

# ORIGINAL

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November 17, 2006

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

**Re: Docket No. 060598-TL: 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 Surrebuttal Testimony of Kathy K. Blake, Ronald L. Hilyer and C. S. Pendergrass, which we ask that you file in the captioned docket.

Copies of this letter will be served to the parties shown on the attached Certificate of Service.

Sincerely,

*Manuel A. Gurdian* /RN  
Manuel A. Gurdian

CMP  
COM 5  
CTR orig  
cc: Jerry D. Hendrix  
ECR \_\_\_\_\_ E. Earl Edenfield, Jr.  
GCL 1 James Meza III  
OPC \_\_\_\_\_  
RCA 1  
SCR \_\_\_\_\_  
SGA \_\_\_\_\_  
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**CERTIFICATE OF SERVICE**  
**Docket No. 060598-TL**

I HEREBY CERTIFY that a true and correct copy of the foregoing was served via  
(\* Electronic Mail and Federal Express this 17th day of November, 2006 to the  
following:

Patrick Wiggins  
Adam Teitzman  
Felicia West  
Theresa Lee Eng Tan  
Staff Counsels  
Florida Public Service  
Commission  
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Represents CompSouth

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In Re: Petition by BellSouth Telecommunications, Inc., ) Docket No. 060598-TL  
pursuant to Florida Statutes § 364.051(4) to Recover )  
2005 Tropical System Related Costs and Expenses )  
\_\_\_\_\_ ) November 17, 2006

**BELLSOUTH TELECOMMUNICATIONS, INC.'S NOTICE OF  
INTENT TO REQUEST SPECIFIED CONFIDENTIAL CLASSIFICATION**

BellSouth Telecommunications, Inc. ("BellSouth"), and pursuant to Rule 25-22.006, Florida Administrative Code, files its Notice of Intent to Request Specified Confidential Classification and states the following:

1. On November 17, 2006, BellSouth Telecommunications, Inc. filed in the above captioned proceeding, the Surrebuttal Testimonies of Ronald L. Hilyer, C. S. Pendergrass and Kathy K. Blake. The Surrebuttal Testimonies of C. S. Pendergrass, including SP Exhibit 3 and SP Exhibit 5, Kathy K. Blake, including Exhibit KKB-1, and Ronald L. Hilyer, including RLH Exhibit 3, RLH Exhibit 4 and RLH Exhibit 5, contain confidential business information that is considered proprietary to BellSouth.

2. Because the above-listed Testimony and exhibits contain proprietary information, BellSouth is now filing this Notice of Intent to Request Specified Confidential Classification pursuant to Rule 25-22.006(3)(a), Florida Administrative Code, in order to allow the Commission to take possession of this information without delay pursuant to Order No. 06-0783-PCO-TL. The original of this notice has been filed with the Division of Records and Reporting. BellSouth will be filing a Request for Confidential Classification within 21 days of the filing of this Notice of Intent.

DOCUMENT NUMBER-DATE  
10581 NOV 17 06  
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Respectfully submitted this 17th day of November, 2006.

BELLSOUTH TELECOMMUNICATIONS, INC.

James Meza III/RN

JAMES MEZA III

MANUEL A. GURDIAN

c/o Nancy H. Sims

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**BELLSOUTH TELECOMMUNICATIONS, INC.**  
**SURREBUTTAL TESTIMONY OF C. S. PENDERGRASS**  
**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**  
**DOCKET NO. 060598-TP**  
**NOVEMBER 17, 2006**

Q. ARE YOU THE SAME C. S. (STEVE) PENDERGRASS WHO FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed direct testimony in this proceeding on behalf of BellSouth on September 1, 2006.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to testimony of Mr. Charleston J. Winston of the Florida Public Service Commission Staff and to the testimony of Mr. Don Wood filed on behalf of The Competitive Carriers of the South, Inc. (hereinafter referred to as "CompSouth"). Specifically, I will address the audit report performed by the Florida Public Service Commission Audit Staff ("Audit Staff") and explain why the intrastate, incremental 2005 tropical system related costs and expenses included in BellSouth's Petition should be recovered. Additionally, I will address Mr. Winston's contentions that BellSouth did not provide certain information to Audit Staff and that Audit Staff was unable to verify certain

1 costs incurred by BellSouth. Finally, I will provide evidence to support  
2 Ron Hilyer's testimony regarding the amount of costs and expenses  
3 BellSouth incurred to restore its facilities damaged from tropical systems  
4 from 1998 to 2004.

5

6 ***Issue 2: What is the appropriate amount of intrastate costs and expenses***  
7 ***related to damage caused during the 2005 tropical storm season, if any,***  
8 ***that should be recovered by BellSouth, pursuant to Section 364.051(4),***  
9 ***Florida Statutes?***

10

11 Q. COULD YOU PLEASE STATE HOW BELLSOUTH DETERMINED THE  
12 INCREMENTAL COSTS AND EXPENSES THAT BELLSOUTH IS  
13 SEEKING TO RECOVER IN THIS PROCEEDING?

14

15 A. Yes. As I explained in my direct testimony, BellSouth utilizes a detailed  
16 planning and forecast model to assist in the budget setting process. This  
17 model creates a baseline, is the basis for BellSouth's Network Field  
18 Operations force and expense budget in Florida, and includes, among  
19 other things, projections of product demand units, productivity ratios,  
20 hours, force and dollars at various organizational levels. BellSouth then  
21 captures the "actual" data relative to the variables in the model, along with  
22 additional detail related to the labor force and vendor payments.  
23 BellSouth retains at least two years' prior "actuals" data for comparison.  
24 BellSouth routinely evaluates its planning and forecasting methods to  
25 ensure that the model is an accurate predictor of actual incurred costs.

1 After a tropical system affects a geographic area, local senior network  
2 managers assess the damage to the network and estimate the time and  
3 resources necessary to repair the network. Using this information and the  
4 model, Network Finance prices out the expected incremental expense  
5 impact of:

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

18  
19 BellSouth then estimates the incremental costs related to the tropical  
20 system by comparing the actual incurred dollars (including storm damage  
21 expenses) to the baseline plan (excluding storm damage expenses)  
22 described above and to prior years' actual data. Personnel who are  
23 experienced in the analysis of network operations then examine specific

1 expense categories and resource tracking codes by factors such as storm  
2 track/path, responsibility, account and vendor, and compare the results to  
3 normal and expected amounts from the baseline model. Consideration is  
4 also given to variances in drivers unrelated to the storm, e.g. lower than  
5 expected customer growth in a particular product might cause a variance  
6 in the original model that would be unrelated to the storm.

7

8 Q. CAN YOU PLEASE GENERALLY DESCRIBE THE MAGNITUDE OF  
9 BELLSOUTH'S EXPENSES FOR THE TIME PERIOD IN QUESTION  
10 AND BELLSOUTH'S RESPONSES TO REQUESTS FOR  
11 INFORMATION?

12

13 A. As described in my direct testimony, BellSouth's Network Field Operations  
14 incremental costs and expenses resulting from the 2005 Storms were  
15 massive – approximately \$202 million. BellSouth has captured these  
16 costs and expenses in the ordinary course of business with processes and  
17 procedures that have been audited and approved by BellSouth's internal  
18 and external auditors. In fact, the information BellSouth used to calculate  
19 the costs and expenses it is seeking to recover in the Petition is the same  
20 financial information that I, in my duties, used to report to upper  
21 management regarding the amount of costs and expenses BellSouth  
22 Network incurred related to the 2005 Storms.



