

James Meza III
General Counsel - Florida

BellSouth Telecommunications, Inc.
150 South Monroe Street
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September 1, 2006

Mrs. 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. _____: 060598-TZ
**Petition by BellSouth Telecommunications, Inc., pursuant to Florida
Statutes §364.051(4), to Recover 2005 Tropical System Related
Costs and Expenses**

Dear Ms. Bayó:

Enclosed is an original and fifteen copies of BellSouth Telecommunications, Inc.'s Petition to Recover 2005 Tropical System Related Costs and Expenses and Direct Testimony of Kathy K. Blake, Ronald L. Hilyer, William McKinney and C. S. (Steve) Pendergrass, which we ask that you file in the captioned *new* docket.

Copies were served to the parties shown on the attached Certificate of Service.

Sincerely,


James Meza III

cc: All Parties of Record
Jerry D. Hendrix
E. Earl Edenfield, Jr.

DOCUMENT NUMBER / DATE

08094 SEP-18

FPSC-COMMISSION CLERK

CERTIFICATE OF SERVICE
Petition by BellSouth Telecommunications, Inc.
pursuant to Florida Statutes §364.051(4), to Recover 2005
Tropical System Related Costs and Expenses

I HEREBY CERTIFY that a true and correct copy of the foregoing was served via
Hand Delivery this 1st day of September, 2006 to the following:

Patrick Wiggins
Staff Counsel
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Commission
Division of Legal Services
2540 Shumard Oak Boulevard
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James Meza III

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by BellSouth) Docket No. _____
Telecommunications, Inc., pursuant to Florida)
Statutes §364.051(4) to Recover 2005)
Tropical System Related Costs and Expenses)
_____) Filed: September 1, 2006

**BELLSOUTH TELECOMMUNICATIONS, INC.'S PETITION TO RECOVER
2005 TROPICAL SYSTEM RELATED COSTS AND EXPENSES**

BellSouth Telecommunications, Inc. ("BellSouth"), pursuant to Section 364.051(4), Florida Statutes, and Rule 28.106.201, Florida Administrative Code, hereby files this Petition to Recover 2005 Tropical System Related Costs and Expenses ("Petition") with the Florida Public Service Commission ("Commission"). In support, BellSouth states the following:

1. BellSouth is a local exchange company lawfully doing business in the State of Florida whose regulated operations are subject to the jurisdiction of the Commission pursuant to Chapter 364, Florida Statutes.

2. BellSouth is subject to carrier of last resort obligations pursuant to the provisions of Chapter 364, Florida Statutes.

3. BellSouth's principal place of business is 675 W. Peachtree St., NE, Suite 4500, Atlanta, GA 30375. Pleadings and process may be served upon:

James Meza III
Manuel A. Gurdian
c/o Nancy H. Sims
150 South Monroe Street
Suite 400
Tallahassee, Florida 32301

4. The Commission has jurisdiction to grant the relief requested in this Petition pursuant to Florida Statutes § 364.051(4)(a). Specifically, Florida Statutes § 364.051(4)(a) allows a price-regulated incumbent local exchange company (“ILEC”), such as BellSouth, to request an increase in its basic local service rates based on the ILEC’s compelling showing of a substantial change in circumstances. Florida Statutes § 364.051(4)(b) further provides that “evidence of damage occurring to the lines, plant, or facilities of a local exchange telecommunications company that is subject to carrier-of-last-resort obligations, which damage is the result of a tropical system occurring after June 1, 2005, and named by the National Hurricane Center, constitutes a compelling showing of changed circumstances.” Pursuant to Florida Statutes § 364.051(4)(a), the Commission must render a decision within 120 days of the filing of this Petition.

5. In addition, regarding any petition to recover tropical system related costs and expenses, Florida Statutes § 364.051(4)(b) provides in pertinent part:

(b) For purposes of this section, evidence of damage occurring to the lines, plants, or facilities of a local exchange telecommunications company that is subject to the carrier-of-last-resort obligations, which damages is the result of a tropical system occurring after June 1, 2005, and named by the National Hurricane Center, constitutes a compelling showing of changed circumstances.

1. A company may file a petition to recover its intrastate costs and expenses relating to repairing, restoring, or replacing the lines, plants, or facilities damaged by a named tropical system.

2. The commission shall verify the intrastate costs and expenses submitted by the company in support of its petition.

3. The company must show and the commission shall determine whether the intrastate costs and expenses are reasonable under the circumstances for the named tropical system.

4. A company having a storm-reserve fund may recover tropical-system-related costs and expenses from its customers only in excess of any amount available in the storm-reserve fund.

5. The commission may determine the amount of any increase that the company may charge its customers, but the charge per line item may not exceed 50 cents per month per customer line for a period of not more than 12 months.

6. The commission may order the company to add an equal line-item charge per access line to the billing statement of the company's retail basic local telecommunications service customers, its retail nonbasic telecommunications service customers, and, to the extent the commission determines appropriate, its wholesale loop unbundled network element customers. At the end of the collection period, the commission shall verify that the collected amount does not exceed the amount authorized by the order. If collections exceed the ordered amount, the commission shall order the company to refund the excess.

7. In order to qualify for filing a petition under this paragraph, a company with 1 million or more access lines, but fewer than 3 million access lines, must have tropical-system-related costs and expenses exceeding \$1.5 million, and a company with 3 million or more access lines must have tropical-system-related costs and expenses of \$5 million or more. A company with fewer than 1 million access lines is not required to meet a minimum damage threshold in order to qualify to file a petition under this paragraph.

8. A company may file only one petition for storm recovery in any 12-month period for the previous storm season, but the application may cover damages from more than one named tropical system.

This paragraph is not intended to adversely affect the commission's consideration of any petition for an increase in basic rates to recover costs related to storm damage which was filed before the effective date of this act.

6. BellSouth serves 93 exchanges in Florida. These exchanges serve the major Florida cities of Miami, Fort Lauderdale, West Palm Beach, Jacksonville, Cocoa Beach, Daytona Beach, Gainesville, Orlando, Port St. Lucie, Pensacola, Panama City, and Melbourne. As of June 2006, BellSouth had approximately 5 million retail lines and approximately 406,000 unbundled loops in service in Florida.

7. After June 1, 2005, the following six named tropical systems impacted and damaged areas served by BellSouth: Tropical Storm Arlene¹, Hurricane Cindy², Hurricane Dennis³, Hurricane Katrina⁴, Hurricane Rita⁵, and Hurricane Wilma⁶ ("2005 Storms").

8. BellSouth's total storm related expenses for repairing, restoring, or replacing its lines, plants, and facilities damaged by the 2005 Storms was approximately \$202.4 million. Of this amount, BellSouth's total incremental expenses for the 2005 Storms was \$156.0 million. A breakdown of BellSouth's total expenses is attached as SP Exhibit 1 to the direct testimony of Steve Pendergrass, which is filed contemporaneously with this Petition. See also, RLH

¹ Avila, Lixion A. and Brown, Daniel P., National Hurricane Center, *Tropical Cyclone Report: Tropical Storm Arlene, 8-13 June 2005*, <http://www.nhc.noaa.gov/2005atlan.shtml>.

² Stewart, Stacy R., National Hurricane Center, *Tropical Cyclone Report: Hurricane Cindy, 3-7 July 2005*, <http://www.nhc.noaa.gov/2005atlan.shtml>.

³ Beven, Jack. National Hurricane Center, *Tropical Cyclone Report: Hurricane Dennis, 4-13 July 2005*, <http://www.nhc.noaa.gov/2005atlan.shtml>.

⁴ Knabb, Richard D., Rhome, Jamie R., and Brown, Daniel P. National Hurricane Center, *Tropical Cyclone Report: Hurricane Katrina, 23-30 August 2005*, <http://www.nhc.noaa.gov/2005atlan.shtml>.

⁵ Knabb, Richard D., Brown, Daniel P., and Rhome, Jamie R., National Hurricane Center, *Tropical Cyclone Report: Hurricane Rita, 18-26 September 2005*, <http://www.nhc.noaa.gov/2005atlan.shtml>.

⁶ Pasch, Richard J., Blake, Eric S., Cobb III, Hugh D., and Roberts, David P. National Hurricane Center, *Tropical Cyclone Report: Hurricane Wilma, 15-25 October 2005*, <http://www.nhc.noaa.gov/2005atlan.shtml>.

Exhibit 2 attached to the direct testimony of Ron Hilyer, which is filed contemporaneously with this Petition.

9. The intrastate portion of the total incremental expenses relating to repairing, restoring, or replacing BellSouth's lines, plants, and facilities damaged by the 2005 Storms was \$95.5 million. See SP Exhibit 1. The incremental intrastate portion is determined by taking the total incremental expenses incurred by BellSouth and applying the intrastate jurisdictional factor of 61.2144%.⁷

10. Tropical Storm Arlene formed on June 8, 2006, and made landfall just west of Pensacola, in Florida's Panhandle, in the afternoon of June 11, 2005.⁸ Tropical Storm Arlene was a large tropical storm that had maximum sustained winds of 70 mph and produced precipitation over a very wide area. Tropical Storm Arlene dropped 4-6 inches of rain in portions of Florida and caused a storm surge of up to 5 feet in Walton County.⁹ Nearly 4,000 BellSouth access lines were impacted by loss of power or physical damage. As a result of the damage to BellSouth's lines, plant and facilities caused by Tropical Storm Arlene, BellSouth incurred intrastate, incremental expenses of approximately \$2.2 million. See *id.*

11. Hurricane Cindy reached hurricane status on July 5, 2005 after having crossed over the Yucatan Peninsula early on July 4, 2005 into the Gulf of Mexico. Hurricane Cindy made direct landfall on July 6, 2005 in Grand Isle,

⁷ The intrastate jurisdictional factor was computed from the 2005 BellSouth-Florida ARMIS 43-01, Plant Specific and Non-Specific Operating Expenses report.

⁸ *Tropical Cyclone Report: Tropical Storm Arlene*, p. 1.

⁹ *Id.* p. 5-7. See also, The Associated Press. "Gulf Coast Dries Out After Arlene." MSNBC.com, <http://www.msnbc.msn.com/id/8156450/>, dated June 13, 2005.

Louisiana with maximum winds of 75 mph.¹⁰ It then traveled northeast and crossed over the western panhandle region of Florida.¹¹ Nearly 1,000 BellSouth access lines were impacted by loss of power or physical damage due to Hurricane Cindy. As a result of the damage to BellSouth's lines, plant and facilities caused by Hurricane Cindy, BellSouth incurred intrastate, incremental expenses of approximately \$675,000. *See id.*

12. Hurricane Dennis formed on July 5, 2005 and reached hurricane strength on the afternoon of July 6, 2005.¹² Hurricane Dennis, which at its peak reached Category 4 strength, eventually made landfall on the afternoon of July 10, 2005 west of Navarre Beach in Pensacola as a Category 3 storm with wind speeds of 120 mph.¹³ Hurricane Dennis brought storm surges of 6-9 feet in portions of Florida and dropped almost 6 inches of rain on certain portions of the state ranging from Key West to Tallahassee.¹⁴ By the time the effects of Hurricane Dennis left BellSouth's territory on July 11, 2005, approximately 225,000 lines had been impacted and damaged by Hurricane Dennis. As a result of the damage to BellSouth's lines, plant and facilities caused by Hurricane Dennis, BellSouth incurred intrastate, incremental expenses of approximately \$2.2 million. *See id.*

13. Hurricane Katrina made landfall near the Dade and Broward County line between Hallandale Beach and North Miami Beach, on August 25,

¹⁰ *Climate of 2005: Atlantic Hurricane Season Summary*, p. 17-18.

¹¹ Graham Brink, Joni James and Brady Dennis. "Dennis grows stronger – and moves closer." *St. Petersburg Times*, July 8, 2005, Weather, P. 1B.

¹² *Climate of 2005: Atlantic Hurricane Season Summary*, p. 18.

¹³ *Id.*

¹⁴ *Tropical Cyclone Report: Hurricane Dennis*, p. 10-12.

2005, as a Category 1 hurricane, with wind speeds of approximately 80 mph and gusts of over 90 mph.¹⁵ Radar indicated that up to 15 inches of rain fell in parts of Dade County and caused severe flooding.¹⁶ Hurricane Katrina exited the southwest part of Florida on August 26 and continued in a north, northwesterly direction towards the Gulf Coast. While Hurricane Katrina did not make direct landfall in the Florida panhandle, the northwestern portion of the state experienced strong winds, major rainfall and a storm surge of up to 5 feet when the storm made landfall a second time in Louisiana.¹⁷ Approximately 600,000 access lines were affected either due to loss of power or by physical damage to BellSouth network facilities. As a result of the damage to BellSouth's lines, plant and facilities caused by Hurricane Katrina, BellSouth's incurred intrastate, incremental expenses of approximately \$15.4 million. See *id.*

14. Hurricane Rita passed through the Florida Straits and affected the southern portion of BellSouth's service territory. While impacting BellSouth's service territory, Hurricane Rita was a Category 1 storm causing sustained tropical storm winds on Key West with gusts of up to 76 mph and, again, the customers in Dade and Broward counties were the most impacted.¹⁸ By the time the storm's effects subsided late on September 20th, 3-5 inches of rain had fallen on portions of south Florida from the Keys to Fort Lauderdale, with Key West

¹⁵ NCDC, NOAA, *Climate of 2005: Summary of Hurricane Katrina*, p. 3 and 5, <http://www.ncdc.noaa.gov/oa/climate/research/2005/katrina.html>, last updated Dec. 29, 2005.

¹⁶ PalmBeachPost.com, *Hurricane Katrina: Day-by-day Recap*, http://www.palmbeachpost.com/storm/content/storm/2005/atlantic/katrina/day_by_day_archive.html, p. 2

¹⁷ *Tropical Cyclone Report: Hurricane Katrina*, p. 10 and 24.

¹⁸ *Climate of 2005: Atlantic Hurricane Season Summary*, p. 13.

experiencing a storm surge of approximately 5 feet.¹⁹ BellSouth had to replace 75 spans of cable due to the storm. As a result of the damage to BellSouth's lines, plant and facilities caused by Hurricane Rita, BellSouth incurred intrastate, incremental expenses of approximately \$37,000. *See id.*

15. Hurricane Wilma became a Category 1 hurricane on October 18, 2005. On October 19, Hurricane Wilma strengthened to a Category 5 hurricane with its minimum central pressure estimated at 882 MB, the lowest pressure and therefore the most powerful hurricane on record in the Atlantic basin.²⁰ Hurricane Wilma made landfall on the southwest coast of Florida, near Marco Island on October 24, 2005, as a very strong Category 3 hurricane with wind speeds of 125mph.²¹ It crossed the state and exited just to the north of Palm Beach, as a Category 2 hurricane, with wind speeds of 100 mph.²² While in Florida, Hurricane Wilma caused widespread damage. Damage occurred as far north as Indian River County to as far south as the Florida Keys (which experienced 4-5 foot storm surges and massive flooding).²³ As a result of the damage to BellSouth's lines, plant and facilities caused by Hurricane Wilma, BellSouth incurred intrastate, incremental expenses of approximately \$75 million. *See id.*

16. BellSouth's intrastate incremental expenses incurred in repairing, restoring, or replacing its lines, plants, and facilities damaged by the 2005 Storms were reasonable under the circumstances.

¹⁹ *Tropical Cyclone Report: Hurricane Rita*, p. 7.

²⁰ NCDC, NOAA, *Climate of 2005: Summary of Hurricane Wilma*, p. 3-4, <http://www.ncdc.noaa.gov/oa/climate/research/2005/wilma.html>, last updated Oct. 31, 2005.

²¹ *Climate of 2005: Summary of Hurricane Wilma*, p. 5.

²² *Id.*

²³ *Tropical Cyclone Report, Hurricane Wilma*, p. 4.

17. BellSouth has more than 3 million access lines and its tropical system related costs and expenses exceed \$5 million.

18. BellSouth has not previously filed a petition for storm recovery in any 12-month period for the 2005 storm season.

19. BellSouth did not have any insurance coverage which provided reimbursement for any of BellSouth's intrastate costs and expenses incurred in repairing, restoring, or replacing its lines, plants, and facilities damaged by the six named tropical systems in 2005.

20. BellSouth does not have a storm reserve fund.

21. The intrastate costs and expenses BellSouth incurred as a result of the impact of the six named tropical systems constitutes a "compelling showing of changed circumstances" as set forth in Florida Statutes § 364.051(4).

22. BellSouth proposes to recover its intrastate, incremental expenses via a charge not to exceed \$.50 per month per line for a period of not more than 12 months. BellSouth proposes that the line-item charge be recovered on a per line basis from retail basic and nonbasic local exchange service lines, including residential and business lines, payphone lines, PBX trunk lines, Network Access Registers ("NARs") lines (including NARs used in conjunction with BellSouth ESSX[®] Service and MultiServ Plus Service), B Channels of both Basic ISDN and ISDN PRI, and all unbundled wholesale loop network element ("UNE") customers (including stand-alone loops, ISDN loops, DS1 loops, xDSL loops). Thus, the total amount BellSouth is seeking to recover due to the 2005 Storms is approximately \$32.3 million.

23. The amount BellSouth is seeking to collect is approximately one-third of the intrastate, incremental expenses incurred by BellSouth and less than 17 percent of the total costs that BellSouth experienced in repairing, replacing and restoring its lines, plant and facilities that were damaged as a result of the 2005 Storms.

