

ORIGINAL

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December 19, 2003

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

Re: Docket No. 030300-TP (Petition of the Florida Public  
Telecommunications Association for Expedited Review of  
BellSouth Telecommunications Inc.'s Tariffs With Respect to  
Rates for Payphone Line Access, Usage, and Features)

Dear Ms. Bayó:

Enclosed is an original and fifteen copies of BellSouth Telecommuni-  
cations, Inc.'s Rebuttal Testimony of Daonne D. Caldwell and Kathy K. Blake,  
which we ask that you file in the captioned matter.

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,

*Meredith E. Mays*

Meredith E. Mays

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cc: All Parties of Record  
Marshall M. Criser III  
R. Douglas Lackey  
519087

*Caldwell*

*Blake*

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*Ruth V. [Signature]*  
FPSC-BUREAU OF RECORDS


**CERTIFICATE OF SERVICE  
DOCKET NO. 030300-TP**

I HEREBY CERTIFY that a true and correct copy of the foregoing was served via Electronic Mail and FedEx this 19<sup>th</sup> day of December , 2003 to the following:

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Meredith E. Mays

**(+) signed Protective Agreement  
(\* via Hand Delivery**

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**BELLSOUTH TELECOMMUNICATIONS, INC.**  
**REBUTTAL TESTIMONY OF D. DAONNE CALDWELL**  
**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**  
**DOCKET NO. 030300-TP**  
**DECEMBER 19, 2003**

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

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

**Q. ARE YOU THE SAME D. DAONNE CALDWELL WHO FILED DIRECT TESTIMONY IN THIS DOCKET?**

A. Yes, I filed direct testimony on November 17, 2003.

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

A. The purpose of my testimony is to respond to assertions made by the Florida Public Telecommunications Association ("FPTA") witness Mr. Don J. Wood.

**Q. ON PAGE 8, MR. WOOD STATES THAT "BECAUSE ALL AVAILABLE EVIDENCE SUGGESTS THAT BELLSOUTH'S COSTS HAVE TRENDED**

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1       **DOWNWARD OVER TIME” BELLSOUTH’S RATES WERE**  
2       **NONCOMPLIANT IMMEDIATELY AFTER THE COMMISSION’S**  
3       **INITIAL ORDER CONCERNING PAYPHONES AND THE NEW**  
4       **SERVICES TEST. PLEASE COMMENT.**

5

6    A. First, when BellSouth conducts a cost study, the study period is longer than one-  
7       year. The use of inflation/deflation factors trends material prices and associated  
8       expenses over the study period (usually three years). Second, as this Commission  
9       is aware, cost inputs are in constant flux with cost results both increasing and  
10      decreasing. The study period is intended to account for these changes.

11

12      Additionally, as Mr. Wood is well aware, when the Commission ruled that  
13      BellSouth passed the new services test, the rate was not set at cost. Rather the  
14      Commission accepted a rate that allowed for contribution over and above the Total  
15      Service Long Run Incremental Cost (“TSLRIC”), a policy that was appropriate at  
16      that time. Thus, the fact that costs may have changed due to a passage of time is  
17      not the issue in this proceeding. Rather the question that must be resolved is what  
18      is the going-forward rate for payphones. For consideration in setting this rate,  
19      BellSouth filed a current payphone cost study attached to my direct testimony  
20      (Exhibit DDC-1). The study period for that study is 2003 to 2005 and contains  
21      current relevant cost inputs.

22

23    **Q. MR. WOOD EMPHASIZES THE FCC’S RULING THAT COST STUDY**  
24       **INPUTS AND ASSUMPTIONS SHOULD BE CONSISTENT WITH COST**  
25       **INPUTS “USED IN COMPUTING RATES FOR COMPARABLE**

1       **SERVICES TO COMPETITORS.” (PAGE 18) DO BELLSOUTH’S COST**  
2       **STUDIES COMPORT WITH THIS RULING?**

3

4    A. Yes. The inputs and assumptions in BellSouth’s cost study are consistent with  
5       those that would have been used to support a TSLRIC analysis of a service. Thus,  
6       the studies reflect the forward-looking, long-run incremental costs that BellSouth  
7       incurs in providing payphone lines to companies, e.g. the FPTA, and reflect the  
8       unique characteristics of the service under study.