1 As to the Staff Audit, the audit began on or about September 14, 2006, a  
2 full two weeks after BellSouth filed its Petition. From that date and  
3 continuing today, Audit Staff served 34 audit requests, including  
4 supplemental requests, upon BellSouth. A majority of the audit requests  
5 asked that BellSouth file its response to the audit request within 2 days. In  
6 total, BellSouth spent over 450 hours responding to Audit Staff's requests  
7 and produced over 8,000 pages of documents. In addition, BellSouth  
8 produced 8 CDs containing information requested by Audit Staff.  
9 Furthermore, BellSouth met with Audit Staff in a properly noticed meeting  
10 to address their questions and concerns. In sum, BellSouth produced in  
11 response to requests from Audit Staff and discovery issued by other  
12 parties the documents indicated on SP Exhibit 2.

13  
14 Moreover, with this surrebuttal testimony, BellSouth is also producing a  
15 DVD containing over 2.1 million ledger entries from June 2005 to March  
16 2006. These ledger entries contain BellSouth's total network field  
17 operations costs and expenses for the above-time period in Florida, were  
18 created by Network Finance in the ordinary of course of business to track  
19 network costs and expenses in Florida, and were used by BellSouth to  
20 capture its incremental expenses by comparing budgeted amounts to  
21 ledger amounts. Significantly, all of this information produced by BellSouth  
22 reconciles as the these ledger entries (1) correspond to the calculations in  
23 SP Exhibit 1; (2) correspond to the information produced to Audit Staff in

1 response to Audit Staff Request No. 1, which is the source information  
2 used by BellSouth to create SP Exhibit 1; and (3) contain the randomly-  
3 selected 283 invoices requested by Audit Staff and produced by BellSouth  
4 (See BellSouth's Response to Audit Request Nos. 28, 29, 32, 33 and 34).

5  
6 In addition, the PeopleSoft General Ledger & Oracle General Ledger,  
7 where the data is derived from, have been used by BellSouth's external  
8 and internal auditors to validate BellSouth's network expense financials,  
9 and are Sarbanes-Oxley compliant A copy of the DVD, which is  
10 confidential, is attached hereto as SP Exhibit 3.

11

12 Q. HAS BELLSOUTH PRODUCED ALL OF THE INFORMATION USED BY  
13 BELLSOUTH TO CALCULATE BELLSOUTH'S INCREMENTAL  
14 EXPENSES RELATED TO THE 2005 STORMS?

15

16 A. Yes and more.

17

18 **Audit Finding 1**

19

20 Q. MR. WINSTON STATES THAT, BECAUSE BELLSOUTH DID NOT  
21 PROVIDE BOARD OF DIRECTORS' MEETING MINUTES, EXECUTIVE  
22 MANAGEMENT MEETING MINUTES, CONSTRUCTION BUDGETS AND  
23 THE ANNUAL BUDGETED AMOUNTS FOR STORM/HURRICANE

1 DAMAGE, AUDIT STAFF COULD NOT VERIFY THE INCREMENTAL  
2 AMOUNTS INCLUDED IN THE PETITION. DO YOU AGREE?

3

4 A. No. As stated above, BellSouth provided all information it used to  
5 calculate its total incremental expenses related to the 2005 Storms.  
6 Moreover, in order to respond to Staff's Audit Requests, BellSouth  
7 provided information regarding costs and expenses that were irrelevant  
8 because they were not included in BellSouth's Petition. Further, during  
9 the audit process and in this case, BellSouth has produced thousands  
10 upon thousands of pages of documents and millions of lines of code and  
11 data, all of which reconcile to the amounts identified by BellSouth in its  
12 Petition. See DVD of BellSouth's total network field operations costs and  
13 expenses attached hereto as SP Exhibit 3. I will now address each of Mr.  
14 Winston's statements to refute Audit Staff's finding that the alleged failure  
15 to produce certain information prohibited Audit Staff from confirming that  
16 BellSouth incurred the incremental expenses that are the subject of the  
17 Petition.

18

19 First, in Audit Request No. 9, Audit Staff requested supporting  
20 documentation for annual budgeted amounts for storm/hurricane damage  
21 from 2003 to 2010. As stated by BellSouth in its response, BellSouth  
22 could not produce the requested information because such documentation  
23 does not exist. This is because BellSouth does not include funding for

1 future tropical storm/hurricane damage restoration in its budget setting  
2 process.<sup>1</sup> Audit Staff's conclusion should not be based on the inability to  
3 produce documents that do not exist.

4  
5 Similarly, in Audit Request No. 7, Audit Staff requested copies of all  
6 minutes from executive management meetings from 2003 to 2006. Audit  
7 Staff further clarified that what they really wanted was BellSouth's network  
8 budget meeting minutes. However, BellSouth does not keep minutes of  
9 its network budget meetings and thus was unable to provide any  
10 responsive documents. Nevertheless, BellSouth advised Audit Staff that it  
11 has produced all information that BellSouth relies on, includes, and  
12 reviews to report to upper management and in creating its network  
13 budgets. Consequently, as with Audit Request No. 9, Audit Staff is relying  
14 on the inability to produce documents that do not exist to support its  
15 conclusion.

16  
17 Moreover, in Audit Request No. 8, Audit Staff requested copies of all  
18 construction budgets from 2005 to 2010. BellSouth initially objected to  
19 this request because construction budgets are capital budgets, which are  
20 irrelevant to this proceeding, because BellSouth is not seeking to recover

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<sup>1</sup> This policy is appropriate, because BellSouth cannot predict when and where a tropical system will negatively impact its service territory. Nor does BellSouth have prior knowledge of the intensity (tropical depression to Category 5 hurricane) of these hypothetical, future storms. If BellSouth attempted to budget for hurricanes/tropical storms, it would cause its budget to be artificially inflated, inaccurate, and inefficient. Indeed, such a budget would be entirely incorrect in those years when there is a below average storm season, such as the 2006 storm season.

1 capital costs in the Petition. Further, BellSouth provided Audit Staff with  
2 all information needed to review its 2005 expense budgets, including the  
3 following expense budgets for Florida Network Field Operations: 2005  
4 Commitment View, 2005 Current Tracking View, 2005 Projection View  
5 (April, July), 2006 Commitment View, 2006 Current Tracking View, 2006  
6 Projection View (April, July, Sept.), and 2007 Planning View.  
7 Nevertheless, and even though BellSouth is not seeking to recover any  
8 capital costs, BellSouth has provided Audit Staff with its 2005 and 2006  
9 capital budgets, which includes any construction budgets. The 2007  
10 capital budget is currently being developed and is not available at this  
11 time. BellSouth has not begun the development of its 2008-2010 budgets.  
12 Accordingly, although entirely irrelevant to this proceeding, BellSouth has  
13 produced the construction budgets requested by Audit Staff.

14  
15 Finally, in Audit Request No. 6, Audit Staff requested all of BellSouth's  
16 Board of Directors' minutes from 2003 to 2006. BellSouth's Board of  
17 Directors' meeting minutes are irrelevant to whether BellSouth properly  
18 calculated its total incremental expenses related to the 2005 Storms.  
19 Furthermore, Staff has never articulated a reason why this information is  
20 necessary or otherwise could not be obtained from other sources. Finally,  
21 the information does not appear to be integral to Staff's analysis as they  
22 have not filed a Motion to Compel to obtain the information.

23

1 **Audit Finding 2**

2

3 Q. IN AUDIT FINDING 2, MR. WINSTON STATES THE INCREMENTAL  
4 AMOUNTS INCLUDED IN THE COMPANY'S PETITION FOR THE  
5 REPAIRED THIRTY-EIGHT SPANS OF CABLE COULD NOT BE  
6 VERIFIED BECAUSE THE REQUESTED SAMPLE HAD NOT BEEN  
7 PROVIDED. CAN YOU PLEASE RESPOND?