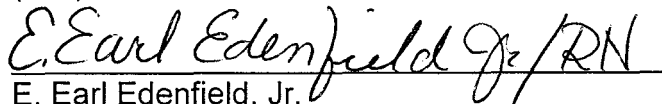
WHEREFORE, for the foregoing reasons, BellSouth requests that the Commission grant BellSouth's Petition and allow BellSouth to impose a line-item charge of \$0.50 for 12 months on the above-identified access lines to allow BellSouth to recover its intrastate, incremental expenses relating to repairing, restoring, and replacing its lines, plant, and facilities damaged by the 2005 Storms.

Respectfully submitted this 1st day of September, 2006.

BELLSOUTH TELECOMMUNICATIONS, INC.

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BELLSOUTH TELECOMMUNICATIONS, INC.
DIRECT TESTIMONY OF KATHY K. BLAKE
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. _____-TP
SEPTEMBER 1, 2006

Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC. ("BELLSOUTH"), AND YOUR BUSINESS ADDRESS.

A. My name is Kathy K. Blake. I am employed by BellSouth as Director – Retail Markets and Policy Implementation for the nine-state BellSouth region. My business address is 675 West Peachtree Street, Atlanta, Georgia 30375.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR BACKGROUND AND EXPERIENCE.

A. I graduated from Florida State University in 1981 with a Bachelor of Science degree in Business Management. After graduation, I began employment with Southern Bell as a Supervisor in the Customer Services Organization in Miami, Florida. In 1982, I moved to Atlanta where I held various positions involving Staff Support, Product Management, Negotiations, and Market Management within the BellSouth Customer Services and Interconnection Services

1 Organizations. In 1997, I moved into the State Regulatory Organization
2 with various responsibilities for testimony preparation, witness support
3 and issues management. I assumed my current responsibilities in July
4 2003.

5

6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

7

8 A. The purpose of my testimony is to discuss, from a policy perspective,
9 BellSouth's Petition, pursuant to Florida Statute § 364.051(4), to
10 recover certain costs and expenses relating to repairing, restoring and
11 replacing its lines, plant and facilities damaged by six (6) named tropical
12 systems occurring after June 1, 2005 ("2005 Storms"). BellSouth is
13 also presenting three additional witnesses in support of its Petition: Mr.
14 Jeff McKinney, who will generally discuss the damages BellSouth's
15 network received due to these storms and the recovery efforts made by
16 BellSouth to restore service to its customers as expeditiously as
17 possible; Mr. Steve Pendergrass, who will address how BellSouth
18 calculated its network expenses associated with the 2005 Storms; and
19 Mr. Ron Hilyer, who will address the regulatory cost issues associated
20 with the Petition.

21

22 Q. WILL YOU PLEASE SUMMARIZE BELLSOUTH'S STORM COST
23 RECOVERY PROPOSAL?

24

1 A. In accordance with Florida Statute § 364.051(4), BellSouth's proposal
2 for recovering its intrastate, incremental costs incurred due to the
3 damage caused by the 2005 Storms is to apply a \$0.50 charge on
4 certain access lines in Florida. Specifically, BellSouth proposes that
5 the subject access lines consist of retail basic and nonbasic local
6 exchange service lines, including residential and business lines,
7 payphone lines, PBX trunk lines, Network Access Registers ("NARs")
8 lines (including NARs used in conjunction with BellSouth ESSX®
9 Service and MultiServ Plus Service), B Channels of both Basic ISDN
10 and ISDN PRI, and all unbundled wholesale loop network element
11 ("UNE") customers (including stand-alone loops, ISDN loops, DS1
12 loops, xDSL loops). Based on BellSouth's most recent data, as of June
13 2006, BellSouth had approximately five million retail access lines and
14 approximately 406,000 unbundled loops in service. Thus, the total
15 amount BellSouth is seeking to recover due to the 2005 Storms is
16 approximately \$32.3 million.

17

18 Q. PLEASE DESCRIBE BELLSOUTH'S SERVICE TERRITORY.

19

20 A. BellSouth is certificated in Florida as a local exchange
21 telecommunications company and is subject to carrier-of-last-resort
22 obligations. The Company provides service in 93 exchanges in Florida
23 and serves the major Florida cities of Miami, Ft. Lauderdale, West Palm
24 Beach, Jacksonville, Cocoa Beach, Daytona Beach, Gainesville,
25 Orlando, Port St. Lucie, Pensacola, Panama City and Melbourne.

1 Q. PLEASE PROVIDE AN OVERVIEW OF THE 2005 TROPICAL STORM
2 SEASON.

3

4 A. The 2005 tropical storm season was the most active hurricane season
5 on record and shattered numerous records. In 2005, Florida and the
6 Southeastern United States experienced:

- 7 ● the most number of storms on record for a season (28 named
8 storms);¹
- 9 ● three of the most six intense storms on record: Wilma (1st),
10 Rita (4th) and Katrina (6th);²
- 11 ● the most number of named storms to develop during the
12 month of July (5 named storms) with two of the storms
13 developing into major hurricanes (Dennis and Emily); it
14 should be noted that no hurricane season had ever seen two
15 hurricanes reach Category 4 intensity before August, and
16 Emily was the earliest Category 5 to have ever formed;³ and
- 17 ● the most destructive tropical storm season for the United
18 States with damage estimates over \$100 billion.⁴

¹ NOAA Reviews Record-Setting 2005 Atlantic Hurricane Season, dated Nov. 29, 2005, updated April 13, 2006, www.noaaneews.noaa.gov/stories2005/s2540.htm.

² National Climatic Data Center ("NCDC"), National Oceanic & Atmospheric Administration ("NOAA"), Satellite and Information Service, *Climate of 2005: Atlantic Hurricane Season Summary*, National Climatic Data Center, www.ncdc.noaa.gov/oa/climate/research/2005/hurricanes05.html, updated January 13, 2006, p. 7-8.

³ NCDC, NOAA, *Climate of 2005: Atlantic Hurricane Season Summary*, p. 7.

⁴ *Id.*

1 The 2005 tropical storm season was one of the most active and most
2 costly seasons BellSouth has experienced. Six named tropical storm
3 systems impacted areas served by BellSouth in Florida: Tropical Storm
4 Arlene, Hurricane Cindy, Hurricane Dennis, Hurricane Katrina,
5 Hurricane Rita, and Hurricane Wilma. These systems struck Florida
6 from June 11, 2005 through October 24, 2005, causing hundreds of
7 millions of dollars of damage.

8

9 Q. PLEASE PROVIDE A DESCRIPTION OF THE HURRICANES THAT
10 IMPACTED THE COMPANY'S SERVICE TERRITORY IN FLORIDA.

11

12 A. Below is a general summary of each storm that affected BellSouth's
13 service territory during 2005. The information relating to the damages
14 BellSouth experienced and the cost incurred as a result of the storms is
15 provided as a summary and should be read in conjunction with the
16 testimony of BellSouth Witnesses Jeff McKinney and Steve
17 Pendergrass.

18

19 The first storm that affected BellSouth's service territory was Tropical
20 Storm Arlene which formed on June 8, 2005, and made landfall just
21 west of Pensacola, in Florida's Panhandle, in the afternoon of June 11,
22 2005.⁵ Tropical Storm Arlene was a large tropical storm that had
23 maximum sustained winds of 70 mph and produced precipitation over a

⁵ National Hurricane Center, *Tropical Cyclone Report: Tropical Storm Arlene*, <http://www.nhc.noaa.gov/2005atlan.shtml>, p. 1.

1 very wide area. Tropical Storm Arlene dropped four to six inches of rain
2 in portions of Florida and caused a storm surge of up to five feet in
3 Walton County.⁶ Nearly 4,000 BellSouth access lines were impacted
4 by loss of power or physical damage. BellSouth incurred approximately
5 \$3.5 million of total damages due to Tropical Storm Arlene.

6
7 Hurricane Cindy (which was initially described as a tropical storm, but
8 based on post-storm analysis was upgraded to a minimal hurricane)
9 reached hurricane status on July 5, 2005 after having crossed over the
10 Yucatan Peninsula early on July 4, 2005 into the Gulf of Mexico.
11 Hurricane Cindy made direct landfall on July 6, 2005 in Grand Isle,
12 Louisiana with maximum winds of 75 mph.⁷ It then traveled northeast
13 and crossed over the western panhandle region of Florida.⁸ Nearly
14 1,000 BellSouth access lines were impacted by loss of power or
15 physical damage due to Hurricane Cindy and BellSouth incurred
16 approximately \$1.1 million of total damages.

17
18 Almost as soon as Hurricane Cindy left the state of Florida, Hurricane
19 Dennis struck Florida. Hurricane Dennis formed on July 5, 2005 and
20 reached hurricane strength on the afternoon of July 6, 2005.⁹

⁶ *Id.* p. 5-7. See also, The Associated Press. "Gulf Coast Dries Out After Arlene." MSNBC.com, <http://www.msnbc.msn.com/id/8156450/>, dated June 13, 2005.

⁷ *Climate of 2005: Atlantic Hurricane Season Summary*, p. 17-18.

⁸ Graham Brink, Joni James and Brady Dennis. "Dennis grows stronger – and moves closer." *St. Petersburg Times*, July 8, 2005, Weather, P. 1B.

⁹ *Climate of 2005: Atlantic Hurricane Season Summary*, p. 18.

1 Hurricane Dennis, which at its peak reached Category 4 strength,
2 started in the southern portion of the State but eventually made landfall
3 on the afternoon of July 10, 2005 west of Navarre Beach in Pensacola
4 as a Category 3 storm with wind speeds of 120 mph.¹⁰ Hurricane
5 Dennis brought storm surges of six to nine feet in portions of Florida
6 and dropped almost six inches of rain on certain portions of the state
7 ranging from Key West to Tallahassee.¹¹ By the time the effects of
8 Hurricane Dennis left BellSouth's territory on July 11, 2005,
9 approximately 225,000 lines had been impacted, and Hurricane Dennis
10 had caused approximately \$4.7 million of total damages to BellSouth's
11 network.

12
13 Hurricane Katrina originated as a tropical storm in the Bahamas and
14 was only expected to produce increased rainfall over the BellSouth
15 territory. However, less than 48 hours before it was to make landfall in
16 South Florida, it developed into a hurricane. Hurricane Katrina made
17 landfall near the Dade and Broward County line between Hallandale
18 Beach and North Miami Beach, on August 25, 2005, as a Category 1
19 hurricane, with windspeeds of approximately 80 mph and gusts of over
20 90 mph.¹² Radar indicated that up to 15 inches of rain fell in parts of

¹⁰ *Id.*

¹¹ Beven, Jack, National Hurricane Center, *Tropical Cyclone Report: Hurricane Dennis, 4-13 July 2005*, <http://www.nhc.noaa.gov/2005atlan.shtml>, p. 10-12.

¹² NCDC, NOAA, *Climate of 2005: Summary of Hurricane Katrina*, p. 3 and 5, <http://www.ncdc.noaa.gov/oa/climate/research/2005/katrina.html>, last updated Dec. 29, 2005.

1 Dade County and caused severe flooding.¹³ The storm visited some of
2 the same south Miami-Dade neighborhoods – Cutler Ridge, Homestead
3 and Country Walk – that were devastated by Hurricane Andrew 13
4 years earlier.¹⁴ Hurricane Katrina exited the southwest part of Florida
5 on August 26 and continued in a north, northwestern direction towards
6 the Gulf Coast. Hurricane Katrina had sustained hurricane force winds
7 that extended up to 105 miles from the center and had the potential for
8 a surf surge of 18 to 28 feet, 30 foot waves and as much as 15 inches
9 of rain.¹⁵ While Hurricane Katrina did not make direct landfall in the
10 Florida panhandle, the northwestern portion of the state experienced
11 strong winds, major rainfall and a storm surge of up to five feet when
12 the hurricane made landfall a second time in Louisiana.¹⁶ Hurricane
13 Katrina caused approximately \$34.4 million of total damages to
14 BellSouth's network in Florida.

15
16 Hurricane Rita, which is the 4th most intense Atlantic hurricane ever
17 recorded, did not make landfall in BellSouth's service territory.
18 However, Rita did pass through the Florida Straits and affected the
19 southern portion of BellSouth's service territory. While impacting

¹³ PalmBeachPost.com, *Hurricane Katrina: Day-by-day Recap*,
[http://www.palmbeachpost.com/storm/content/storm/2005/atlantic/katrina/day by day archive .html](http://www.palmbeachpost.com/storm/content/storm/2005/atlantic/katrina/day_by_day_archive.html), p. 2

¹⁴ *Id.*

¹⁵ *Id.* See also, Knabb, Richard D., Rhome, Jamie R., and Brown, Daniel P., National Hurricane Center, *Tropical Cyclone Report: Hurricane Katrina, 23-20 August 2005*, <http://www.nhc.noaa.gov/2005atlan.shtml>, p. 9-10

¹⁶ *Tropical Cyclone Report: Hurricane Katrina*, p. 10 and 24.

1 BellSouth's service territory, Hurricane Rita was a Category 1 storm
2 causing sustained tropical storm winds on Key West with gusts of up to
3 76 mph and, again, the customers in Dade and Broward counties were
4 the most impacted.¹⁷ By the time the storm's effects subsided late on
5 September 20th, three to five inches of rain had fallen on portions of
6 south Florida from the Keys to Fort Lauderdale, with Key West
7 experiencing a storm surge of approximately five feet.¹⁸ Hurricane Rita
8 caused approximately \$135,000 of total damages to BellSouth's
9 network and required network operations to replace 75 spans of cable.

10

11 Hurricane Wilma was the most intense hurricane ever recorded in the
12 Atlantic Basin. Wilma became a Category 1 hurricane on October 18,
13 2005. On October 19, Hurricane Wilma strengthened to a Category 5
14 hurricane with its minimum central pressure estimated at 882 MB, the
15 lowest pressure and therefore the most powerful hurricane on record in
16 the Atlantic basin.¹⁹

17

18 Hurricane Wilma made landfall on the southwest coast of Florida, near
19 Marco Island on October 24, 2005, as a very strong Category 3
20 hurricane with wind speeds of 125mph.²⁰ It crossed the state and

¹⁷ *Climate of 2005: Atlantic Hurricane Season Summary*, p. 13.

¹⁸ Knabb, Richard D., Brown, Daniel P., and Rhome, Jamie R., National Hurricane Center, *Tropical Cyclone Report: Hurricane Rita, 18-26 September 2005*, <http://www.nhc.noaa.gov/2005atlan.shtml>, p. 7.

¹⁹ NCDC, NOAA, *Climate of 2005: Summary of Hurricane Wilma*, p. 3-4, <http://www.ncdc.noaa.gov/oa/climate/research/2005/wilma.html>, last updated Oct. 31, 2005.

²⁰ *Climate of 2005: Summary of Hurricane Wilma*, p. 5.

1 exited just to the north of Palm Beach, as a Category 2 hurricane, with
2 wind speeds of 100 mph.²¹ While in Florida, Hurricane Wilma caused
3 widespread damage. Damage occurred as far north as Indian River
4 County to as far south as the Florida Keys (which experienced four to
5 five foot storm surges and massive flooding).²² Over 3.2 million access
6 lines were impacted due to loss of commercial power and direct
7 damage to BellSouth's network operations. Dade, Broward and Palm
8 Beach counties were again the most impacted. Hurricane Wilma
9 caused approximately \$158.5 million of total damages to BellSouth's
10 network.

11

12 Q. UNDER WHAT AUTHORITY IS BELLSOUTH SEEKING TO
13 RECOVER A PORTION OF ITS STORM-RELATED COSTS FOR THE
14 2005 STORM SEASON?

15

16 A. On June 2, 2005, Governor Jeb Bush signed Senate Bill 1322 into law,
17 which amended Section 364.051 of the Florida Statutes. This Statute
18 provides, in pertinent part, that local exchange telecommunications
19 carriers ("LECs") with carrier-of-last-resort obligations may, with the
20 approval of this Commission, recover its costs for repairing its
21 equipment and facilities that were damaged as a result of named
22 tropical systems. In particular, Section 364.051(4)(a) allows a LEC to

²¹ *Id.*

²² Pasch, Richard J., Blake, Eric. S, Cobb, Hugh D. III, and Roberts, David P., National Hurricane Center, *Tropical Cyclone Report, Hurricane Wilma, 15-25 October 2005*, <http://www.nhc.noaa.gov/2005atlan.shtml>, p. 4.

1 seek an increase in its basic local service rates based upon a
2 “compelling showing of changed circumstances.” Florida Statutes §
3 364.051(4)(b) further provides that “evidence of damage occurring to
4 the lines, plants, or facilities of a local exchange telecommunications
5 company that is subject to carrier-of-last-resort obligations, which
6 damage is the result of a tropical system occurring after June 1, 2005,
7 and named by the National Hurricane Center, constitutes a compelling
8 showing of changed circumstances.” Pursuant to this statute, the
9 Commission must render a decision within 120 days of the filing of the
10 petition.