9

10   **Q. ON PAGE 19, MR. WOOD OUTLINES THREE DIFFERENT**  
11    **APPROACHES AUTHORIZED BY THE FCC TO DEVELOP OVERHEAD**  
12    **LOADINGS. IS BELLSOUTH’S CALCULATION COMPLIANT WITH**  
13    **THE FCC’S DIRECTIVE?**

14

15   A. Yes. As I described in my direct testimony, BellSouth chose to “use ARMIS data  
16       relating to the plant categories used to provide payphone services in calculating an  
17       upper limit on overhead loadings.” (*Wisconsin Order*, ¶54) As the FCC  
18       explained, this is consistent with the FCC’s evaluation of the reasonableness of  
19       Open Network Architecture (“ONA”) tariffs.

20

21   **Q. MR. WOOD CLAIMS THAT “DIRECT COSTS MUST BE ADJUSTED TO**  
22    **ACCOUNT FOR THE APPLICATION OF FEDERAL CHARGES, SUCH**  
23    **AS THE SLC, IN ORDER TO AVOID A DOUBLE-RECOVERY OF**  
24    **COSTS.” (PAGE 20) IS HE CORRECT?**

25

1 A. No. First, let me emphasize that this is a rate issue dealing with cost recovery and  
2 thus, should not be confused with cost development as Mr. Wood has done. In  
3 fact, if one were to follow Mr. Wood's proposal, costs would be understated. The  
4 following simple example illustrates this:

5

<b>Wood Method</b>		
6	Direct Cost	\$20.00
7	SLC Charge	\$7.00
	Direct - SLC	\$13.00
8	Overhead Factor	50%
	Rate	\$19.50

9

<b>Correct Method</b>		
10	Direct Cost	\$20.00
11	Overhead Factor	50%
	Total Cost	\$30.00
12	SLC Charge	\$7.00
	Rate	\$23.00

13

	<b>Understatement</b>	<b>-\$3.50</b>
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14

15

16 **Q. MR. WOOD CLAIMS THAT "UNE COSTS AND RATES ARE AN**  
17 **APPROPRIATE BENCHMARK FOR EVALUATING THE LEVEL OF**  
18 **PAYPHONE ACCESS SERVICE RATES." (PAGE 29, LINES 16-17) IS HE**  
19 **CORRECT?**

20

21 A. No. The FCC's current Total Element Long Run Incremental Cost ("TELRIC")  
22 methodology used in setting rates for unbundled network elements ("UNEs") is  
23 encumbered by additional constraints not required for a TSLRIC analysis. The use  
24 of a hypothetical network and most efficient, least-cost provider requirements have  
25 distorted the TELRIC results and understate the true forward-looking costs of the

1 incumbents. These distortions are most evident in the calculation of loop  
2 elements. Additionally, the Commission has made adjustments (e.g., to the cost of  
3 capital, depreciation, placing, and splicing inputs) to the TELRIC economic costs  
4 proposed by BellSouth that further understate the actual costs BellSouth incurs.  
5 Thus, Mr. Wood's Exhibit DJW-2, which reportedly compares current rates to  
6 UNE rates, is meaningless.

7

8 **Q. HAS BELLSOUTH "PRESENTED CONFLICTING DIRECT COST**  
9 **RESULTS FOR CERTAIN ELEMENTS AND HAS NOT PRESENTED**  
10 **INFORMATION THAT DEMONSTRATES THE REASONABLENESS OF**  
11 **THE EXISTING LEVEL OF OVERHEAD LOADINGS" AS MR. WOOD**  
12 **CLAIMS ON PAGE 31?**

13

14 A. No. I find this claim unsupported by any facts or examples in his testimony. Thus,  
15 I have no way to respond to his allegation of "conflicting direct cost results."  
16 BellSouth's cost study filed with my direct testimony on November 17, 2003 is  
17 fully documented and demonstrates the calculation of the overhead factor. (See  
18 Section 3, Bates Stamped pages 89-93 of Exhibit DDC-1)

19

20 **Q. ON PAGES 38-39 MR. WOOD DISCUSSES USAGE CALCULATIONS.**  
21 **PLEASE DESCRIBE HOW BELLSOUTH DETERMINED THE FLAT-**  
22 **RATE USAGE REFLECTED IN THE FILED COST STUDIES.**

23

24 A. As discussed in my direct testimony, customer usage characteristics specific to  
25 payphone users (e.g., calls per month and minutes per call) were used to convert

1 "per minute of use" elements to a flat-rate monthly cost. This data came from data  
2 extracts of measured payphone lines dated January-April 2002. Thus, Mr. Wood's  
3 concern that BellSouth potentially used "business usage rates" is unfounded.  
4 Additionally, let me note that the amount of usage (504 minutes per month) used  
5 by BellSouth is substantially lower than the 900 minutes reflected in Mr. Wood's  
6 Exhibit DJW-2.

7

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

9

10 A. Yes.

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