



ORIGINAL

August 1, 2005

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

Re: Sprint Docket Number 041464

Dear: Ms. Bayo:

Please find the enclosed original and seventeen copies of the Supplemental Testimony of Dr. August Ankum. A Motion to accept the Supplemental Testimony of Dr. August Ankum and the testimony was E-filed with the Commission on the date of this letter. However, since the Commission E-file procedure, do not permit testimony to be E-filed, FDN is providing copies of the testimony referenced.

Enclosed is a diskette with the referring testimony.

Please feel free to contact me regarding the enclosed at 407-835-0300.

Sincerely,

Matthew Feil
General Counsel
FDN Communications

- CMP _____
- COM 3+ _____
- CTR org _____
- ECR _____
- GCL 1 _____
- OPC _____
- RCA _____
- SCR _____
- SGA _____
- SEC 1 _____
- OTH _____

LOCAL

LONG DISTANCE

2301 Lucien Way • Suite 200 • Maitland, FL 32751
407.835.0300 • Fax 407.835.0309 • www.fdn.com

DOCUMENT NUMBER-DATE

07419^R AUG -2 05

FPSC-COMMISSION CLERK

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Petition of Sprint-Florida, Inc. for Arbitration of an Interconnection Agreement with Florida Digital Network, Inc. Pursuant to Section 252 of the Telecommunications Act of 1996)))))	Docket No. 041464-TP Filed: August 1, 2005
---	-----------------------	---

SUPPLEMENTAL PANEL TESTIMONY OF AUGUST H. ANKUM

**ON BEHALF OF
FLORIDA DIGITAL NETWORK, INC. D/B/A FDN COMMUNICATIONS**

August 1, 2005

DOCUMENT NUMBER - DATE
07419 AUG-2 05
FPSC-COMMISSION CLERK

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME.

A. My name is Dr. August H. Ankum,

Q. ARE YOU THE SAME DR. AUGUST H. ANKUM WHO SUBMITTED TESTIMONY AS PART OF THE QSI PANEL EARLIER IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF THIS SUPPLEMENTAL TESTIMONY?

A. I understand that the nature of the issues in dispute in this proceeding have evolved from our original understanding and that the Commission will not determine new rates for unbundled network elements (“UNEs”) in this proceeding. Rather, I understand that the issue is now whether it would be appropriate for the Commission to incorporate into the interconnection agreement being arbitrated in this proceeding the UNE rates established in the Commission’s earlier Sprint UNE rate case (the “’0649 rates” or the “’0649 docket”),¹ which was heard by the Commission in the fall of 2002.

¹ See Final Order on Rates for Unbundled Network Elements Provided by Sprint-Florida, Inc., *Investigation into pricing of unbundled network elements (Sprint/Verizon track)*, Dkt. No. 990649B-TP, Order No. PSC-03-0058-FOF-TP (Jan. 8, 2003).

1 Q. **AND WHAT ARE YOUR VIEWS ON THAT SUBJECT?**

2 A. I believe that it would be inappropriate to do so.

3 Q. **WHY?**

4 A. As the QSI Panel alluded to in its earlier testimony, there are a number of
5 reasons why it is reasonable to believe that the '0649 rates are not appropriate
6 rates today. The '0649 rates are based on evidence Sprint submitted to the
7 Commission in 2001 — four years ago. It is only logical to conclude that the
8 underlying data is older still. Clearly, there is good reason to suspect that
9 those rates, based on such stale data, might not be appropriate to include in a
10 contract that will likely run from 2005 into 2008.

11

12 Q. **PLEASE DISCUSS IN MORE DETAIL WHY YOU BELIEVE THAT**
13 **THE IT IS INAPPROPRIATE TO BASE RATES ON DATA THAT**
14 **ARE OLD.**

15 A. Under the FCC's Rules and Regulations, UNE prices have to be set at costs
16 that are forward-looking. While it may be impractical to continuously update
17 cost studies to meet this requirement, at a minimum, it must hold that cost
18 studies and data are *reasonably reflective* of costs that carriers currently incur
19 and are expected to incur over the term of their interconnection agreements. I
20 do not believe that the cost studies and rates the Commission approved in
21 '0649 meet this requirement.