11

12 Q. WHY IS BELLSOUTH ENTITLED TO RECOVER ITS 2005 STORM-
13 RELATED COSTS?

14

15 A. As stated above, Florida Statutes § 364.051(4) provides BellSouth the
16 right to petition this Commission to request approval to recover certain
17 storm-related costs. Florida Statute § 364.051(4)(b) identifies the
18 requirements necessary for a LEC to obtain relief under the statute.

19

20 1. A company may file a petition to recover its
21 intrastate costs and expenses relating to repairing, restoring, or
22 replacing the lines, plants, or facilities damaged by a named
23 tropical system.

24

25 2. The commission shall verify the intrastate costs
26 and expenses submitted by the company in support of its
27 petition.

28

29 3. The company must show and the commission shall
30 determine whether the intrastate costs and expenses are

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reasonable under the circumstances for the named tropical system.

4. A company having a storm-reserve fund may recover tropical-system-related costs and expenses from its customers only in excess of any amount available in the storm-reserve fund.

5. The commission may determine the amount of any increase that the company may charge its customers, but the charge per line item may not exceed 50 cents per month per customer line for a period of not more than 12 months.

6. The commission may order the company to add an equal line-item charge per access line to the billing statement of the company's retail basic local telecommunications service customers, its retail non-basic telecommunications service customers, and, to the extent the commission determines appropriate, its wholesale loop unbundled network element customers. At the end of the collection period, the commission shall verify that the collected amount does not exceed the amount authorized by the order. If collections exceed the ordered amount, the commission shall order the company to refund the excess.

7. In order to qualify for filing a petition under this paragraph, a company with 1 million or more access lines, but fewer than 3 million access lines, must have tropical-system-related costs and expenses exceeding \$1.5 million, and a company with 3 million or more access lines must have tropical-system-related costs and expenses of \$5 million or more. A company with fewer than 1 million access lines is not required to meet a minimum damage threshold in order to qualify to file a petition under this paragraph.

8. A company may file only one petition for storm recovery in any 12-month period for the previous storm season, but the application may cover damages from more than one named tropical system.

Q. DOES BELLSOUTH MEET THE REQUIREMENTS OF § 364.051(4)(b)?

- 1 A. Yes. BellSouth meets all of the requirements under 364.051(4)(b).
- 2 • BellSouth is a local exchange carrier that is subject to carrier-of-
- 3 last-resort obligations and has more than 3 million access lines
- 4 in Florida.
- 5 • BellSouth suffered damages caused by six named tropical
- 6 systems, occurring after June 1, 2005, that exceeded the \$5
- 7 million minimum.
- 8 • BellSouth has not filed a petition for hurricane cost recovery for
- 9 the 2005 storm season in the last 12-month period.
- 10 • The intrastate costs and expenses incurred in repairing, restoring
- 11 and replacing its lines, plant and facilities as a result of the
- 12 named tropical systems were reasonable under the
- 13 circumstances.
- 14 • As explained in Ron Hilyer's testimony, BellSouth did not receive
- 15 any insurance reimbursement nor does it have a storm reserve
- 16 fund.

17

18 Accordingly, based upon the foregoing, BellSouth is entitled to recover

19 its storm related costs for the 2005 Storms pursuant to Florida Statute §

20 364.051(4)(b).

21

22 Q. HAS THE FLORIDA COMMISSION CONSIDERED SIMILAR

23 PETITIONS FOR STORM RECOVERY EXPENSES FROM OTHER

24 COMPANIES IN FLORIDA?

25

1 A. Yes. In 2005, this Commission reviewed and approved Sprint's Petition
2 for Approval of Storm Cost Recovery Surcharge for damage Sprint
3 incurred as a result of the 2004 tropical storm season.²³ In its Order,
4 the Commission determined that the costs Sprint incurred to restore
5 service to its customers as a result of the 2004 hurricanes was
6 unprecedented and that Sprint could not recover such costs through its
7 normal course of yearly indexed price increases. The Commission
8 recognized, that based upon the legislative guidance from the 2005
9 legislative session and the passage of Section 364.051(4)(b), the
10 damage caused by the tropical systems constituted a compelling
11 showing of changed circumstances and granted Sprint's request to
12 recovery \$30,319,521 by applying a \$0.85 recovery surcharge on its
13 basic services access lines.²⁴
14
15 Similarly, the Commission has granted petitions from Florida Power &
16 Light and Gulf Power Company to recover costs incurred due to the

²³ *In re: Petition for approval of storm cost recovery surcharge, and stipulation with Office of Public Counsel, by Sprint-Florida, Incorporated, Docket No. 050374-TL, Order Approving Storm Cost Recovery Surcharge, Order No. PSC-05-0946-FOF-TL, issued October 3, 2005.*

²⁴ More recently, the Commission authorized GT Com, pursuant to Section 364.051(4)(b), to recover \$4,950 in 2005 storm-related costs by applying a one-time \$0.11 recovery surcharge on its basic services access lines. See *In re: Petition for recovery of intrastate costs and expenses relating to repair, restoration and replacement of facilities damaged by Hurican Dennis, by GTC, iNc. d/b/a GT Com., Docket No. 060300-TL, Order on GT Com Storm Cost Recovery, Order No. PSC 06-0681-FOF-TL, issued August 7, 2006.*

1 2005 storms by applying a cost-recovery charge on their customers'
2 bills.²⁵

3

4 Q. WHAT IS THE TOTAL INCREMENTAL COSTS TO BELLSOUTH OF
5 THE DAMAGE FOR THE 2005 STORM SEASON?

6

7 A. As of March 2006, BellSouth's total costs relating to storm damage
8 incurred as a result of the 2005 Storms was approximately \$202.4
9 million. As Mr. Ron Hilyer discusses fully in his testimony, BellSouth
10 has excluded capital expenditures totaling \$46.4 million from its cost
11 calculation. Thus, BellSouth's incremental, intrastate expense that it is
12 eligible to recover is approximately \$95.5 million.

13

14 Q. OF THE TOTAL COST REFERENCED ABOVE, HOW MUCH IS
15 BELLSOUTH ASKING THIS COMMISSION TO APPROVE IN THIS
16 PROCEEDING?

17

18 A. Pursuant to the statute, BellSouth is seeking to apply a charge of \$0.50
19 per retail access line and unbundled loop for a 12-month period in order
20 to recover a portion of the incremental, intrastate costs that BellSouth
21 experienced as a result of the 2005 Storms. As stated above, due to

²⁵ *In re: Petition for issuance of a storm recovery financing order, by Florida Power & Light Company, Docket No. 060038-EI, Financing Order, Order No. PSC-06-0464-FOF-EI, issued May 30, 2006 and In re: Petition for issuance of storm recovery financing order pursuant to Section 366.8260, F.S. (2005), by Gulf Power Company, Docket No. 060154-EI, Order Approving Stipulation and Settlement Agreement and Closing Docket, Order No. PSC-06-0601-S-EI, issued July 10, 2006.*

1 the number of BellSouth access lines estimated to be in service in June
2 2006, the total amount BellSouth is seeking to recover due to the 2005
3 Storms is approximately \$32.3 million or approximately \$63.2 million
4 less than BellSouth's intrastate, incremental expenses.

5
6 Q. WHY IS IT APPROPRIATE FOR THE COMMISSION TO APPROVE
7 BELL SOUTH'S PROPOSAL TO CHARGE THE \$0.50 RECOVERY
8 SURCHARGE ON UNBUNDLED LOOPS?

9
10 A. As recognized by Florida law, the Commission has the discretion to
11 impose any storm-related cost recovery charge on "unbundled loops."
12 In this case, it is appropriate for the Commission to allow BellSouth to
13 impose a \$0.50 charge on its unbundled loop customers, because
14 BellSouth experienced substantial costs in repairing facilities that are
15 leased by its wholesale customers. As Mr. McKinney discusses in his
16 testimony, when BellSouth restores service to a damaged facility, it
17 restores the service on a nondiscriminatory basis and does not
18 recognize network facilities as either "BellSouth's" or "a CLEC's".
19 BellSouth's primary goal during such recovery and repair period is to
20 provide Floridians with phone service as quickly as possible regardless
21 of who provides their telephone service.

22
23 Further, if the Commission does not impose the charge on unbundled
24 loops, it will result in disparate treatment between BellSouth's end users
25 and CLEC end users, both of which use the same facilities to receive

1 service and could result in only BellSouth customers being responsible
2 for charges that benefit BellSouth and CLEC end users.

3

4 Q. IF A CHARGE PER LINE IS APPROVED, ON WHAT DATE SHOULD
5 THE CHARGE BECOME EFFECTIVE AND ON WHAT DATE SHOULD
6 THE CHARGE END?

7

8 A. The charge should become effective as soon as possible after
9 Commission approval, taking into consideration time for BellSouth to
10 modify its billing processes necessary to implement the Commission's
11 order. Once BellSouth begins billing the recovery surcharge, it should
12 be allowed to apply such charge for 12 consecutive months, as
13 permitted by the statute. BellSouth will monitor and review its cost
14 recovery process and will, at the end of the 12 months, demonstrate to
15 the Commission that it collected storm recovery fees in accordance with
16 the Commission's order resulting from this proceeding.

17

18 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

19

20 A. The 2005 hurricane season caused major destruction to many areas in
21 the Southeast region, including Florida. From the beginning of June
22 2005 through the middle of October 2005, Florida was on a constant
23 hurricane watch, evacuation and clean-up cycle. By the end of the
24 season, the entire state of Florida had been declared a national disaster

1 area by President Bush.²⁶ BellSouth's network facilities were extremely
2 damaged. BellSouth, like many other utility companies, attempted to
3 restore service to its customers as quickly as possible. With the
4 passing of Florida Statute § 364.051(4), the Florida Legislature
5 recognized the hard work, dedication and large capital expenditures
6 these companies experienced to provide Floridians with service.
7 Florida Statute § 364.051(4) allows companies, such as BellSouth, to
8 recover their intrastate incremental costs associated with repairs made
9 necessary by tropical systems and should be approved, especially
10 since any recovery is limited to 16% of the actual total expenses
11 BellSouth experienced as a result of the 2005 Storms.

12

13 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

14

15 A. Yes.

16

17

18 [Docs # 633823]

19

²⁶ See "Statement of Federal Assistance for Florida,"
<http://www.whitehouse.gov/news/releases/2005/09/20050905-4.html>.

1 BELLSOUTH TELECOMMUNICATIONS, INC.
2 DIRECT TESTIMONY OF RONALD L. HILYER
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. _____-TP
5 SEPTEMBER 1, 2006
6

7 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
8 POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC.
9

10 A. My name is Ronald L. Hilyer and my business address is 675 West
11 Peachtree Street N. E., Atlanta, Georgia. My position is Director for the
12 Finance Department of BellSouth Telecommunications, Inc.
13 (hereinafter referred to as "BellSouth").
14

15 Q. BRIEFLY OUTLINE YOUR EDUCATIONAL BACKGROUND AND
16 BUSINESS EXPERIENCE IN THE TELECOMMUNICATIONS
17 INDUSTRY.
18

19 A. I received Bachelor and Master of Science degrees in accounting in
20 1981 and 1991, respectively, from the University of Alabama at
21 Birmingham. I am a Certified Public Accountant (CPA) licensed in the
22 state of Alabama, and am a member of the American Institute of CPAs
23 and the Alabama Society of CPAs. After approximately 4 years
24 experience with Peat, Marwick, Mitchell and Co. (presently known as
25 KPMG), I was employed by BellSouth in September, 1984, as an
26 assistant manager in the Comptrollers Department in Birmingham,

1 Alabama. Since that time, I have held various positions of increasing
2 responsibility in the areas of tax, budget and forecast preparation and
3 regulatory matters. I was transferred to my current position in
4 February, 2000. Overall, I have over 21 years experience dealing with
5 the financial issues of BellSouth.

6
7 Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

8
9 A. I am responsible for the preparation and analysis of BellSouth's
10 financial results, the provision of accounting and cost information
11 requested in proceedings before state and federal regulatory
12 commissions, and the coordination of other regulatory activities related
13 to accounting and finance.

14
15 Q. DO YOU HAVE ANY PREVIOUS EXPERIENCE IN STATE
16 REGULATORY PROCEEDINGS REGARDING FINANCIAL ISSUES?

17
18 A. Yes. Over half of my 21 years with BellSouth have been spent in
19 regulatory matters. During this time I have been involved in the
20 preparation of testimony and analyses regarding financial issues in
21 state regulatory proceedings in a number of states. I have previously
22 filed written testimony in Docket No. 14361-U before the Georgia Public
23 Service Commission.

24
25 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
26 PROCEEDING?

1 A. The primary purpose of my testimony is to: (1) describe the
2 methodology BellSouth used in determining the intrastate, incremental
3 expenses that it is seeking to recover in this proceeding; (2) compare
4 BellSouth's methodology used to calculate its costs to that used by
5 Office of Public Counsel ("OPC") in other cases; and (3) discuss the
6 unavailability of any reserve fund or insurance to reduce the costs
7 incurred.

8

9 Q. HAVE YOU PREPARED ANY EXHIBITS CONTAINING
10 INFORMATION THAT WILL BE REFERRED TO IN YOUR
11 TESTIMONY?

12

13 A. Yes. Attached to my testimony are two exhibits (RLH Exhibit 1 and
14 RLH Exhibit 2). RLH Exhibit 1 is a comparison of how various storm
15 recovery cost items have been treated by OPC in previous storm
16 recovery proceedings and BellSouth's treatment in this proceeding.
17 RLH Exhibit 2 shows the calculation of the intrastate portion of the
18 incremental storm recovery expense presented by BellSouth witness
19 Mr. Steve Pendergrass. These exhibits will be discussed and
20 explained in my testimony.

21

22 Q. WHAT CATEGORIES OF INCREMENTAL COST HAS BELLSOUTH
23 INCLUDED FOR RECOVERY?

24

25 A. First, BellSouth limited its identification of incremental costs to storm
26 restoration work performed in the Florida Network Field Operations

1 organization. BellSouth also incurred incremental costs in other
2 organizations such as Real Estate and Supply Chain, but those
3 amounts were relatively small and have not been included.¹ As
4 detailed by BellSouth witness Mr. Steve Pendergrass on SP Exhibit 1,
5 BellSouth included such incremental costs as basic salary and wages
6 for temporary network employees, including employees loaned from
7 other BellSouth states, overtime for network employees working on
8 storm restoration, Social Security and Medicare taxes on incremental
9 salary and wage expense, incremental contract labor and services, and
10 incremental expenses for material and supplies, fuel, equipment rental,
11 network communication and meals and lodging for workforce in travel
12 status.

13

14 Q. PLEASE COMPARE BELLSOUTH'S APPROACH TO INCREMENTAL
15 COST TO THE APPROACH TAKEN BY WITNESSES FOR THE OPC
16 IN SIMILAR PROCEEDINGS.

17

18 A. BellSouth reviewed the direct testimony of OPC witness Mr. Hugh
19 Larkin, Jr. in Docket 060038-EI filed on March 31, 2006 and the direct
20 testimony of Office of Public Counsel witness Mr. Michael J. Majoros in
21 Docket 041291-EI filed on February 8, 2005. Although those cases
22 were not filed under the provisions of Florida Statutes § 364.051, they

¹ While BellSouth has chosen not to claim its incremental costs incurred in other organizations such as Real Estate and Supply Chain in the instant docket, BellSouth expressly reserves the right to claim all incremental costs incurred as a result of future storm damage in any future storm recovery proceeding.

1 provide useful insights. BellSouth's approach to incremental cost is
2 very similar to OPC's approach in these dockets. As OPC advocates,
3 the BellSouth filing excludes lost revenue and uncollectibles,
4 advertising, customer communications, "normal" levels of materials and
5 supplies, "normal" levels of basic and overtime salaries and wages,
6 employee assistance costs, vacation buybacks, "catch-up" costs,
7 "backfill" work and cost of removal. RLH Exhibit 1 compares
8 BellSouth's treatment of certain storm recovery cost items to OPC's
9 treatment.

10

11 Q. IN WHAT WAYS DOES BELLSOUTH'S DETERMINATION OF
12 INCREMENTAL EXPENSE DIFFER FROM THAT OF OPC
13 WITNESSES LARKIN AND MAJOROS IN THE TWO ELECTRIC
14 UTILITY DOCKETS?

15

16 A. BellSouth has included incremental management overtime, both non-
17 exempt (subject to wage and hour provisions of the Federal Fair Labor
18 Standards Act – "FLSA") and exempt. Mr. Larkin and Mr. Majoros
19 seem to have taken different positions on this issue: Mr. Larkin
20 advocated excluding exempt employee overtime, while Mr. Majoros
21 supported the inclusion of all management overtime. BellSouth's
22 treatment mirrors Mr. Majoros'. BellSouth includes incremental
23 management overtime for network operations employees because of
24 the extraordinary working conditions and work schedules required after
25 a catastrophic storm.

26

1 Q. PLEASE ELABORATE ON WHY INCREMENTAL MANAGEMENT
2 OVERTIME SHOULD BE INCLUDED IN THE RECOVERABLE
3 AMOUNT.

4
5 A. In the aftermath of a storm, non-management employees typically work
6 a two-week schedule of thirteen days on and one day off,
7 approximately twelve hours a day. Network managers involved in
8 restoration work the same schedules in order to supervise the work.
9 This schedule results in managers working many more hours than what
10 would be considered a normal workweek. Storm recovery also
11 changes the nature of management work and makes it more taxing
12 because (1) both managers and their employees are working in
13 unusual and often difficult conditions; (2) management spans of control
14 increase markedly because of the use of contractors; (3) the need for
15 management activity increases because of the use of loaned
16 employees who may be unfamiliar with the local area and contractors
17 who may also be unfamiliar with BellSouth procedures; and (4) the
18 nature of the work introduces additional safety issues that must be
19 monitored and mitigated. In the case of non-exempt managers,
20 BellSouth is required by FLSA to pay overtime for all hours worked in
21 excess of forty hours in a workweek.