8

9 Yes. BellSouth has fully responded to all of Staff's Audit Request Nos. 10  
10 and 18. And, the requested sample invoice requested does not exist but  
11 is captured in other data BellSouth produced.

12

13 Specifically, on page 8 of its Amended Petition, BellSouth indicated that it  
14 "had to repair and/or replace 75 spans of cable due to the storm." Audit  
15 Request No. 18 asked for supporting documentation for the cost of the  
16 replacement/repair of the 75 spans of cable and whether there were any  
17 upgrades of the spans. BellSouth indicated in its response to Audit  
18 Request No. 18 that it replaced a total of 37 spans of cable and repaired a  
19 total of 38 spans and that the repair or replacement of the spans did not  
20 involve an upgrade or betterment of the network. In addition, BellSouth  
21 provided a spreadsheet and workprints (22 engineering/construction  
22 drawings) indicating the areas where the repair and/or replacement of the  
23 75 spans was performed. Furthermore, in its response to Audit Request

1 No. 18, as supporting documentation for the expenses incurred in  
2 replacing the 38 spans, BellSouth provided a spreadsheet entitled  
3 "D8932\_dtf\_actuals.xls". This spreadsheet includes a majority of  
4 BellSouth's actual expenses incurred in restoring service after Hurricane  
5 Rita, including all charges related to the replaced cable spans. As to the  
6 specific invoices associated with the spans that were replaced, all of the  
7 work for these spans was done on authority D8932 and was entered into  
8 BellSouth's Outside Plant Construction Module system ("OSPCM2"). (The  
9 OSPCM2 process is described in more detail below). No paper invoice  
10 would have been generated by the Master Contractor for work completed  
11 on this authority.

12  
13 In addition, in response to a follow-up question to BellSouth's response to  
14 Audit Request No. 18, BellSouth provided an explanation as to how the  
15 \$37,000 intrastate incremental amount provided on SP Exhibit 1 for  
16 Hurricane Rita was derived. BellSouth advised that the \$37,000 was  
17 derived as follows:

18	Contract Services	\$42,450
19	Non-Management Overtime	\$15,450
20	FICA at 7.65%	\$ 1,182
21	Fuel	\$ 1,400
22	Meals, Lodging, Comm	\$ 399
23		
24	X Intrastate Jurisdictional Factor	0.612144
25	Amount Requested in Petition	\$37,268

1 Based upon the foregoing, BellSouth has provided all documentation and  
2 information for Audit Staff to verify that the incremental intrastate amounts  
3 incurred by BellSouth in repairing the damage by Hurricane Rita.

4

5 **Audit Finding 3**

6

7 Q. IN AUDIT FINDING 3, MR. WINSTON STATES THAT BECAUSE  
8 BELLSOUTH DID NOT PROVIDE 283 RANDOMLY-SELECTED  
9 INVOICES, AUDIT STAFF COULD NOT PROVIDE ASSURANCE THAT  
10 THE PETITION AMOUNTS ARE CORRECTLY STATED. CAN YOU  
11 RESPOND TO THIS ASSERTION?

12

13 A. BellSouth has produced all invoices and invoice equivalents requested by  
14 Staff.

15

16 Mr. Winston states that BellSouth should have been ready to support its  
17 petition and provide copies of invoices. As indicated in his audit finding,  
18 the invoices were requested on October 10 and 11, 2006 and Audit Staff  
19 expected BellSouth to provide the invoices within two to four days. This  
20 turnaround time is unreasonable. As previously indicated, BellSouth's  
21 Network Field Operations incurred over \$202.4 million in incremental costs  
22 (capital and expense) -- \$156.0 million in incremental expenses -- as a  
23 result of the 2005 Storms. In total, Staff requested 283 invoices. These



1 invoices (or invoice equivalents) were pulled as a sample from the  
2 \*\*\*\*BEGIN PROPRIETARY\*\*\*\* \$ \*\*\*\* END PROPRIETARY\*\*\*\*  
3 million in total network field operations expense incurred in Florida from  
4 June 2005 to March 2006. Therefore, the requested invoices were for  
5 both incremental expenses (storm related) and business as usual  
6 expenses (not storm related). Indeed, some of the invoices requested  
7 were for expenses which BellSouth had specifically excluded from its  
8 Petition, such as Securitas Security Services USA Inc expense (Audit  
9 Request No. 28, Sep-05 Katrina, sample # 12).

10

11 In addition, these invoices are not kept in a central repository, as the  
12 paper invoices are kept at the numerous work centers throughout the state  
13 of Florida. With regard to non-paper invoices, a significant portion of  
14 BellSouth's Network Operating expense is incurred, "billed",  
15 certified/approved, and paid without a paper invoice ever being generated.  
16 As such, several of the items selected by the Audit Staff through the  
17 sampling process do not have original paper invoices available. In these  
18 cases, BellSouth printed and provided to Audit Staff an invoice equivalent  
19 from BellSouth's mechanized system.

20

21 As an example, most of BellSouth's Master Contractor work effort is  
22 handled this way. The work designed by our Outside Plant Engineering  
23 force is coded into OSPCM (Outside Plant Construction Module) and

1 made available to the appropriate Master Contractor ("MC"). The MC  
2 accesses the work print electronically, prints a copy if desired, completes  
3 the work on the design in the field, logs back into OSPCM, and marks the  
4 work item complete. A Plant Contract Supervisor (BellSouth employee)  
5 will then check the work performed - either through a sample process or  
6 by a review of the actual work – and certify that the work is complete. The  
7 system then pays the MC (usually within 30 days) based on previously  
8 agreed-to prices in the Master Contract. At no time does the MC issue a  
9 paper invoice or bill to BellSouth.

10

11 Finally, each of the 283 invoices requested by the Audit Staff has a  
12 corresponding ledger entry contained in Proprietary SP Exhibit 3.

13

14 **Audit Finding 6**

15

16 Q. MR. WINSTON STATES THAT AUDIT STAFF WAS UNABLE TO  
17 VERIFY THE TOTAL AMOUNT OF EXEMPT MANAGEMENT  
18 OVERTIME INCLUDED IN THE STORM COST RECOVERY REQUEST.  
19 CAN YOU PLEASE RESPOND?

20

21 A. Yes, BellSouth provided all information requested by Audit Staff.  
22 Specifically, BellSouth provided Audit Staff with documentation explaining  
23 its policies and procedures regarding employee overtime, and a number of

1 spreadsheets identifying the employees that received overtime, the date  
2 the employees worked the overtime, and the amount of overtime worked  
3 by each of the employees. Furthermore, and as stated in BellSouth's  
4 response to question No. 2 on Supplement to Item No. 27, the first tab in  
5 the workbook produced- "Summary Management OT \$ & Hr" - shows the  
6 total incremental management overtime by month by storm, with  
7 breakouts for exempt and non-exempt management. (All numbers on this  
8 spreadsheet are prior to applying the Intrastate Jurisdictional Factor.)  
9 BellSouth notes that exempt management overtime is only approximately  
10 4.1% of the \$95.5 million incremental intrastate expense incurred by  
11 BellSouth.

12

13 ***Issue 1: What amount of any storm damage reserve fund should be***  
14 ***considered when determining the amount of tropical-system related***  
15 ***intrastate costs and expenses to be recovered?***

16

17 Q. HAVE YOU REVIEWED RONALD HILYER'S SURREBUTTAL  
18 TESTIMONY FILED IN RESPONSE TO DON WOOD'S TESTIMONY  
19 REGARDING A HYPOTHETICAL STORM RESERVE?

20

21 A. Yes.

22

23 Q. WHAT WAS THE SOURCE OF THE INCREMENTAL EXPENSE  
24 AMOUNTS FOR 1998-2005 SHOWN IN MR. HILYER'S EXHIBITS RLH-  
25 3, RLH-4 AND RLH-5?