22 While the discovery we have requested would no doubt support our
23 view that the '0649 rates are stale, I can point to several factors that have

1 plainly and materially changed in the intervening years even without that
2 discovery. For example, '0649 rates are based on a consolidated cost of
3 capital of 9.86%, with an assumed 11.49% cost of equity and 7.43% cost of
4 debt. Under today's market conditions, however, these rates are at least three
5 percentage points, if not more, too high.

6 Also affecting the appropriate cost of capital is the level of
7 competition Sprint now faces in its service territory. As was affirmed by the
8 FCC's *Triennial Review Order*, the '0649 rates were set based on the
9 assumption that Sprint operates in a competitive market. But the risk-
10 premium that should be reflected in the cost of capital should be
11 commensurate with that faced by Sprint's peer group, as determined by the
12 market. These changes should be reflected in Sprint's UNE rates.

13 Changed circumstances also effect the appropriate assumptions
14 regarding the deployment, cost, and depreciation of the facilities and
15 equipment used to provide UNEs and therefore the rates that can reasonably
16 be charged for those UNEs. In this regard, FDN is entitled to discovery on
17 the extent to which Sprint has modified its telecommunications plant since
18 2000 and, even more importantly, on Sprint's forward-looking design
19 assumptions which could dramatically affect forward-looking costs.

20 Telecommunications technologies continue to evolve at a rapid pace,
21 altering the manner in which carriers build and expand their networks and
22 serve customers. These technological developments have also resulted in
23 significant, often downward, price changes for key technologies.

1 For example, FDN understands that Sprint has accelerated
2 deployment of DLC loop plant, and that a considerable amount of copper
3 loop plant has been retired. Likewise, there should be much better and more
4 recent cost data available now in light of the considerable amount of
5 reconstruction Sprint has likely undertaken in the aftermath of the recent
6 hurricanes.

7 Further, DLC technologies continue to evolve rapidly and prices for
8 those technologies follow a significantly downward trend. The same is true
9 for SONET gear that Sprint may use in its network. Given the importance of
10 these components in loop and transport studies, it would simply be wrong to
11 not update the studies for these developments. Moreover, given the large
12 number of vendors for these types of technologies, it is important that the
13 Commission is able to examine Sprint specific information and technology
14 choices and is able to update Sprint's cost studies accordingly. To not do so
15 would be to set rates that are demonstrably not forward-looking or relevant to
16 the term of the interconnection agreement.

17 While the above considerations impact costs supporting recurring
18 charges, there are similar and just as important developments underway that
19 impact the cost associated with non-recurring charges. For example,
20 increasingly telephone company technicians are equipped with notebook
21 computers and other handheld electronic devices that facilitate the efficient
22 communication and transmission of information necessary for these
23 technicians to install, cross-connect and disconnect facilities and services.

1 (As the QSI panel testimony noted previously, the '0649 non-recurring rates
2 were based on almost no analytically valid cost support.) These
3 developments need to be examined to see if they are appropriately reflected
4 in Sprint's studies.

5 In short, consideration of new data is plainly and directly relevant to
6 whether it makes sense to apply the '0649 rates in this proceeding. I'm sure
7 that discovery from Sprint would shed additional light on these issues.

8 Finally, regulatory circumstances have also changed since 2002, as
9 the Commission recognized when it began reexamining Verizon's UNE rates
10 earlier this year. These changed circumstances should be factored into
11 Sprint's forward-looking UNE rates.

12

13 **Q: DOES THAT CONCLUDE YOUR TESTIMONY?**

14

15 **A:** Yes.

16