22
23 In the case of exempt managers, BellSouth policy recognizes that
24 managers often have to put in some level of overtime to fulfill their
25 responsibilities. BellSouth also recognizes, however, that there may be
26 circumstances in which overtime is non-customary and may be

1 compensated. The conditions described above fall into this category.
2 In such circumstances, BellSouth pays exempt employees below the
3 level of director for planned, pre-approved overtime when the hours
4 worked exceed fifty hours per week. It is reasonable and prudent to
5 incur this overtime in a storm recovery situation and therefore it should
6 be included in the storm recovery costs to be considered for recovery.
7

8 Q. IS BELLSOUTH SEEKING TO RECOVER CAPITAL COSTS IN ITS
9 PETITION?

10

11 A. No.

12

13 Q. WHY DOES BELLSOUTH EXCLUDE CAPITAL FROM ITS FILING?

14

15 A. Because BellSouth has incurred much more intrastate incremental
16 expense than it can recover through the maximum \$.50 per line
17 recovery charge authorized by Florida Statutes § 364.051, BellSouth
18 has chosen to exclude all capital from the amounts presented on Line 5
19 of RLH Exhibit 2.²

20

21 Q. IS BELLSOUTH SEEKING TO RECOVER INCREMENTAL COSTS
22 FOR CARRYING CHARGES IN ITS PETITION?

23

24 A. No.

² While BellSouth has chosen not to claim capital amounts in the instant docket, BellSouth expressly reserves the right to claim capital amounts incurred as a result of future storm damage in any future storm recovery proceeding.

1

2 Q. WHY DOES BELLSOUTH EXCLUDE CARRYING CHARGES FROM
3 ITS FILING?

4

5 A. The FPSC has allowed carrying charges in similar proceedings.
6 However, because BellSouth has incurred much more intrastate
7 incremental expense than it can recover through the maximum \$.50 per
8 line recovery charge authorized by Florida Statutes § 364.051,
9 BellSouth has chosen to exclude carrying charges from the amounts
10 presented on RLH Exhibit 2.³

11

12 Q. PLEASE DESCRIBE AND DISCUSS THE INFORMATION
13 PRESENTED IN RLH EXHIBIT 2.

14

15 A. The purpose of RLH Exhibit 2 is to present the intrastate, incremental
16 expense incurred by BellSouth as a result of the 2005 Storms. The
17 exhibit shows the incremental expense amount presented by BellSouth
18 witness Mr. Pendergrass on Line 3 and then uses the intrastate factor
19 shown on Line 4 to calculate the intrastate incremental expense shown
20 on Line 5. The intrastate factor on Line 2 is based on Plant Specific
21 and Non-Specific Operating Expense amounts reported on BellSouth's
22 2005 FCC ARMIS Report 43-01.

23 Q. WHAT WAS THE AMOUNT OF INTRASTATE INCREMENTAL
24 STORM RECOVERY EXPENSE AND HOW DOES IT RELATE TO

³ While BellSouth has chosen not to claim carrying charges in the instant docket, BellSouth expressly reserves the right to claim carrying charges in any future storm recovery proceeding.

1 THE TOTAL INCREMENTAL COSTS OF \$202.4M PRESENTED BY
2 MR. PENDERGRASS?

3

4 A. The intrastate incremental storm recovery expense was \$95.5M as
5 shown on Line 5 of RLH Exhibit 2. The total incremental cost of
6 \$202.4M shown on Line 1 contains \$46.4M in capital costs, as shown
7 on Line 2. Subtracting \$46.4M of capital costs leaves incremental
8 storm recovery expense of \$156.0M. Applying the intrastate
9 jurisdictional factor of 61.2144% calculated from BellSouth's 2005 FCC
10 ARMIS Report 43-01, shown on Line 4, produces an intrastate
11 incremental expense amount of \$95.5M.

12

13 Q. IS THE \$95.5M IN INTRASTATE INCREMENTAL EXPENSE THE
14 AMOUNT BELLSOUTH PROPOSES TO BE CONSIDERED BY THE
15 COMMISSION FOR RECOVERY?

16

17 A. Yes.

18

19 Q. DOES BELLSOUTH HAVE A STORM RESERVE FUND OR
20 ACCRUAL AVAILABLE TO OFFSET SOME OR ALL OF THE COSTS
21 DISCUSSED ABOVE?

22

23 A. No. BellSouth neither has a storm reserve fund nor has it maintained
24 an accrued reserve for future storm damage.

25 Q. IS BELLSOUTH ALLOWED TO ACCRUE FOR FUTURE STORM
26 DAMAGE FOR EXTERNAL FINANCIAL REPORTING PURPOSES

1 UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
2 (GAAP)?

3

4 A. No. BellSouth is subject to the requirements of Statement of Financial
5 Accounting Standards (SFAS) No. 5, Accounting for Contingencies.
6 Paragraph 28 of SFAS No. 5 specifically prohibits the accrual for
7 uninsured future losses from these types of events. This is because
8 prior to the occurrence of the event no liability has been incurred. As a
9 result, BellSouth is prohibited from accruing storm related expenses for
10 external financial reporting purposes under GAAP.

11

12 Q. DOES BELLSOUTH HAVE ANY INSURANCE PROCEEDS TO APPLY
13 AGAINST THE 2005 STORM COSTS?

14

15 A. No. BellSouth's insurance is very limited with respect to casualty
16 insurance, which is the type of insurance that would apply with respect
17 to damage caused by a tropical system. Further, BellSouth does not
18 purchase insurance to protect its outside plant.⁴ And, while BellSouth
19 does maintain a self insurance program for real and personal property
20 such as central office buildings,⁵ through a captive insurance company,
21 this insurance carries a \$10 million deductible per occurrence. Each of
22 the 2005 Storms that struck BellSouth's service territory in Florida

⁴ Some examples of outside plant include outside cable and conduit and associated equipment including poles, towers, aerial cable, aerial wire, drop lines, underground cable, buried cable, submarine cable, and underground conduit and duct.

⁵ Some examples of real and personal property include administrative offices, equipment included in administrative offices, central offices, equipment included in central offices, motor vehicles while parked on BellSouth premises, and any equipment in those vehicles.

1 constituted a separate occurrence, and no single 2005 storm caused
2 damages to real and personal property in Florida in excess of the \$10
3 million deductible.

4

5 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

6

7 A. BellSouth incurred a total of \$95.5M in eligible intrastate incremental
8 expense related to the 2005 Storms. These expenses were identified
9 using methods and techniques consistent with methodologies
10 supported by the Commission and OPC in prior storm recovery
11 dockets. There is no reserve fund or insurance proceeds available to
12 offset these costs.

13

14 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

15

16 A. Yes.

17

BellSouth Telecommunications, Inc.
Comparison of OPC and BellSouth Treatment of Certain Expense and Capital Storm Recovery Items

<u>Item</u>	<u>OPC Treatment</u>	<u>BST Treatment and Rationale if Diff from OPC</u>
1 Incremental costs exceeding "normal" costs	Included	Included
2 Capital amounts for restoration projects under normal operating conditions	Excluded	Excluded
3 Extraordinary capital amounts	Included	Excluded (See Note 1)
4 Advertising	Excluded	Excluded
5 Communications	Excluded	Excluded
6 "Normal" Level of Materials and Supplies	Excluded	Excluded
7 "Normal" Level of Labor Costs	Excluded	Excluded
8 Exempt Employee/Management Overtime	Majores supports inclusion of mgt overtime. Larkin supports exclusion of exempt employee overtime	Portion in excess of "normal" overtime included because it is reasonable and prudent in light of unusual demands of catastrophic storm recovery activities.
9 Employee Assistance Costs	Excluded	Excluded
10 Vacation Buybacks	Excluded	Excluded
11 "Catch-Up" Costs (See Note 2)	Excluded	Excluded
12 "Backfill Work" (See Note 3)	Excluded	Excluded
13 Cost of Removal	Excluded	Excluded
14 Lost Revenue	Excluded	Excluded
15 Uncollectibles	Excluded	Excluded

Notes:

1. While the Company has chosen not to claim capital amounts in the instant docket, the Company expressly reserves the right to claim capital amounts incurred as a result of future storm damage in any future storm recovery dockets.
2. "Catch-Up" costs as defined by OPC witness Larkin are costs associated with work postponed due to employees working on storm restoration and are not directly related to restoring facilities.
3. "Backfill" work as defined by OPC witness Larkin is payroll and overtime in work areas not directly affected by the storms.

BellSouth Telecommunications, Inc.
Florida Storm Recovery Costs for 2005 Named Storms
Costs Incurred Through March 31, 2006
\$ in 000s

RLH Exhibit 2
Page 1 of 1

	<u>TS Arlene</u>	<u>H Cindy</u>	<u>H Dennis</u>	<u>H Katrina</u>	<u>H Rita</u>	<u>H Wilma</u>	<u>Total</u>
1. Total Cost	\$3,537	\$1,103	\$4,732	\$34,409	\$135	\$158,450	\$202,366
2. Less Total Capital Cost	\$0	\$0	\$1,095	\$9,269	\$74	\$35,920	\$46,358
3. Total Incremental Storm Recovery Expense	\$3,537	\$1,103	\$3,637	\$25,140	\$61	\$122,530	\$156,008
4. Intrastate Jurisdictional Factor	0.612144	0.612144	0.612144	0.612144	0.612144	0.612144	
5. Intrastate Incremental Storm Recovery Expense	\$2,165	\$675	\$2,227	\$15,389	\$37	\$75,006	\$95,499

Notes:

1. Total cost on Line 1 consists of capital amounts related directly to storm restoration and incremental expense amounts as presented by BellSouth witness Mr. Steve Pendergrass.
2. The intrastate jurisdictional factor on Line 4 was computed from the 2005 BellSouth - Florida ARMIS 43-01, Plant Specific and Non-Specific Operating Expenses.
3. Costs on this worksheet include only Network Field Operations costs and do not include incremental costs incurred in other organizations, e.g. Real Estate, Supply Chain, Advertising, nor do they include Cost of Removal.

1 BELL SOUTH TELECOMMUNICATIONS, INC.
2 DIRECT TESTIMONY OF WILLIAM MCKINNEY
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 STORM COST RECOVERY PROCEEDING
5 DOCKET NO. _____-TP
6 SEPTEMBER 1, 2006
7

8 Q. PLEASE STATE YOUR NAME, YOUR BUSINESS ADDRESS, AND YOUR
9 POSITION WITH BELL SOUTH TELECOMMUNICATIONS, INC.
10 ("BELL SOUTH").
11

12 A. My name is William (Jeff) McKinney. My business address is 675 West
13 Peachtree Street, Atlanta, Georgia 30375. My title is Director Process
14 Improvement & Industrial Engineering.
15

16 Q. PLEASE SUMMARIZE YOUR BACKGROUND AND EXPERIENCE WITH
17 BELL SOUTH.
18

19 A. I graduated from Georgia Tech in 1986 with a BS Industrial Engineering and
20 received an MBA from Kennesaw State University in 2000. I have over 22 years
21 experience in the telecommunications industry working for BellSouth. I have held
22 numerous management positions in BellSouth, including positions involving
23 outside plant engineering, financial management, international business
24 development, long distance, international wireless as well as process and
25 performance improvement. I currently serve on the Network Operations Staff and

1 am responsible for improving efficiency and quality for BellSouth. Further, when
2 the BellSouth Emergency Control Center is activated during or after the
3 occurrence of a natural disaster or other catastrophic events, I serve as the lead
4 for a group of Network employees that compile and report information about the
5 extent of Network damage to internal and external organizations. I began this
6 role in the immediate aftermath of Hurricane Katrina's landfall in Louisiana and
7 served in this capacity throughout the remainder of the 2005 hurricane season.
8

9 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?
10

11 A. The purpose of my testimony is to generally describe the type and extent of
12 damages experienced by the BellSouth network as a result of the series of
13 tropical systems that battered Florida after June 1, 2005 ("2005 Storms").
14

15 Q. CAN YOU GENERALLY EXPLAIN THE TYPE OF DAMAGES THAT THE
16 BELLSOUTH NETWORK SUFFERED AS A RESULT OF THE BARRAGE OF
17 TROPICAL SYSTEMS THAT STRUCK FLORIDA IN 2005?
18

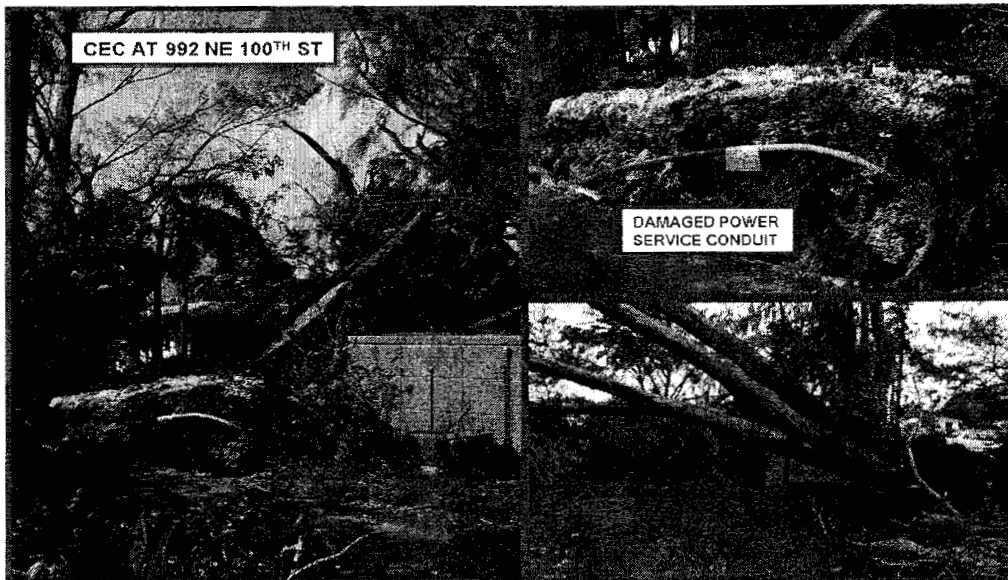
19 A. Yes. As a result of the 2005 Storms, the BellSouth network suffered (1) direct
20 physical damage; and (2) operational damage.
21

22 **DIRECT PHYSICAL DAMAGE**

23 Direct physical damage from a hurricane or tropical storm results primarily from
24 three main influences: high wind, water and damage incurred during cleanup

1 efforts. BellSouth experienced all of these damages as a result of the 2005
2 Storms.

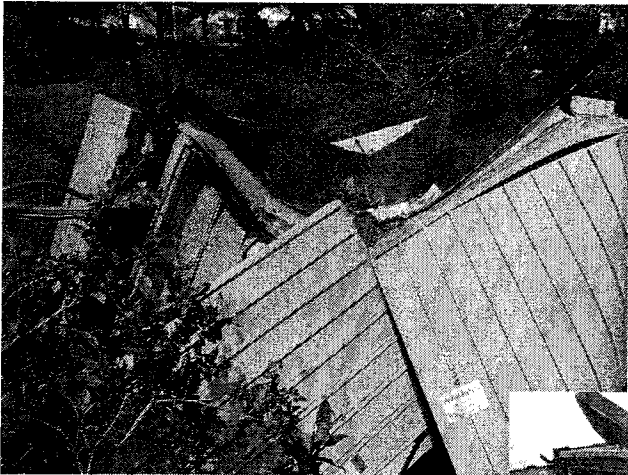
3
4 For instance, tropical system winds caused multiple problems as it blew down
5 trees, tree limbs and other debris which caused spans of aerial cable, or service
6 drops, to break and/or fall and become separated from the network. As can be
7 seen by the below picture taken after Hurricane Wilma, fallen trees damaged the
8 power service to an outside plant cabinet when the ground was pulled up with the
9 tree's roots.



19 Furthermore, as can be seen with the next series of pictures, BellSouth's network
20 experienced damage when trees fell across electronics cabinets or other
21 facilities. Cabinets such as the one pictured below can house the equipment that
22 provides DSL data services and equipment to provide voice service. This
23 particular cabinet housed voice communications equipment and associated
24 powering devices and was collocated with DSL equipment.

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th's poles fell or broke due to the
en trees or other debris fall across

Broward Co. Remote Terminal



In addition to weakening the ground
around utility poles, flooding from
either storm surge or rainwater

1 runoff also caused remote electronic facilities on or below ground to short circuit
2 and fail.

3
4 In the days and weeks following any hurricane, including the 2005 Storms, the
5 BellSouth network can also be damaged as a result of cleanup efforts due to tree
6 removal and excavations. Debris removal is a major coordination problem and
7 the cause of outages during and after the recovery period. For example, front-
8 end loaders and trash haulers cut buried plant terminals at ground level and pull
9 down aerial plant and drops, some of which may have been just recently placed.
10 In addition, customers who replace fences, plants, and trees frequently times cut
11 buried cable and buried service wires. Again, BellSouth experienced all of these
12 damages as a result of the 2005 Storms.