1

2 A. My organization supplied the incremental expense amounts that Mr. Hilyer  
3 relied on for 1998-2005. I explained the 2005 incremental expenses of  
4 \$95.5 million in my direct testimony and in SP Exhibit 1. Although  
5 supporting data for the earlier years has already been provided in various  
6 data requests,<sup>2</sup> I am providing BellSouth's estimate of the 2004  
7 incremental expenses of \$75.0 million in SP Exhibit 4. Together, the  
8 \$95.5 in 2005 and \$75.0 in 2004 total \$170.5 million and comprise 87% of  
9 the total charges against the hypothetical reserve balance in Mr. Hilyer's  
10 exhibits to his surrebuttal testimony.

11

12 Q. PLEASE DESCRIBE AND DISCUSS THE INFORMATION IN SP  
13 EXHIBIT 4.

14

15 A. The purpose of SP Exhibit 4 is to present the incremental expenses  
16 incurred by BellSouth as a result of the 2004 Storms detailed by type of  
17 expenditure (i.e. salary and wages, contract labor and services, etc.) and  
18 by month. These costs are contained in Lines 1 through 7 of SP Exhibit 4.  
19 As such, these costs only include those costs over and above the  
20 expected or budgeted levels of costs under normal operating conditions.  
21 Furthermore, the expenses on Lines 1 through 7 of SP Exhibit 4 consist

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<sup>2</sup> Citizens' First Request for Production of Documents, Item 2 (Proprietary); CompSouth's First Request for Production of Documents, Item 12.

1 entirely of Network Operations expense related directly to restoring and  
2 repairing plant damaged by the 2004 storms.

3

4 Finally, an intrastate jurisdictional factor is applied to estimate the  
5 intrastate incremental storm recovery expense for 2004.

6

7 In addition, BellSouth is also producing a DVD containing ledger entries  
8 from August 2004 to March 2005, which is attached hereto as Proprietary  
9 SP Exhibit 5. These ledger entries contain BellSouth's total network field  
10 operations expenses for the above-time period in Florida, were created by  
11 Network Finance in the ordinary of course of business to track network  
12 costs and expenses in Florida, and were used by BellSouth to capture its  
13 incremental expenses by comparing budgeted amounts to ledger  
14 amounts. All of the ledger entries on this DVD reconciles and directly  
15 corresponds to the calculations in SP Exhibit 4

16

17 Q. WERE THE INCREMENTAL EXPENSES FOR THE YEARS 1998 – 2003  
18 INCLUDED IN MR. HILYER'S TESTIMONY DETERMINED IN A  
19 MANNER THAT IS CONSISTENT WITH THE METHOD YOU HAVE  
20 ALREADY DESCRIBED ABOVE FOR 2004 AND 2005?

21

22 A. Yes.

23

PUBLIC VERSION  
Confidential Data Identified \*\*\*\* \_\_\_\_\_ \*\*\*\*

1 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

2

3 A. Yes.

4

5

Documents	Pages	CD	DVD
<b>Citizens 1<sup>st</sup> POD</b>	743		
Florida Casualty Reserve accruals, charges and balance, 1994 – 1997 (Proprietary) Casualty reserve balance monthly history, Dec. 1998 – June 2005 BellSouth – Florida Analysis of Ledger, PSC Basis, as of December 2005 BellSouth – Florida Analysis of Ledger, PSC Basis, as of August 2006			
Storm Reserve Analysis Summary <ul style="list-style-type: none"> <li>o Summary Narrative</li> <li>o Worksheet 1 – Hypothetical Reserve Balance</li> <li>o Worksheet 2 – Summary of Incremental Intrastate Storm Expense 1994 – 2005</li> <li>o Worksheet 3 – Calculation of Intrastate Storm Costs</li> </ul> Draft worksheet – FL Storm Recovery Costs for 1994 – 2005 storms (Network Field Ops only) Hurricane Georges (1998) incremental expense from FL Docket 990649-TP Summary of incremental costs of named storms 1992 – 2003, FL Network Field Ops Calculation of incremental storm expense 2000-2003, FL Network Field Ops FL incremental cost for 2004 storms – incurred in 2004 Support for 2004 storm costs incurred in 2004 and identified as incremental – FL Network Field Ops FL incremental cost of 2004 storms – incurred in 2004 – FL Network Field Ops FL storm recovery costs for 2004 storm – incurred in 2005 – FL Network Field Ops Miscellaneous worksheets, preliminary estimates, etc. supporting documents and workpapers that were used to prepare SP exhibit 1.			
Service Outage and Restoration Reports			
the backup workpapers that were used in the expense portion (\$5.199M) of the materials and supplies incremental costs related to storm restoration.			

<b>Documents</b>	<b>Pages</b>	<b>CD</b>	<b>DVD</b>
details the materials and supplies capital amounts (totaling \$21.322M) associated with the 2005 storms that were excluded from the recovery request as shown on SP Exhibit 1 at line 8d.			
2005 ARMIS 43-01 report and the worksheet showing the calculation of the intrastate factor.			
<b>Staff 1<sup>st</sup> POD</b>	18		
2005 ARMIS 43-01 report and the worksheet showing the calculation of the intrastate factor.			
Supporting data identifying the access lines included in the calculation of \$34.6 million.			
<b>CompSouth 1<sup>st</sup> POD</b>	770		
Back-up for loops in service			
Outside plant insurance info			
information related to insurance programs for real and personal property,			
Copy of Citizens PODs			
<b>CompSouth 2<sup>nd</sup> POD</b>	35		
Copy of Staffs POD No. 2			
<b>Materials Produced in response to Staff's Audit Requests</b>			
Excel Files provided:			
Audit 18	169	971kb	
Audit 19	456	11.3mb	
Audit 20	2627	61.4mb	
Audit 21	432	9.29mb	
Audit 22	4	26.0kb	
Audit 23	29	988kb	
Audit 24	359	10.4mb	
Audit 27	2265	19.5mb	
Audit 28	3	42.0kb	
Audit 28	3	53.5kb	
Audit 29	9	98.0kb	
Audit 30	83	599kb	



<b>Documents</b>	<b>Pages</b>	<b>CD</b>	<b>DVD</b>
Audit 30	1	69.5kb	
Audit 30	19	532kb	
Audit 32	9	89.0kb	
Audit 8	4	72.0kb	
Audit 8	7	44.5kb	
Audit 8	10	154kb	
Audit 18 – Network Drawings	22		
Audit 5 – BST Overtime Policy	18		
Audit 1 – Back up workpapers	20		
Audit 2 – Financial Statements	Apprx. 600		
<b>Vouchers/Voucher Equivalents produced in Response to Staff's Audit Requests</b>	413	53.6mb	
	219	22.6mb	
	327	15.6mb	
	446	19.3mb	
	104	7.88mb	
	59	8.09mb	
	97	9.85mb	
	72	7.84mb	
<b>DVD Produced as an Exhibit to Pendergrass Surrebuttal Testimony</b>			
Ledger Entries June 05-March 06 and Voucher Details	Apprx 472,000		3.1gb
Ledger Entries August 2004-March 2005 and Voucher Details	Apprx 381,000		2.4gb

**Exhibit SP-3**

**Proprietary**

BellSouth Telecommunications  
Incremental Expense 2004 Hurricanes Network Florida Field Operations  
\$ in 000's

Aug 2004	Sep 2004	Oct 2004	Nov 2004	Dec 2004	Annl 2004	Jan 2005	Feb 2005	Mar 2005	Annl 2005	2004 + 2005
-------------	-------------	-------------	-------------	-------------	--------------	-------------	-------------	-------------	--------------	----------------

