980696-TP.

11

12 Furthermore, we reiterate that this is a model, and every spacing
13 scenario cannot be duplicated. We find that territory-specific
14 pole spacing, guy spacing, and relative pole units are appropriate
and recommend accepting the values as submitted by GTEFL
and BellSouth. (Order No. PSC-99-0068-FOF-TP, Page 114)

15

16 In an effort to provide more accurate data, BellSouth sought when possible to
17 supplement data previously approved by the Commission with actual data and
18 mathematically derive inputs. Therefore, ARMIS data was used to determine the
19 average spacing of poles. Since no such data exists for anchors and guys,
20 BellSouth relied on these previously reviewed and approved inputs from the
21 BCPM model. Since the BSTLM does not provide for spacing by density zones,
22 averages of all densities were used from the BCPM to derive spacing for the
23 anchors/guys.

24

25

1 **Q. MR. PITKIN'S EXHIBIT BFP-7 REDUCES BELLSOUTH'S MATERIAL**
2 **COSTS FOR POLES FROM \$300.16 TO \$239.31. IS THIS CONSISTENT**
3 **WITH TESTIMONY FILED ON BEHALF OF AT&T?**

4

5 A. No. In fact, Mr. Donovan makes "no issues or recommendations" in his testimony
6 with regard to aerial structure material costs. (Donovan Testimony, Page 20, Line
7 1) Further, Mr. Pitkin does not provide justification for this reduction. Thus,
8 based on this unsupported modification and the numerous other erroneous
9 adjustments advocated by Mr. Donovan and Mr. Pitkin, the Commission should
10 ignore the results of Mr. Pitkin's BSTLM run.

11

12 **Q. HAVE THE LOGIC CHANGES TO THE BSTLM REFERENCED IN MR.**
13 **PITKIN AND MR. STEGEMAN'S TESTIMONIES BEEN**
14 **INCORPORATED IN THE JANUARY 28, 2002 REVISED FILING?**

15

16 A. Yes. The two applicable logic changes are reflected in this revised filing.
17 Specifically, the cell reference problems with the fiber cable EF&I calculation and
18 with the structure sharing calculation have been made.

19

20 **Q. HAS BELLSOUTH MADE ANY OTHER REVISIONS TO THE COST**
21 **CALCULATIONS IN THE JANUARY 28, 2002 FILING?**

22

23 A. Yes. BellSouth also modified the Hybrid Copper/Fiber Loop costs to modify work
24 times. In my direct testimony I stated that commission-ordered reductions to work
25 times were considered. While this is true for the unbundled network elements

1 previously reviewed by the Commission, BellSouth failed to consider all of these
2 modifications in the Hybrid Copper/Fiber loop costs. Thus, in accordance with the
3 Commission's previous ruling, the applicable work times were reduced.
4 Additionally, input errors in the location lives were corrected.
5
6 Finally, the Feeder/Distribution Interface ("FDI") input to the BSTLM was revised.
7 BellSouth uses contractors to place FDIs with placement costs dependent upon the
8 weight of the equipment being installed. The BSTLM, however, assumes that the
9 TELCO place the FDI. Thus, BellSouth had to convert contractor costs to TELCO
10 placement hours, the BSTLM required input. In performing this conversion
11 calculation, BellSouth made a mathematical error, overstating the placement hours.
12 This has been corrected.

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

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16 **A. Yes.**

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