13
14 **OPERATIONAL DAMAGES**

15 Operational damage to the network came when, although there was no physical
16 damage, some network elements failed due to the loss of electrical power. While
17 all BellSouth Central Offices have permanent power generators to back up the
18 commercial power network, the BellSouth network also contains electronic
19 elements located in the field that, due to their much smaller size and service
20 area, have limited backup power supplies. In the aftermath of the 2005 Storms,
21 many remote electronic sites lost commercial power and failed as the built in
22 batteries were drained of power. The length of time the batteries will last is
23 designed to be 8 hours but that time will vary depending on the call load.

1 To supply the network with power during commercial outages, and after the
2 expiration of the life-span of a battery, BellSouth maintains a large pool of
3 portable generators that are deployed following a hurricane or tropical storm.
4 The logistical issues and expense surrounding the deployment, maintenance and
5 continual refueling of the portable generators represents a significant work effort
6 following a major weather event.

7
8 Q. DESCRIBE THE DAMAGE CAUSED BY TROPICAL STORM/HURRICANE TO
9 THE COMPANY'S LINES, PLANT OR OTHER FACILITIES (BY STORM).

10
11 A. Arlene and Cindy

12 Tropical Storms Arlene and Hurricane Cindy produced a significant amount of
13 rain on the territory served by BellSouth in the panhandle, including the
14 Pensacola area that had been severely affected by Hurricane Ivan in 2004.
15 Nearly 4,000 lines were impacted by loss of power or physical damage by Arlene
16 and 1,000 lines were impacted by Cindy.

17
18 Dennis

19 Hurricane Dennis affected the panhandle on July 10th causing major damage to
20 areas that escaped serious impact by Hurricane Ivan in 2004. Santa Rosa, Bay
21 and Escambia counties, including Pensacola Beach, were struck particularly hard
22 by Dennis. BellSouth determined that 292 industry poles and 855 spans of cable
23 had to be repaired. In all, 225,000 lines were impacted by loss of power or
24 physical damage, due to Dennis.

25

1 Katrina – Florida Landfall

2 Hurricane Katrina crossed Florida on August 25th affecting customers in South
3 Florida before making its legendary landfall just east of New Orleans, Louisiana.
4 In Florida, Katrina damaged 790 industry poles, 1,881 spans of aerial cable and
5 11 remote terminal electronics sites affecting 600,000 lines.

6
7 Rita

8 The near miss of Hurricane Rita in the Florida Keys caused 75 spans of aerial
9 cable to be repaired.

10
11 Wilma

12 Although Hurricane Wilma came ashore on October 24th on the west coast of
13 Florida, the storm caused major damage throughout south Florida from Indian
14 River County to Key West, with the most extensive damage and loss of power
15 occurring in Broward County, Dade County and Palm Beach County. Hurricane
16 Wilma also caused flood damage in the Keys. In all, BellSouth repaired 8,120
17 industry poles, 11,178 spans of aerial cable and 317 remote terminal electronics
18 sites following Wilma. Loss of commercial power and direct physical damage
19 from Hurricane Wilma to the BellSouth network affected 3.2 million lines.

20
21 The wide area and extent of the damage to complex electronic network facilities
22 required over 2,500 portable generators, and 1,419 loaned and contract outside
23 plant technicians and managers. Beginning immediately after the storm,
24 BellSouth employees and contractors worked schedules of thirteen days on and

1 one day off, twelve hours a day. In the hardest hit areas, these extended
2 schedules continued until March 31, 2006.

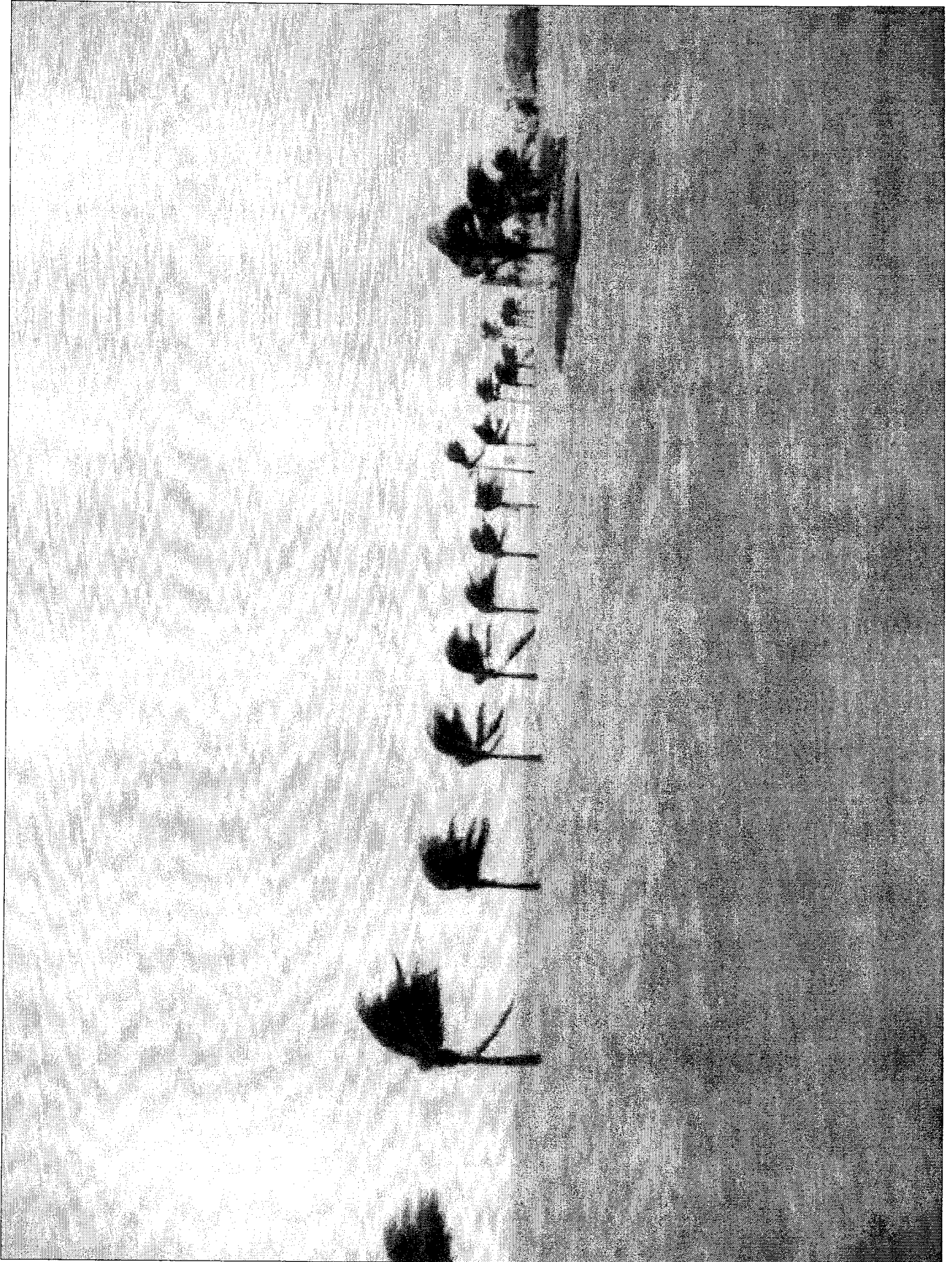
3
4 Q. HAS ANY OF THIS WORK CARRIED OVER INTO 2006?

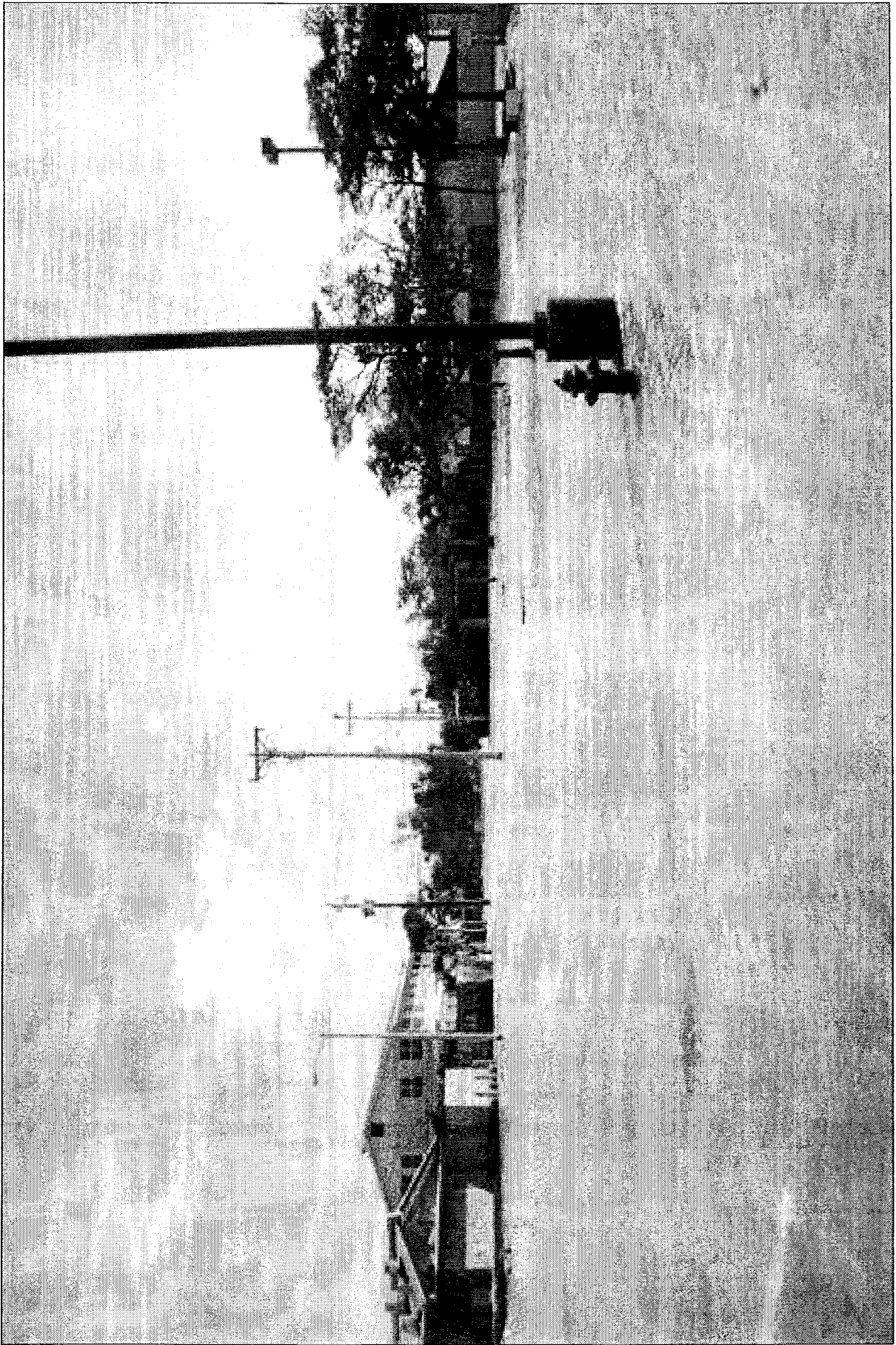
5
6 A. Immediately following any storm, BellSouth begins assessing the damage to the
7 network and planning the restoration effort. As areas are deemed safe,
8 BellSouth employees "sweep" areas restoring all services utilizing any means
9 possible, including temporary facilities. This short term restoration work is
10 prioritized according to safety concerns and restores all services carried on the
11 BellSouth network regardless of the service provider. Repair and service
12 requests in storm affected areas are then worked on a first-in, first-out basis as
13 the permanent repairs are completed and facilities become available once again.
14 From a customer perspective, on or about February 28th, 2006 BellSouth
15 returned to normal service interval levels and normal business operations
16 statewide.

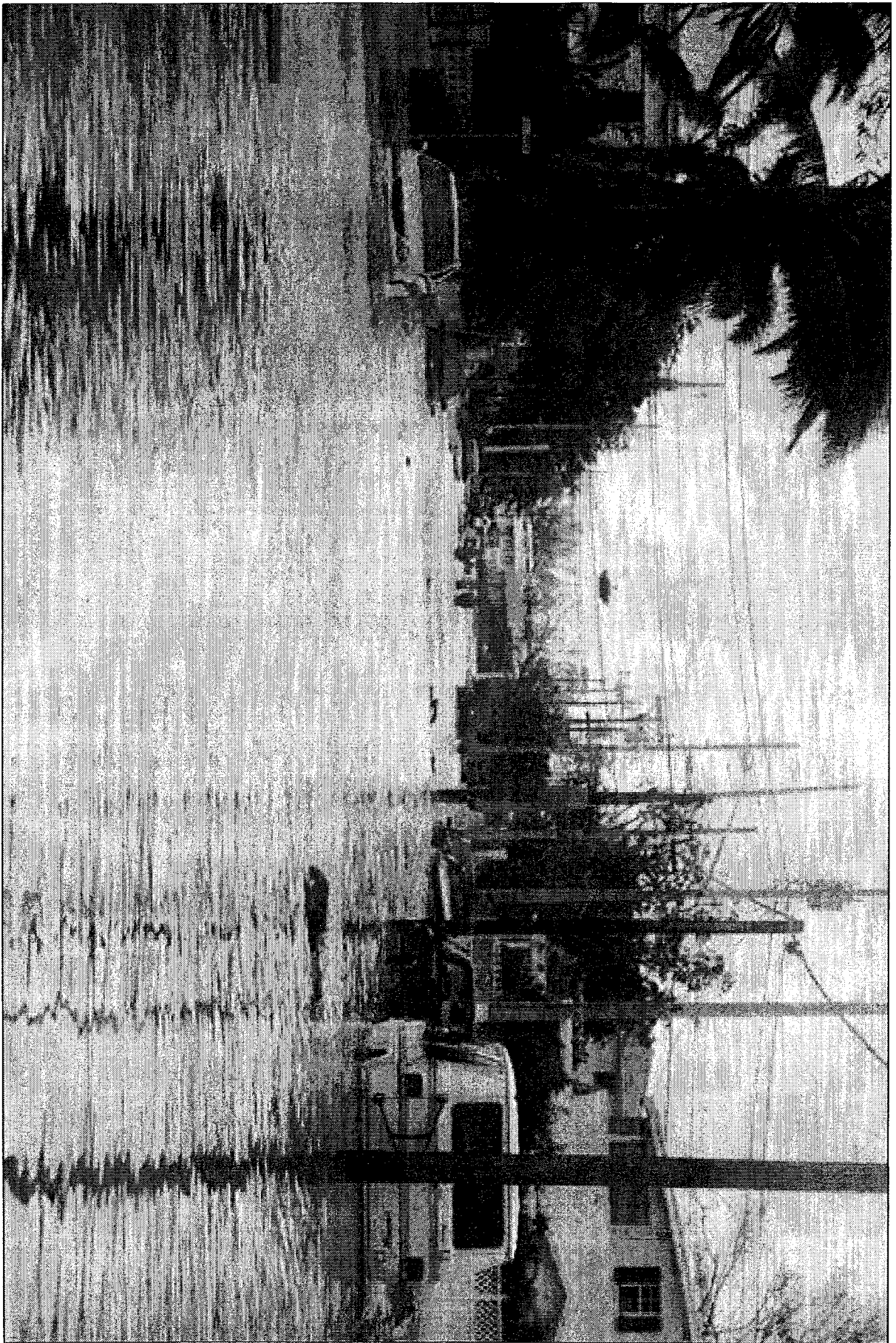
17
18 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

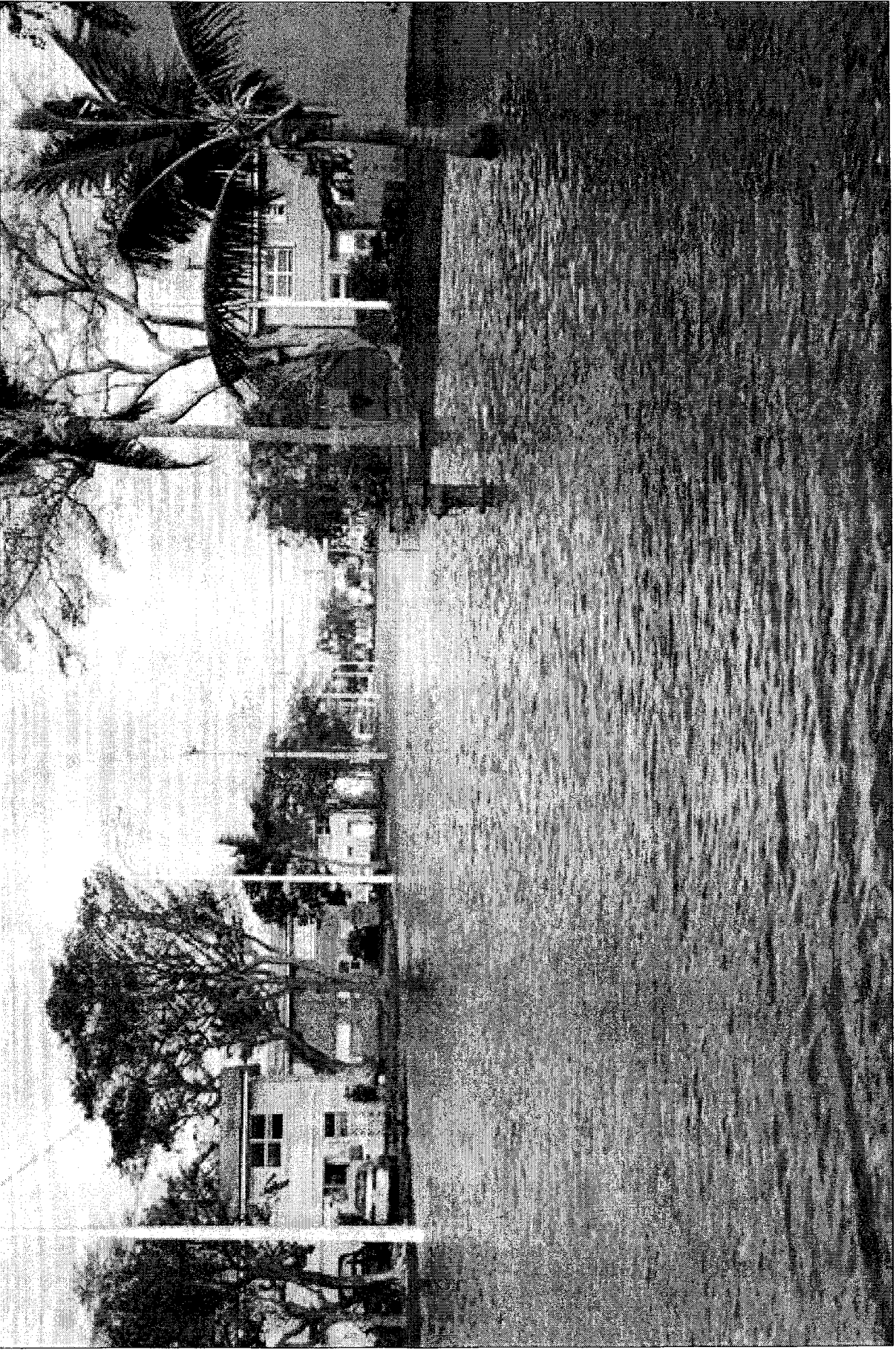
19
20 A. Yes.