Hurricane Charlie 8/13/04	Central and Northeast Districts
Hurricane Frances 8/24/04	Palm Beach / Indian River and Northeast Districts
Hurricane Ivan 9/16/04	Northwest District
Hurricane Jeanne 9/25/04	Palm Beach / Indian River, Central, and Northeast Districts

1. Wages & Salary - Basic	-	2,183	4,460	4,297	1,143	12,083	616	202	524	1,341	13,424
2. Wages & Salary - Overtime	2,049	16,022	20,346	14,772	3,309	56,499	-	-	-	-	56,499
3. Contract Labor & Services	1,136	601	3,746	6,273	5,535	17,291	2,452	1,870	945	5,267	22,558
4. Material and Supplies	680	1,311	2,067	2,043	1,301	7,401	576	439	222	1,237	8,638
5. Incremental Taxes on Salary & Wage Expense	157	1,393	1,898	1,459	341	5,246	47	15	40	103	5,349
6. Other (Fuel, Rents, Network Communications, Meals and Lodging)	604	625	2,911	3,560	4,578	12,278					12,278
7. Total Expense	4,626	22,134	35,428	32,404	16,207	110,798	3,691	2,527	1,731	7,949	118,747
8. Intrastate Jurisdictional Factor	0.63254	0.63254	0.63254	0.63254	0.63254	0.63254	0.612144	0.612144	0.612144	0.612144	
9. Intrastate Hurricane Expense	2,926	14,001	22,410	20,497	10,251	70,084	2,260	1,547	1,059	4,866	74,950

**Exhibit SP-5**

**Proprietary**

1                   **BELLSOUTH TELECOMMUNICATIONS, INC.**  
2                   **SURREBUTTAL TESTIMONY OF KATHY K. BLAKE**  
3                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**  
4                   **DOCKET NO. 060598-TL**  
5                   **NOVEMBER 17, 2006**  
6

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

10  
11   A.    My name is Kathy K. Blake. I am employed by BellSouth as Director –  
12           Retail Markets and Policy Implementation for the nine-state BellSouth  
13           region. My business address is 675 West Peachtree Street, Atlanta,  
14           Georgia 30375.

15  
16   Q.    HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS  
17           PROCEEDING?

18  
19   A.    Yes. I filed direct testimony on September 1, 2006 and amended direct  
20           testimony on September 20, 2006.

21  
22   Q.    WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

23  
24   A.    The purpose of my surrebuttal testimony is to respond to portions of the  
25           direct testimony of Don J. Wood, filed on behalf of The Competitive

1 Carriers of the South, Inc. ("CompSouth"), and Charleston J. Winston,  
2 filed on behalf of the Staff of the Florida Public Service Commission  
3 ("Commission Staff"). My responses to their testimony will be provided  
4 pursuant to the list of issues set forth in Appendix A of the  
5 Commission's Second Order on Procedure, issued on November 8,  
6 2006.

7

8 **Issue 3(a)**

9 ***What is the appropriate type and number of retail access lines, basic***  
10 ***and nonbasic, to which any storm damage recovery may be***  
11 ***assessed?***

12

13 Q. WHAT IS BELLSOUTH'S POSITION REGARDING THIS ISSUE?

14

15 A. As set forth in Florida Statute § 364.051(4)(b)(6), it is appropriate to  
16 assess the line-item surcharge for storm recovery on a per access line  
17 basis to the billing statement of BellSouth's retail basic  
18 telecommunications service customers and retail nonbasic  
19 telecommunications service customers. Customers that subscribe to  
20 flat-rate residential services (i.e., 1FR) or flat-rate single line business  
21 services (i.e., 1FB) are considered retail basic telecommunications  
22 service customers. Customers that subscribe to multi-line business  
23 services, package offerings (i.e., Complete Choice<sup>®</sup>, Area Plus  
24 Service), payphone access lines, PBX trunk lines, Network Access  
25 Registers ("NARs") (including NARs used in conjunction with BellSouth

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**Confidential Data identified as \*\*\*\*\* \_\_\_\_\_ \*\*\*\*\***

1       ESSX<sup>®</sup> Service and MultiServ<sup>®</sup> Plus Service), and B channels of both  
2       Basic-Rate ISDN and ISDN PRI are considered retail nonbasic  
3       telecommunication service customers. Customers that subscribe to  
4       access lines associated with the basic and nonbasic retail  
5       telecommunications services identified above would be assessed a  
6       \$.50 line-item storm recovery charge per month for a 12-month period.  
7       The total amount that BellSouth can recover from the line-item charge  
8       should be determined pursuant to the quantity of each qualifying access  
9       line that is in service at the time the charge is being assessed.

10

11       Given that the assessment of the line-item charge is not expected to  
12       begin until early 2007 and that the number of qualifying access lines  
13       fluctuates on a daily basis, it is not possible to determine the exact  
14       number of access lines that will be assessed the line-item charge  
15       during the 12 month assessment period. However, in an effort to  
16       demonstrate that BellSouth is entitled to assess the maximum line-item  
17       charge allowed by the statute (\$.50 per month), BellSouth provided an  
18       estimate of the total amount it can recover as a result of the 2005  
19       Storms. Using in service quantities as of June 2006 for each type of  
20       qualifying retail access line, BellSouth estimated that it would recover  
21       approximately \$29.8 million (or less than a third of its total incremental,  
22       intrastate expenses of \$95.5 million) from its retail customers. The  
23       chart attached to my surrebuttal testimony as Confidential Exhibit KKB-  
24       1 identifies the number of retail access lines in service as of June 2006,  
25       segmented into the access line service categories that would be

1           assessed the maximum line-item charge of \$.50 per month under  
2           BellSouth's proposal.

3

4    Q.    IT APPEARS THAT THE NUMBER OF RETAIL LINES THAT WOULD  
5           BE ASSESSED THE LINE-ITEM CHARGE HAS BEEN REVISED.  
6           PLEASE EXPLAIN WHY.

7

8    A.    During the process of preparing my surrebuttal testimony, it was  
9           discovered that a category of retail access lines was not included and  
10          the number of access lines reflected in another category of retail access  
11          lines was overstated.           Specifically, 33,339 \*\*\*\***BEGIN**  
12          **PROPRIETARY\*\*\*\*\*                               \*\*\*\*\*END    PROPRIETARY\*\*\*\*\***  
13          should have been included as a category of retail lines to be assessed  
14          the line-item charge.    In addition, the number of \*\*\*\***BEGIN**  
15          **PROPRIETARY\*\*\*\*\*                               \*\*\*\*\*END PROPRIETARY\*\*\*\*\*** should  
16          be reduced by 28,900 Official Lines (from 90,392 to 61,492).   Official  
17          Lines are lines used by BellSouth for administrative purposes and  
18          should not have been included.   The net effect of these changes is an  
19          increase of 4,439 retail access lines.

20

21   Q.    ON PAGE 5 OF HIS DIRECT TESTIMONY AND ON PAGES 7-8 OF  
22          HIS EXHIBIT CJW-1, MR. WINSTON EXPRESSED AN OPINION  
23          ABOUT BELLSOUTH'S METHODOLOGY FOR DETERMINING THE  
24          NUMBER OF ACCESS LINES TO APPLY THE STORM RECOVERY  
25          CHARGE TO. DID HE AGREE WITH BELLSOUTH'S CALCULATION?



**PUBLIC VERSION**  
**Confidential Data identified as \*\*\*\*\* \_\_\_\_\_ \*\*\*\*\***

1 A. Not entirely. Mr. Winston took no issue with the different types of retail  
2 services that would be subject to the line-item charge under BellSouth's  
3 proposal. However, Audit Staff did not agree with the data source  
4 BellSouth used for determining the number of access lines to be  
5 assessed the line-item storm recovery charge.