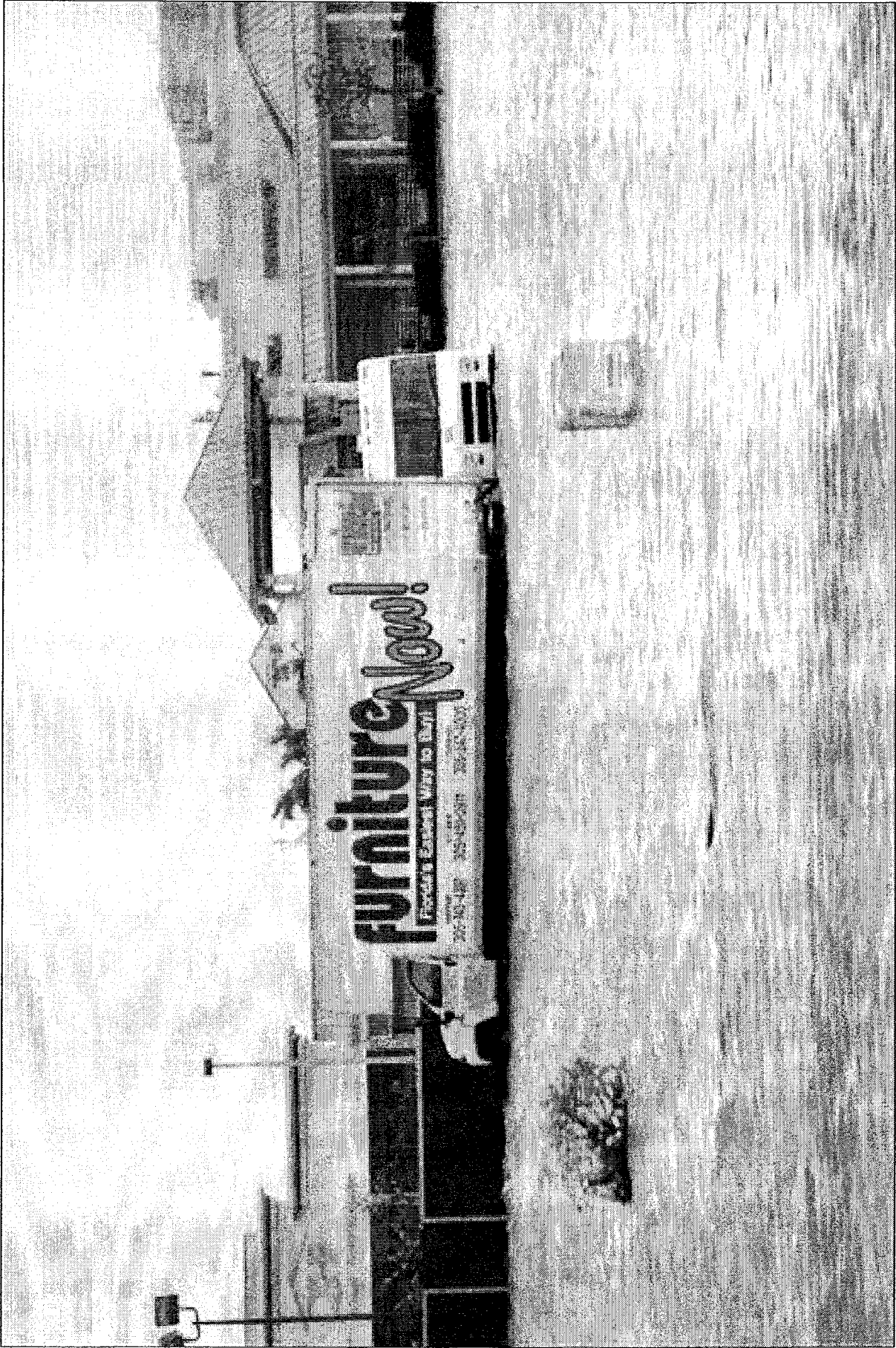
EXHIBIT 1

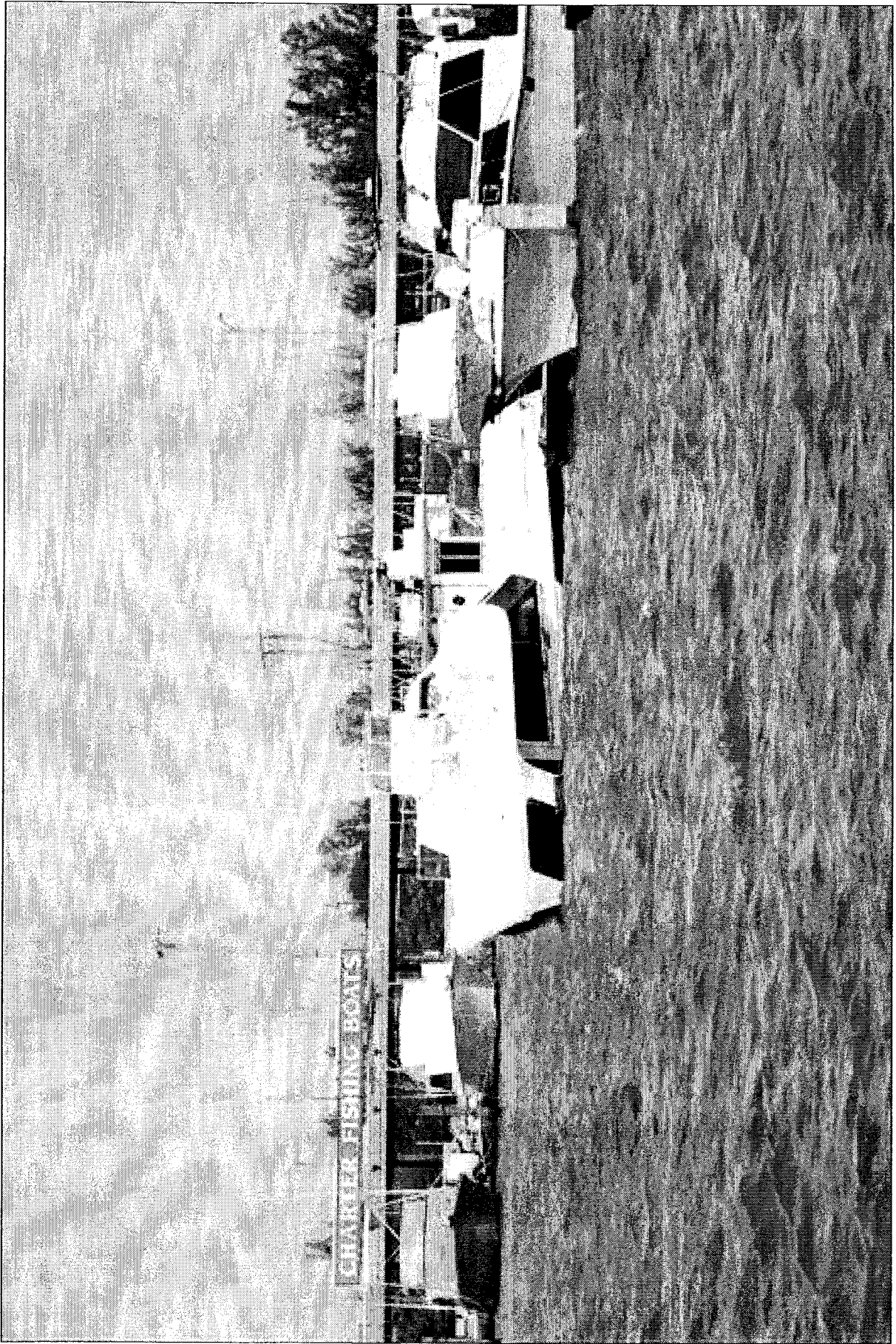




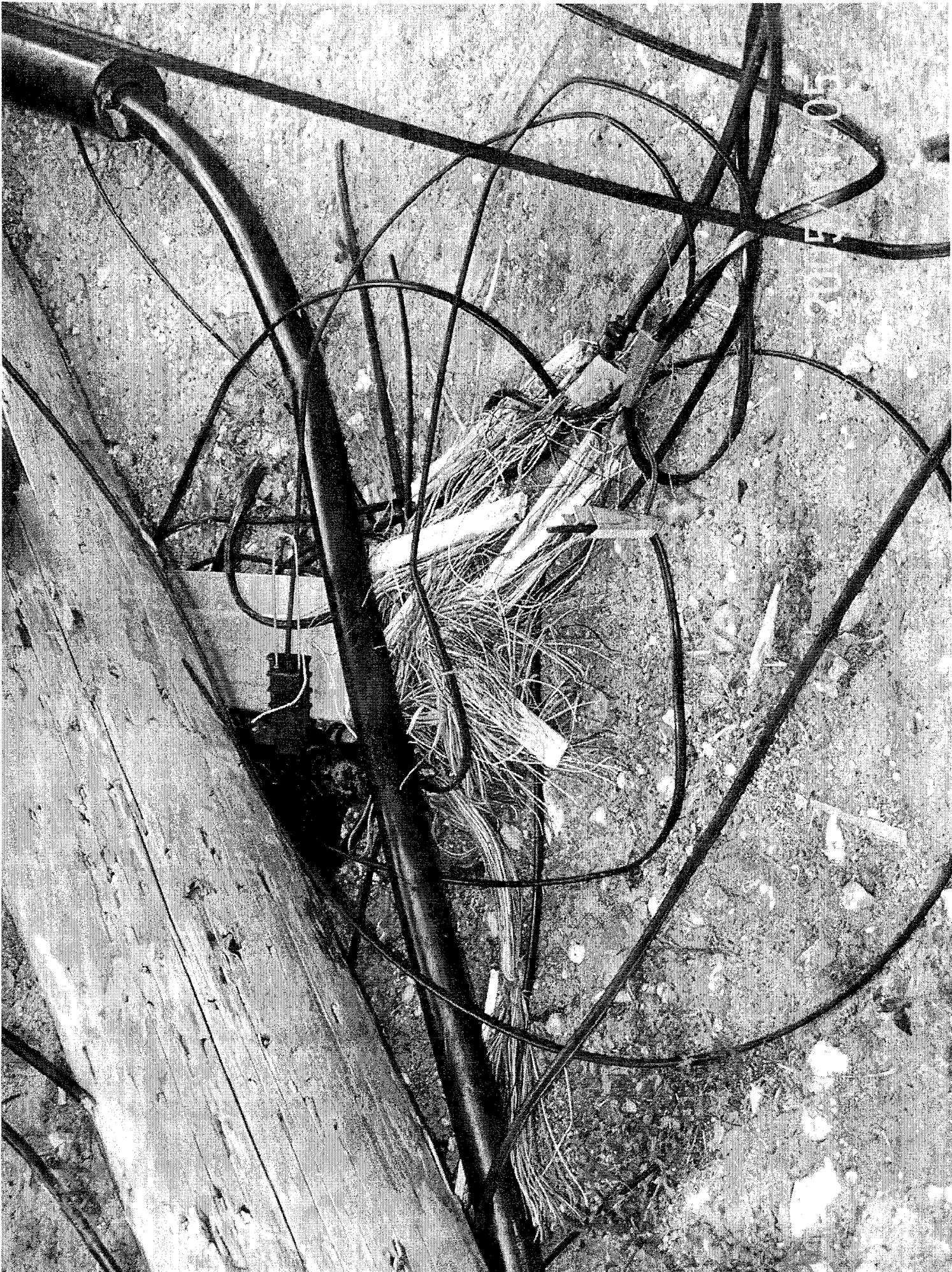










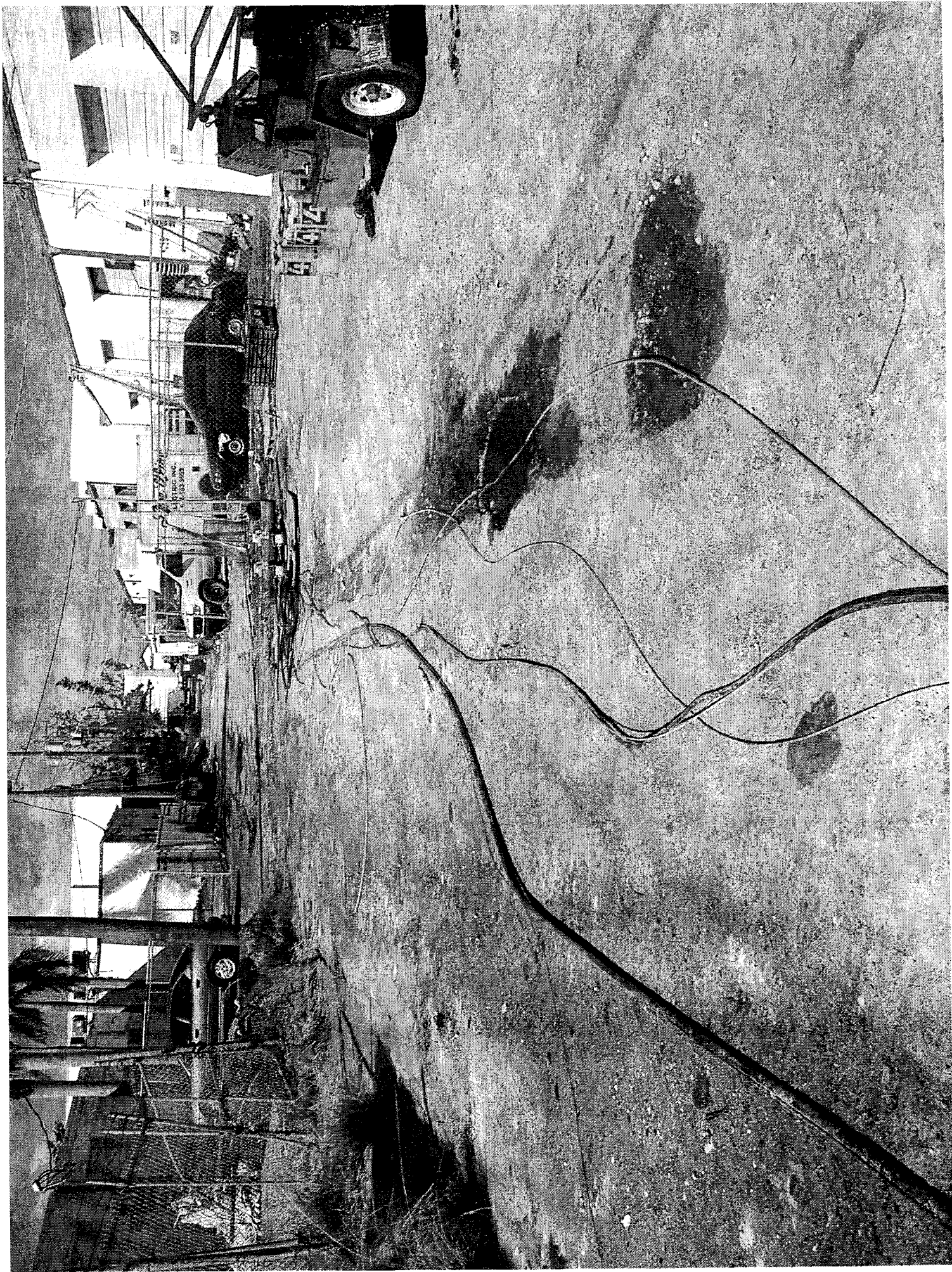


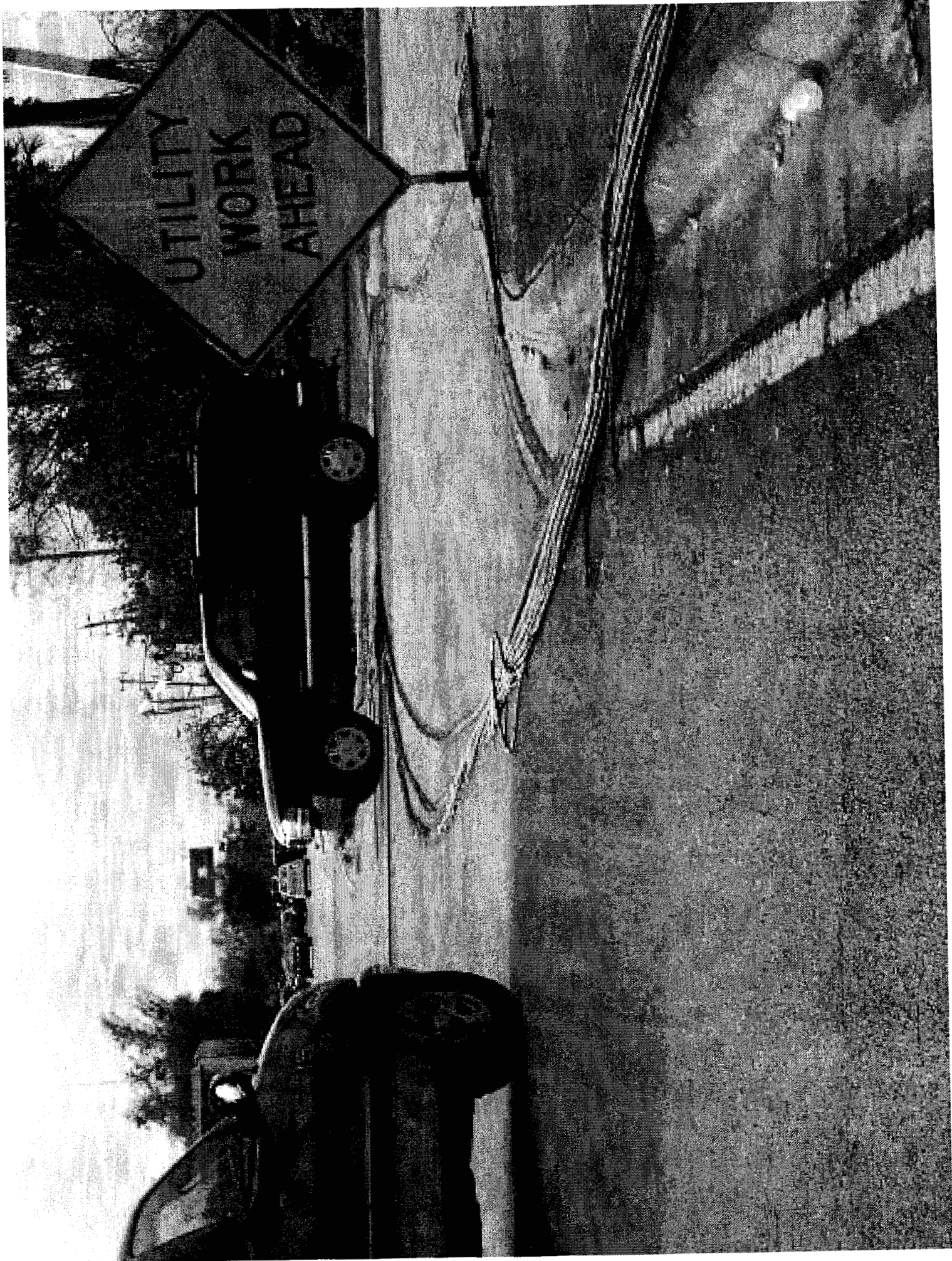


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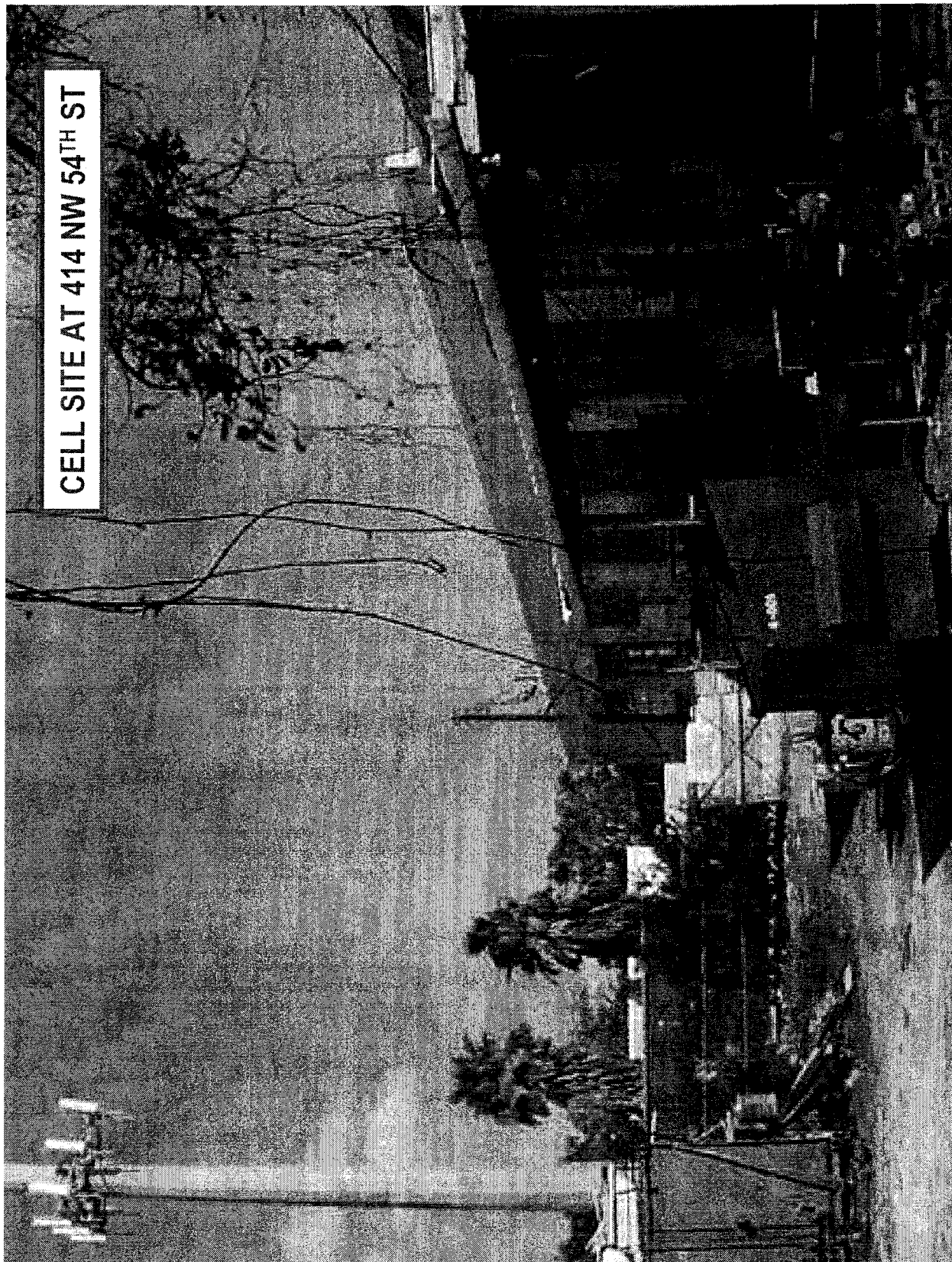


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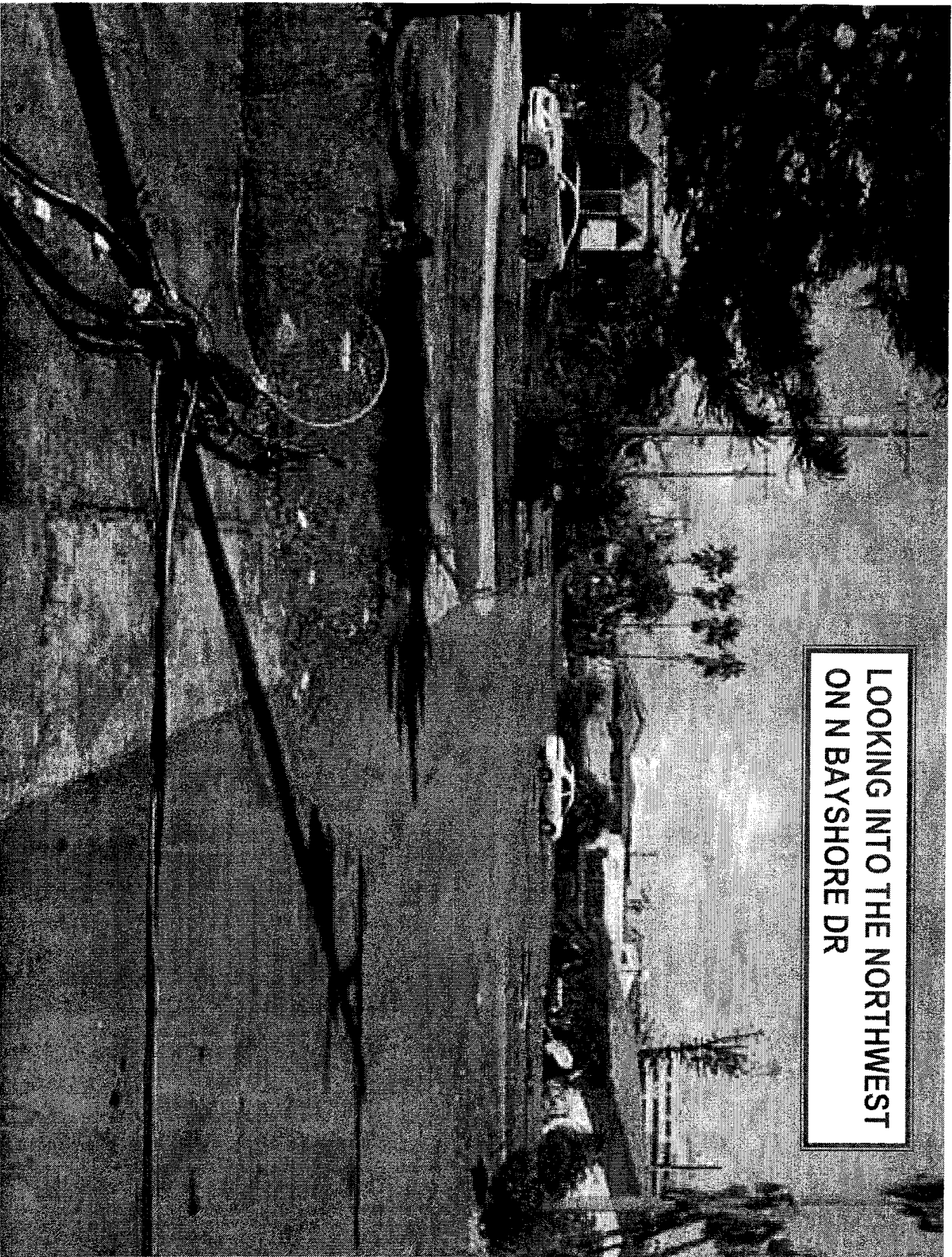