6

7 Q. DID HE EXPLAIN WHY HE DID NOT AGREE WITH BELLSOUTH'S  
8 DATA SOURCE?

9

10 A. No. In their analysis of Audit Finding No. 4, Audit Staff quotes a large  
11 section of BellSouth's response to Audit Request No. 11, wherein  
12 BellSouth was asked to explain why the retail access line counts in  
13 BellSouth's Petition differed from the line count totals reported by  
14 BellSouth to the Commission on Schedule 8. Audit Staff then states  
15 that they do not understand why the two data sources should be  
16 different and that BellSouth should use the data included in Schedule 8  
17 instead of using a different data source for this specific docket. Mr.  
18 Winston, on behalf of Audit Staff, does not explain why he disagrees  
19 with the line count used in BellSouth's Petition or why he believes the  
20 line count in Schedule 8 is more appropriate.

21

22 Q. DO YOU AGREE WITH MR. WINSTON'S CONCLUSIONS?

23

24 A. No. I believe Mr. Winston and Audit Staff are incorrect because the  
25 Schedule 8 data is not appropriate for use in this docket.

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**Confidential Data identified as \*\*\*\*\* \_\_\_\_\_ \*\*\*\*\***

1 Q. PLEASE EXPLAIN WHY BELLSOUTH FILES SCHEDULE 8 AND THE  
2 DATA INCLUDED IN IT.

3

4 A. BellSouth is required by Commission Rule 25-4.0185 to file information  
5 requested by Commission Form PSC/CMP 28, entitled "Engineering  
6 Data Requirements". This form includes Schedule 8. The information  
7 required by Schedule 8 must be reported on a quarterly basis and is  
8 required to be filed on or before the end of the month following the  
9 reporting period. Pursuant to the instructions for Schedule 8, access  
10 line data is provided for each exchange in BellSouth's serving area in  
11 Florida and is segmented into the following categories: Retail Lines  
12 (total number of retail lines, number of residential line, number of  
13 business lines), Resale Lines (total number of resale lines, number of  
14 residential resale lines, number or business resale lines), UNE-P (total  
15 number of unbundled network element-platforms (UNE-P), number of  
16 residential UNE-P, number of business UNE-P), Pay Phones (total  
17 number of pay phone access lines) and Total Lines (total number of  
18 access lines from each of the reported category totals).

19

20 Q. WHAT ARE SOME OF BELLSOUTH'S CONCERNS ABOUT USING  
21 SCHEDULE 8 DATA?

22

23 A. As explained in BellSouth's response to Audit Request No. 11, the line  
24 count data reported in Schedule 8 is pulled from a network planning  
25 resource tool and has no connection with BellSouth's billing systems,

**PUBLIC VERSION**  
**Confidential Data identified as \*\*\*\*\* \_\_\_\_\_ \*\*\*\*\***

1           which is the appropriate data source to be used to assess the line-item  
2           charge. The billing system provides a direct link to our customers and  
3           the services they are receiving from BellSouth, better ensuring that the  
4           line-item charge will be assessed in a manner consistent with the  
5           services being billed to the customer. In contrast, the data contained in  
6           Schedule 8 originates from a network planning tool and can not be  
7           directly linked to a customer's billing record.

8  
9           In addition, Schedule 8 includes retail and wholesale lines that are not  
10          at issue here and counts business and wholesale lines differently than  
11          how BellSouth proposes to count them in this proceeding. For  
12          instance, Schedule 8 includes resold lines, which were not included in  
13          BellSouth's Petition. Likewise, Schedule 8 does not include line counts  
14          for wholesale unbundled loops; instead, it requests information for  
15          unbundled loop/port combinations (previously known as UNE-P).

16  
17          Further, as to retail business lines, Schedule 8 counts each *station line*  
18          from ESSX<sup>®</sup> Service, MultiServ<sup>®</sup> Service, MultiServ<sup>®</sup> Plus Service and  
19          Centrex service, and counts each PBX trunk as well as other business  
20          lines. Under BellSouth's proposed methodology, which is consistent  
21          with approaches taken by this Commission in other line assessment  
22          circumstances, only the *NARS* would be counted, resulting in a  
23          **decrease** in the number of lines to be assessed the line-item charge.

24  
25

1 In addition, Schedule 8 counts each ISDN line as a *single line*, while  
2 under BellSouth's proposal for storm recovery, each *activated voice*  
3 *channel provisioned* on the ISDN line would be counted. Audit Staff's  
4 proposal to use Schedule 8 data thus results in an inaccurate  
5 application of the line-item charge, because it over or under-counts the  
6 number of lines to be assessed the line-item charge.

7

8 Q. DOES BELLSOUTH'S DATA SOURCE AND METHODOLOGY HAVE  
9 THE SAME PROBLEMS THAT EXISTS WITH USING THE  
10 SCHEDULE 8 DATA?

11

12 A. No. In accordance with Florida Statute § 364.051(4), the line-item  
13 charge can be assessed "***per access line to the billing statement*** of  
14 the company's retail basic local telecommunications customers, its  
15 retail nonbasic telecommunications service customers, and, to the  
16 extent the commission determines appropriate, its wholesale loop  
17 unbundled network element customers." (emphasis added). Part of the  
18 reason that BellSouth used the general billing database to determine  
19 the appropriate line count totals instead of the Schedule 8 data is that  
20 the billing database contains the uniform service ordering codes  
21 ("USOCs") that BellSouth will use in order to apply the recovery line-  
22 item charge. Accordingly, using this data, the monthly billing statement  
23 of those customers that subscribe to the identified access lines will be  
24 assessed the line-item charge in accordance with the statute.

25

1           As previously discussed, Schedule 8 data has no relation to the billing  
2           system. Accordingly, utilizing BellSouth's billing system data to assess  
3           the line-item charge on the basis of counting activated voice  
4           channels/access lines represents a more accurate methodology for  
5           determining an assessment than using access line data reported in  
6           Schedule 8.

7

8    Q.    HAS THIS COMMISSION EVER ACCEPTED A METHODOLOGY TO  
9           APPLY A LINE ITEM CHARGE ON RETAIL ACCESS LINES THAT  
10          DIFFERED FROM SCHEDULE 8 DATA? IF SO, IN WHAT  
11          INSTANCES?

12

13   A.    Yes. There have been instances where BellSouth did not use Schedule  
14          8 data and instead utilized a different data source in order to determine  
15          the appropriate line count totals to apply a particular line-item charge.  
16          One example is the assessment of the 911 surcharge. BellSouth  
17          applies a 911 surcharge on retail and resold access lines based upon  
18          the specific tax codes that appear on the customers billing record.  
19          Additionally, in accordance with a Miami-Dade County Ordinance,  
20          BellSouth applies a Miami Manhole surcharge on Miami-Dade County  
21          customers to recover costs BellSouth incurs as a result of complying  
22          with the Ordinance. The assessment of the line-item charges in both of  
23          these instances relies upon data obtained from BellSouth's billing  
24          system, just as BellSouth is proposing to use in this proceeding.

25

1 Q. ARE YOU AWARE OF ANY INSTANCES WHERE SCHEDULE 8 LINE  
2 COUNT DATA ARE USED IN DETERMINING THE NUMBER OF  
3 LINES THAT A LINE-ITEM CHARGE SHOULD BE ASSESSED?

4

5 A. No. As discussed above, BellSouth provides Schedule 8 data to the  
6 Commission as required by Rule 25-4.0185.

7

8 **Issue 3(b):**

9 ***Is a line item charge on BellSouth's wholesale UNE loop appropriate***  
10 ***pursuant to Section 364.051(4)(b)(6), Florida Statutes and Federal***  
11 ***Law? If yes, on which types of lines should the charge be assessed***  
12 ***and how should the lines be counted? What is the total number of***  
13 ***UNE loops to be assessed, if any?***

14

15 Q. WHAT IS BELLSOUTH'S POSITION REGARDING THE  
16 APPROPRIATENESS OF ASSESSING A LINE-ITEM CHARGE TO  
17 WHOLESALE UNE LOOPS?

18

19 A. BellSouth believes that wholesale loop unbundled network element  
20 customers should be included in the assessment of the line-item charge  
21 pursuant to Section 364.051(4)(b)(6). Since I am not an attorney,  
22 BellSouth's position with respect to whether federal law is applicable in  
23 the assessment of the line-item charge to UNE loops will be addressed  
24 by its attorneys in BellSouth's Pre-Hearing Legal Memoranda to be filed  
25 on November 30, 2006. However, from a public policy perspective, the

1 application of the line-item charge to UNE loops is not only appropriate  
2 but to do otherwise would possibly result in reducing the amount of cost  
3 recovery that the Legislature obviously contemplated a Petitioning  
4 carrier was entitled to recover. Simply put, BellSouth experienced  
5 substantial costs in repairing and restoring facilities, which includes the  
6 wholesale unbundled loop facilities leased by our CLEC customers as  
7 well as those facilities used by our retail customers. Given the wording  
8 of the statute, it is not appropriate policy for one group to be assessed  
9 and another group to be exempted.

10

11 Q. WITH REGARD TO AUDIT FINDING NUMBER 5, MR. WINSTON  
12 STATES THAT THE NUMBER OF UNBUNDLED LOOP ACCESS  
13 LINES COULD NOT BE VERIFIED TO SCHEDULE 8 DATA. IS HE  
14 CORRECT?

15

16 A. Yes. As discussed above, Schedule 8 includes the total number of  
17 unbundled network element platforms (UNE-P) lines, separated by  
18 residential UNE-Ps and business UNE-Ps.<sup>1</sup> The number of UNE-Ps  
19 reported on Schedule 8 does not include stand-alone unbundled loops  
20 or unbundled loops provided as part of an Enhanced Extended Loop  
21 combinations (unbundled loop-transport combination). As such,  
22 Schedule 8 cannot be used to determine the number of wholesale loop

---

<sup>1</sup> As the Commission is aware, BellSouth is no longer obligated to provide the UNE-Platform (UNE loop-port combinations) to CLECs pursuant to the FCC's TRRO and this Commission's Change of Law decision in Docket No. 041269-TP. The UNE-P access line data reported on Schedule 8 reflects the number of Wholesale Local Platform services sold to CLECs under their Commercial Agreement with BellSouth.

1 unbundled network element customer loops that would be assessed the  
2 line-item charge. This explains why Audit Staff could not verify the  
3 unbundled loop calculation with Schedule 8 and further supports  
4 BellSouth's position that Schedule 8 should not be used to determine  
5 the number access lines to which the line-item charge should apply.

6

7 Q. BECAUSE SCHEDULE 8 DOES NOT CONTAIN DATA REGARDING  
8 UNBUNDLED LOOPS, HOW DID BELL SOUTH DETERMINE THE  
9 NUMBER OF UNBUNDLED LOOPS THAT WOULD BE ASSESSED  
10 THE LINE-ITEM CHARGE?

11

12 A. Information regarding the number of unbundled loops that would be  
13 assessed the line-item charge was obtained from BellSouth's wholesale  
14 data warehouse, which is fed by the systems used to bill the CLEC for  
15 the loops. Using the USOCs assigned to each type of unbundled loop,  
16 BellSouth extracted aggregate information from its wholesale data  
17 warehouse and determined the number of loops in-service as of June  
18 2006. This information formed the basis of the estimated number of  
19 unbundled loops that would be assessed the line-item charge.

20

21 Q. BEGINNING ON PAGE 7 OF HIS TESTIMONY, MR. WOOD SETS  
22 FORTH SEVERAL REASONS WHY THE LINE-ITEM CHARGE  
23 SHOULD NOT APPLY TO WHOLESALE LOOPS. PLEASE  
24 COMMENT.

25



1     A.     Mr. Wood’s first contention is that BellSouth should not be allowed to  
2            assess the line-item charge to wholesale loops because “CLECs were  
3            required to repair and replace network facilities just as BellSouth was,  
4            and were likewise required to purchase new equipment, pay overtime  
5            wages, and do all of the other things necessary to restore their  
6            networks.” Mr. Wood’s argument misses the mark. Any costs to  
7            repair or restore the wholesale loop, which is what the CLEC leases  
8            from BellSouth, were borne by BellSouth, not by the CLEC.  
9            Furthermore, as Mr. Hilyer and Mr. Pendergrass fully address in their  
10           direct testimony, BellSouth is not seeking recovery of costs associated  
11           with “purchas[ing] new equipment.”

12

13           Mr. Wood further contends that “CLECs have no practical market  
14           mechanism to impose such a surcharge on their own end user  
15           customers.” Mr. Wood is incorrect. CLECs clearly have the ability to  
16           pass on their costs, including the line-item surcharge, to their end  
17           users. They can also choose not to pass on such charges in order to  
18           gain a perceived competitive advantage over BellSouth.

19

20           On page 8 and again on page 10, Mr. Wood contends that BellSouth is  
21           proposing to assess the line-item charge in a manner that is contrary to  
22           the statute. Mr. Wood is incorrect. The statute allows BellSouth to  
23           assess a line-item charge per access line for wholesale unbundled loop  
24           customers. In the wholesale world, one unbundled loop could be used  
25           to provide services that are equivalent to more than a single access

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**Confidential Data identified as \*\*\*\*\* \_\_\_\_\_ \*\*\*\*\***

1 line. For instance, a DS0 loop is equivalent to one voice grade loop; a  
2 DS1 loop is equivalent to 24 voice grade equivalent loops; and a DS3  
3 loop is equivalent to 672 voice grade equivalent loops. Mr. Wood is  
4 under the misimpression that BellSouth is using the term "per-DS0" to  
5 mean something different than "per access line".

6

7 Q. HAS THIS COMMISSION PREVIOUSLY ADDRESSED HOW MANY  
8 VOICE GRADE EQUIVALENT LOOPS A DS1 LOOP EQUATES TO?

9

10 A. Yes. While in a somewhat different context, this Commission found in  
11 the Change of Law proceeding,<sup>2</sup> that a DS1 unbundled loop equates to  
12 and should be counted as 24 DS0s or 24 voice grade equivalent  
13 loops. Accordingly, under this same rationale, a DS3 unbundled loop  
14 equates to and should be counted as 672 DS0s or 672 voice grade  
15 equivalent loops. Consequently, and contrary to Mr. Wood's testimony,  
16 this Commission has already determined (albeit in a different  
17 proceeding) that the bandwidth capability of a wholesale unbundled  
18 loop determines the equivalent number of access lines.

19

20 Q. HOW DO YOU RESPOND TO MR. WOOD'S CONTENTION (PAGE 8)  
21 THAT BELL SOUTH'S PROPOSED APPLICATION OF THE LINE-ITEM  
22 SURCHARGE IS NOT COMPETITIVELY NEUTRAL AND THAT  
23 BELL SOUTH IS SUBSCRIBING A DIFFERENT MEANING OF

---

<sup>2</sup> PSC Order No. 06-0172-FOF-TP at 37.

1 "ACCESS LINE" TO RETAIL AND WHOLESALE CUSTOMERS (PAGE  
2 10)?