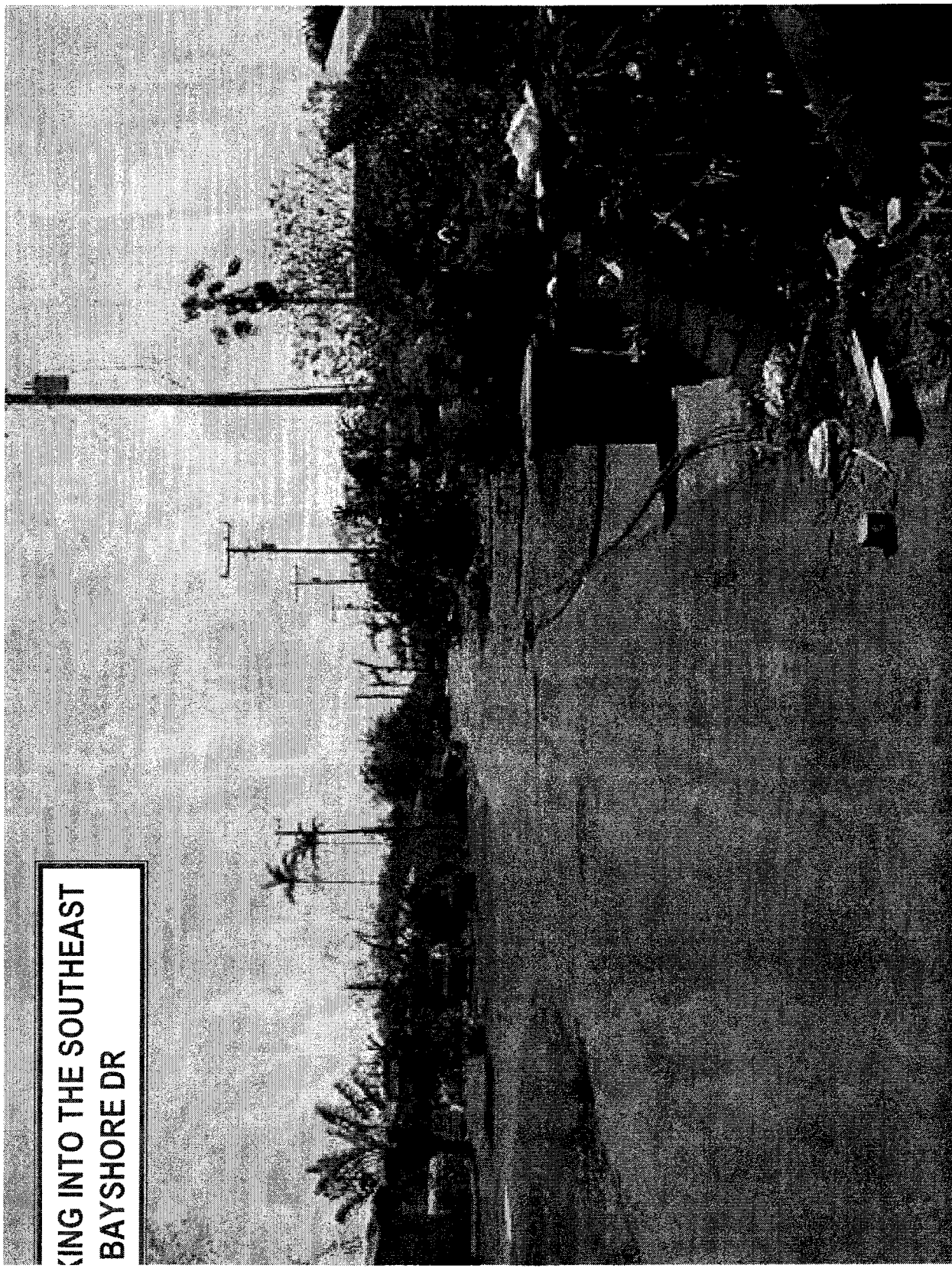
CELL SITE AT 414 NW 54TH ST

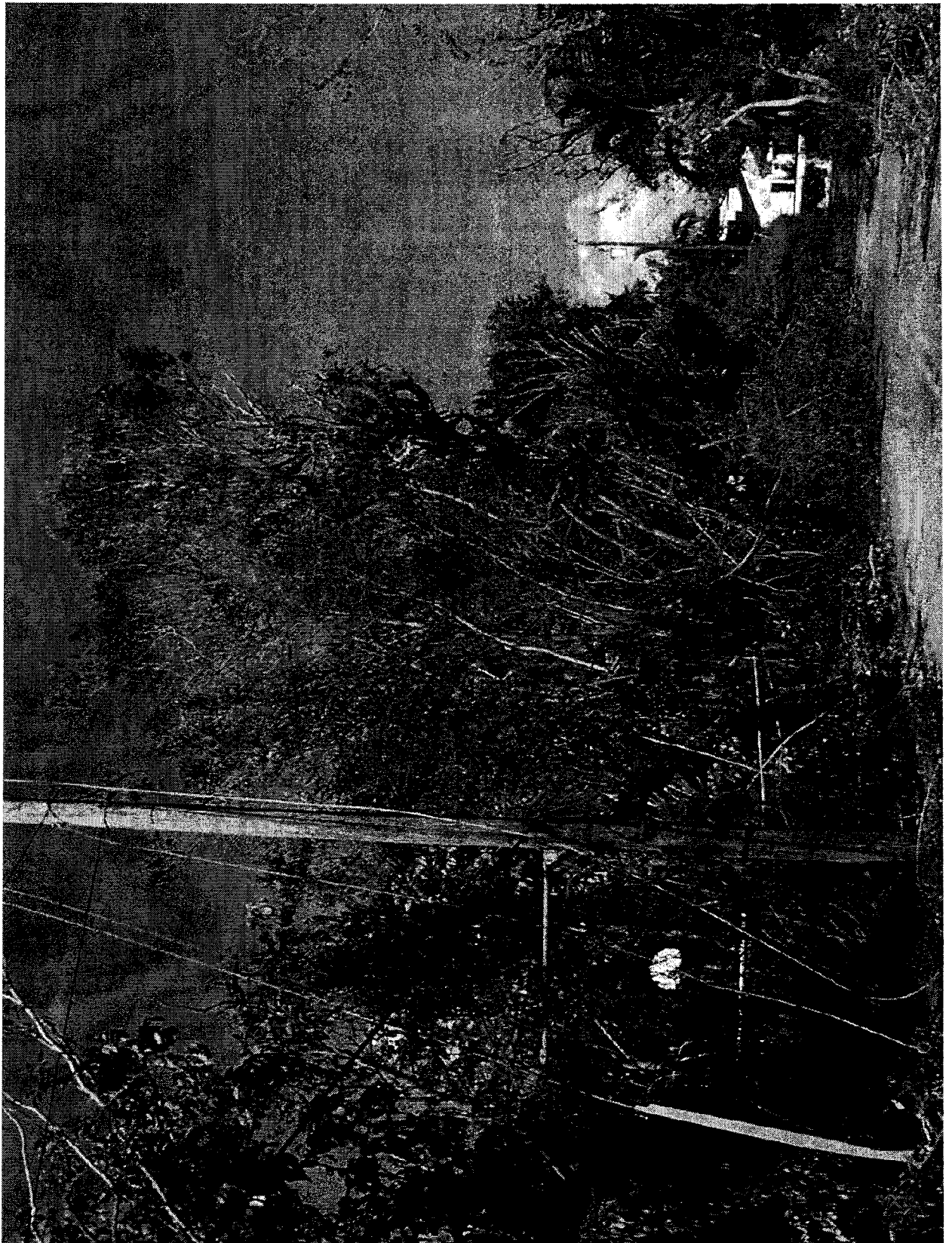


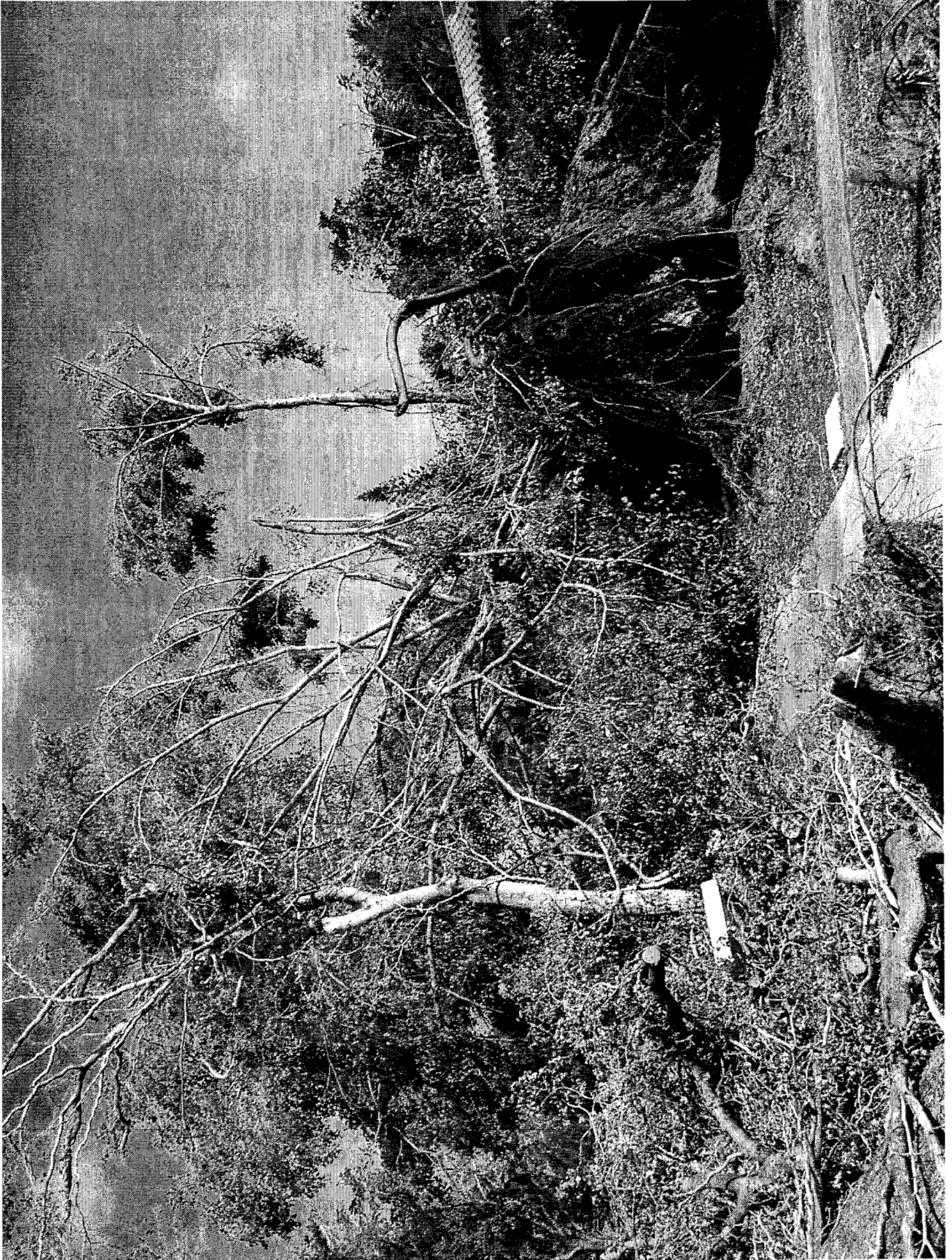
LOOKING INTO THE NORTHWEST
ON N BAYSHORE DR



DRIVING INTO THE SOUTHEAST
BAYSHORE DR







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BELLSOUTH TELECOMMUNICATIONS, INC.
DIRECT TESTIMONY OF C. S. (STEVE) PENDERGRASS
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. _____-TP
SEPTEMBER 1, 2006

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC.

A. My name is Steve Pendergrass and my business address is 675 West Peachtree Street N. E., Atlanta, Georgia. My position is Director for the Network Services Finance Department of BellSouth Telecommunications, Inc. (hereinafter referred to as "BellSouth").

Q. BRIEFLY OUTLINE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY.

A. I received a Bachelor of Science degree in Electrical Engineering in 1974 from the University of Tennessee and a Masters of Science in Electrical Engineering in 1990 from the University of Alabama - Birmingham. In addition I received a Masters of Business Administration in 1993 from the University of Alabama (Tuscaloosa). I was employed by BellSouth in April 1971, in the Cooperative Education program and as a full time employee after graduation in 1974. I have

1 worked in several positions of increasing responsibility in Network
2 Outside Plant Facilities Engineering, Outside Plant Construction Budget
3 and Analysis, Capital Investment, and Executive Support. I was
4 promoted to my current position in February, 1998. Overall, I have over
5 33 years experience dealing with the Network and Financial issues of
6 BellSouth.

7

8 Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

9

10 A. I am responsible for the preparation and analysis of the Network Field
11 Operations Expense and Force budgets and the tracking and analysis
12 of expense and force financial results. I report organizationally to the
13 Field Operations Chief Financial Officer in Finance and manage an
14 expense budget in excess of \$2.3 Billion and a force budget of 28,000
15 employees.

16

17 Q. DO YOU HAVE ANY PREVIOUS EXPERIENCE IN REGULATORY
18 PROCEEDINGS REGARDING FINANCIAL ISSUES?

19

20 A. Yes. I have provided data and analysis in support of regulatory filings. I
21 have also appeared before the Federal Communications Commission
22 Staff as an expert witness on Asset Management issues and in support
23 of Capital Recovery hearings.

24

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
2 PROCEEDING?

3

4 A. The purpose of my testimony is to: (1) describe the type of costs and
5 expenses incurred by BellSouth in restoring, repairing, or replacing
6 lines and facilities damaged by named tropical systems occurring
7 during the 2005 tropical storm season ("2005 Storms"); (2) explain the
8 methodology used to identify and track these costs; and (3) present the
9 incremental amount of costs and expenses incurred by BellSouth
10 related to the 2005 Storms.

11

12 Q. HAVE YOU PREPARED ANY EXHIBITS CONTAINING
13 INFORMATION THAT WILL BE REFERRED TO IN YOUR
14 TESTIMONY?

15

16 A. Yes. Attached to my testimony is one exhibit (SP Exhibit 1) which was
17 prepared under my supervision and direction. SP Exhibit 1 contains
18 information on storm damage costs and expenses incurred by
19 BellSouth as a result of the 2005 Storms.

20

21 Q. PLEASE DESCRIBE THE METHODOLOGY USED TO IDENTIFY THE
22 COSTS INCURRED RELATED TO THE 2005 STORMS.

23

24 A. When BellSouth incurs costs related to storm repair and restoration,
25 the costs are recorded in the normal operating accounts using existing

1 accounting processes. In order to estimate incremental costs,
2 BellSouth uses the methodologies described below to determine and
3 validate its incremental cost. These methodologies have been used by
4 BellSouth to support claims for insurance when available and for
5 disclosure in external financial reporting. BellSouth's incremental cost
6 approach appears to be very similar to that advocated by Office of
7 Public Council (OPC) witness Mr. Hugh Larkin, Jr. in Docket 060038-EI
8 filed on March 31, 2006 and the direct testimony of OPC witness Mr.
9 Michael J. Majoros, Jr. in Docket 041291-EI filed on February 8, 2005.

10

11 Q. HOW DOES BELL SOUTH ESTIMATE INCREMENTAL EXPENSE?

12

13 A. My organization utilizes a detailed model that includes projections of
14 units, ratios, hours, force and dollars at various levels, e.g. state or
15 geographic location within a state, as a baseline. This baseline is the
16 basis for BellSouth's force and expense budget. BellSouth has
17 established methods to capture specific actual data relative to the
18 variables in the model plus additional detail related to the labor force
19 and vendor payments, and retains at least two years' prior actual data
20 for comparison. After a storm, local senior network managers estimate
21 loaned forces, hours, contractors to be used and length of time until
22 operations are expected to return to normal. Using this information and
23 the model, Network Finance prices out the expected incremental
24 expense impact of:

25

- Increased overtime for local forces

- 1 • Internal loaned forces and associated overtime
- 2 • External loaned forces and expected overtime
- 3 • Additional safety managers, supervisors and engineers
- 4 • Increased material consumption
- 5 • Increased expenses related to work aids such as wireless data
- 6 transfer, GPS tracking and cellular and pager usage charges
- 7 • Rent for specific equipment, e.g. generators, lights, barricades
- 8 • Expected contract services, including increased utilization of
- 9 normal vendors for security, generator transport, temporary
- 10 construction and equipment protection as well as contracting of
- 11 telephone technicians.

12

13 The Company then estimates the incremental costs by comparing the

14 actual incurred dollars (including storm damage expense) to the

15 baseline plan (excluding storm damage expense) described above and

16 to prior years' actual data. Personnel who are experienced in the

17 analysis of network operations then examine specific expense

18 categories and resource tracking codes by factors such as storm

19 track/path, responsibility, account and vendor, and compare the results

20 to normal and expected amounts from the baseline model.

21 Consideration is also given to variances in drivers unrelated to the

22 storm, e.g. lower than expected customer growth in a particular product

23 might cause a variance in the original model that would be unrelated to

24 the storm.

1 As an example of how BellSouth captures incremental cost: Please
2 consider the following hypothetical – a local technician works 65 hours
3 in one week reattaching aerial cable spans (blown down by hurricane
4 winds) to poles. Since the technician's base pay (included in our
5 baseline model) is tied to 40 hours per week, only the costs associated
6 with the incremental 25 hours would be considered for recovery
7 purposes.

8

9 Q. IS THE RESPONSIBILITY FOR THE TRACKING OF INCREMENTAL
10 EXPENSE UNDER YOUR DIRECT SUPERVISION?

11

12 A. Yes. As described above, the tracking of the storm costs is the
13 responsibility of the Network Finance organization. I review the
14 methodologies used to identify the storm costs and believe that they
15 capture only the incremental expense related to storm recovery efforts.

16

17 Q. WHAT IS BELLSOUTH'S ESTIMATE OF THE TOTAL INCREMENTAL
18 COSTS INCURRED AS A RESULT OF THE NAMED TROPICAL
19 SYSTEMS OCCURRING DURING THE 2005 TROPICAL STORM
20 SEASON?

21

22 A. As shown on Line 7 of SP Exhibit 1, BellSouth incurred total Network
23 Operations incremental expense and capital of \$202.4M because of the
24 2005 Storms. The specific damage caused by each storm will be
25 described and discussed by other BellSouth witnesses.

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Q. PLEASE DESCRIBE AND DISCUSS THE INFORMATION PRESENTED IN SP EXHIBIT 1.

A. The purpose of SP Exhibit 1 is to present the incremental costs (expense and capital) incurred by BellSouth as a result of the 2005 Storms detailed by type of expenditure (i.e., salary and wages, contract labor and services, etc.) and by storm. These costs are contained in Lines 1 through 7 of SP Exhibit 1 and were determined based on the methodology described above. As such, these costs only include those costs over and above the expected or budgeted levels of costs under normal operating conditions. Furthermore, the costs contained on Lines 1 through 7 of SP Exhibit 1 consist entirely of Network Operations costs related directly to restoring and repairing plant damaged by the 2005 Storms.

The purpose of lines 8 through 11 is to separate capital costs from the total incremental costs and to compute intrastate incremental expense. Line 8 contains detail of all capital costs that are removed from the total costs contained on Line 7. Finally, as testified by Mr. Ron Hilyer, an intrastate jurisdictional factor is applied to estimate the intrastate incremental storm recovery expense.

1 Q. ARE BELLSOUTH'S COSTS DETAILED IN SP EXHIBIT 1
2 REASONABLE?

3

4 A. Yes. The costs incurred are reasonable and customary under the
5 circumstances.

6

7 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

8

9 A. BellSouth incurred a total of \$95.5M in recoverable intrastate,
10 incremental storm recovery expense related to the 2005 Storms.
11 These expenses were identified using methods and techniques
12 consistent with methodologies generally supported by the Commission
13 and OPC in prior storm recovery dockets.

14

15 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

16

17 A. Yes.

BellSouth Telecommunications, Inc.
Florida Storm Recovery Costs for 2005 Named Storms
Incremental Costs Incurred Through March 31, 2006
\$ in 000s

SP Exhibit 1
Page 1 of 1

	<u>TS Arlene</u>	<u>H. Cindy</u>	<u>H Dennis</u>	<u>H Katrina</u>	<u>H. Rita</u>	<u>H Wilma</u>	<u>Total</u>
1. Wage & Salary - Basic	\$0	\$0	\$426	\$1,035	\$28	\$13,307	\$14,796
2. Wage & Salary - Overtime	\$2,953	\$928	\$3,120	\$19,166	\$22	\$31,132	\$57,321
3. Contract Labor & Services	\$0	\$22	\$227	\$2,969	\$45	\$90,301	\$93,564
4. Materials and Supplies	\$187	\$19	\$454	\$8,640	\$29	\$17,191	\$26,520
5. Incremental Taxes on Salary & Wage Expense	\$226	\$71	\$230	\$1,446	\$4	\$2,604	\$4,581
6. Other (Fuel, Rents, Network Communications, Meals and Lodging, Capital Other)	\$171	\$63	\$275	\$1,154	\$7	\$3,915	\$5,584
7. Total Cost	\$3,537	\$1,103	\$4,732	\$34,409	\$135	\$158,450	\$202,366
Less:							
8. Capital Cost:							
a. Wage & Salary - Basic	\$0	\$0	\$426	\$1,035	\$28	\$8,273	
b. Wage & Salary - Overtime	\$0	\$0	\$110	\$267	\$7	\$2,132	
c. Contract Labor & Services	\$0	\$0	\$111	\$544	\$3	\$10,584	
d. Materials and Supplies	\$0	\$0	\$380	\$7,246	\$29	\$13,666	
e. Other	\$0	\$0	\$68	\$177	\$7	\$1,264	
Total Capital Cost:	\$0	\$0	\$1,095	\$9,269	\$74	\$35,920	\$46,358
9. Total Incremental Storm Recovery Expense	\$3,537	\$1,103	\$3,637	\$25,140	\$61	\$122,530	\$156,008
10. Intrastate Jurisdictional Factor	0.612144	0.612144	0.612144	0.612144	0.612144	0.612144	
11. Intrastate Incremental Storm Recovery Expense	\$2,165	\$675	\$2,227	\$15,389	\$37	\$75,006	\$95,499

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- Total cost on Line 7 consists of capital amounts related directly to storm restoration and incremental expense amounts.
- The intrastate jurisdictional factor on Line 10 was computed from the 2005 BellSouth-Florida ARMIS 43-01, Plant Specific and Non-Specific Operating Expenses per Ron Hilyer's Testimony.
- Costs on this worksheet include only Network Operations and do not include any other incremental costs, e.g. Customer Service, Advertising, nor do they include Cost of Removal.