3

4 A. Mr. Wood is misinformed. If a retail customer and wholesale loop  
5 customer both have only a single access line or a single loop, both  
6 will be charged the \$.50 line-item charge for the line/loop. If a retail  
7 customer has more than a single line, BellSouth will assess the line-  
8 item charge to its retail customers for each activated voice  
9 channel/access line. Based on the fact that BellSouth is unable to  
10 determine the number of loops of a high capacity loop that a CLEC is  
11 using to provide services to its end users, BellSouth relied upon the  
12 fair reading of the FCC's definition of "access line", this Commission's  
13 decision in the Change of Law proceeding as to how DS1 and DS3  
14 unbundled loops should be counted, as discussed above, and the  
15 definition of "access line" set forth in Florida Administrative Code 25-  
16 4.003 to develop its position. As such, it was appropriate for  
17 BellSouth to count the full capacity of such loops to determine the  
18 appropriate number of potential loops that a CLEC is providing  
19 service across.

20

21 Under Mr. Wood's theory, a DS1 loop customer would only be  
22 charged \$.50 for that loop even though that DS1 loop contains 24  
23 voice grade equivalent loops; however, if that same customer  
24 purchased 24 single loops, they would be assessed 24 \$.50 line-item  
25 charges.

1 Q. ARE YOU PROPOSING THAT WHOLESALE LOOP CUSTOMERS  
2 THAT PURCHASE HIGH CAPACITY LOOPS PAY A LINE-ITEM  
3 CHARGE BASED ON THE FULL CAPACITY OF THE LOOP?

4  
5 A. Because BellSouth is unable to determine the number of loops a CLEC  
6 is using of a high capacity loop to provide services to its end users,  
7 BellSouth had initially proposed to assess the line-item charge based  
8 on the full capacity of the unbundled loop. However, in an effort to  
9 address the CLECs' concerns, BellSouth is not opposed to applying an  
10 alternative methodology for assessing the line-item charge to high  
11 capacity wholesale unbundled loops. Under this alternative  
12 methodology, BellSouth would apply its utilization percentage for high-  
13 capacity level retail services to the CLECs' high-capacity unbundled  
14 loops.

15  
16 Q. PLEASE EXPLAIN THE "UTILIZATION PERCENTAGE" THAT  
17 BELL SOUTH IS PROPOSING TO USE TO ASSESS THE LINE-ITEM  
18 CHARGE ON HIGH CAPACITY UNBUNDLED LOOPS AND HOW IT  
19 WAS DERIVED.

20  
21 A. BellSouth's current utilization factor is 47%. That is, on average, 47%  
22 of the available bandwidth (or channels) associated with high-capacity  
23 retail services is currently being used by BellSouth's retail customers.  
24 To determine this percentage, BellSouth obtained data from its billing  
25 systems that identified, by Florida wire center, the maximum system

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1 channel capacity for high capacity retail services, such as MegaLink<sup>®</sup>  
2 Channel Service and LightGate<sup>®</sup> Service, that BellSouth provides to its  
3 retail customers ("maximum capacity"). Data was also obtained that  
4 identified the quantity of retail services ("utilized capacity") being  
5 provided to BellSouth's retail customers over these high capacity retail  
6 arrangements. The utilization percentage (47%) was then calculated by  
7 dividing the total utilized capacity for the high capacity retail  
8 arrangements in each qualifying Florida wire center by the total  
9 maximum capacity for these same retail services in the same Florida  
10 wire centers.

11  
12 Accordingly, BellSouth's alternative proposal is to apply this 47%  
13 utilization factor to the maximum capacity of DS1 and DS3 unbundled  
14 loops to determine the number of line-item charges to be assessed to  
15 CLECs that purchase these high capacity wholesale unbundled loops.  
16 As such, each DS1 unbundled loop would be assessed 11 line-item  
17 charges (DS1 capacity is 24,  $24 \times 47\% = 11$ ), and each DS3 unbundled  
18 loop will be assessed 315 line-item charges (DS3 capacity is 672;  $672 \times$   
19  $47\% = 315$ ). Such an approach addresses all of Mr. Wood's concerns,  
20 because it ensures that all BellSouth customers (retail and wholesale)  
21 that purchase high-capacity services/loops are assessed the line-item  
22 charge in the same manner. In fact, applying the utilization factor will  
23 actually financially benefit those CLEC customers that use the entire  
24 capacity of these high-capacity loops.

25

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1 Q. WHAT IS THE IMPACT ON THE RECOVERY AMOUNT AND  
2 NUMBER OF WHOLESALE UNBUNDLED LOOP COUNT WHEN THE  
3 47% UTILIZATION FACTOR IS APPLIED TO DS1 AND DS3  
4 UNBUNDLED LOOPS?

5  
6 A. Based on June 2006 data, the impact of applying the 47% utilization  
7 factor to DS1 and DS3 wholesale unbundled loops results in assessing  
8 the line-item charge to 477,648 wholesale unbundled loops, a decrease  
9 of 319,653 loops, reducing the anticipated recovery amount by nearly  
10 \$2 million. Exhibit KKB-2 reflects the type and number of wholesale  
11 unbundled loops that should be subject to the line-item charge.

12  
13 Q. CAN YOU PROVIDE SOME EXAMPLES OF HOW BELLSOUTH WILL  
14 ASSESS THE LINE-ITEM CHARGE ON ITS RETAIL CUSTOMERS  
15 THAT OBTAIN HIGH CAPACITY SERVICES FROM BELLSOUTH?

16  
17 A. Certainly. Attached to my testimony as Exhibit KKB-3 is a  
18 representative sample of a typical MegaLink<sup>®</sup> Channel Service  
19 ("MLCS") customer account (DS1 level service). As indicated on the  
20 exhibit, the line-item charge will be assessed based on the presence of  
21 the initial mileage USOC (e.g., 1LDPZ) for the local channel element  
22 and for each specific service or access line that is being provided over  
23 the MLCS (i.e., NMQ, TFBCX, TTTXB).

24

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1           Contrary to Mr. Wood's contention, it is clear from the information  
2           provided above that BellSouth's proposal for assessing the line-item  
3           charge to its retail and wholesale customers is not only consistent with  
4           Commission precedent, it also ensures that the line-item charge is  
5           applied on a consistent and competitively neutral basis.

6

7    Q.    ON PAGE 11, MR. WOOD ARGUES THAT "BELLSOUTH'S  
8           PROPOSAL IS AT ODDS WITH THE WAY IN WHICH COSTS ARE  
9           INCURRED." PLEASE RESPOND.

10

11   A.    Mr. Hilyer will address Mr. Wood's contention that BellSouth's TELRIC  
12           rates already include storm related costs; however, it should be stated  
13           that the statute does not require that the proposed recovery amount be  
14           based upon BellSouth's costs for repairing specific loops or lines. As  
15           Mr. Pendergrass and Mr. Hilyer discuss fully in their direct testimony,  
16           the amount of recoverable storm related costs is based on the total  
17           amount of eligible storm-related expenses.

18

19   Q.    ON PAGE 12 MR. WOOD STATES THAT THE DIFFERENCE IN THE  
20           NUMBER OF UNBUNDLED LOOPS REFLECTED IN MY  
21           SEPTEMBER 1, 2006 DIRECT TESTIMONY AND THE NUMBER OF  
22           UNBUNDLED LOOPS REFLECTED IN MY SEPTEMBER 20, 2006  
23           AMENDED DIRECT TESTIMONY "MUST BE A RESULT OF A  
24           CHANGE IN HOW BELLSOUTH DEFINES THE TERM 'UNBUNDLED  
25           LOOPS'." IS HE CORRECT?

1     A.     No. After I filed my direct testimony on September 1, 2006, two errors  
2           were discovered in the number of unbundled loops that should be  
3           assessed the line-item charge. As explained in BellSouth's response to  
4           CompSouth discovery<sup>3</sup>, one of the errors was caused by a spreadsheet  
5           calculation error and the other error was attributed to the omission of  
6           the DS1 and DS3 loop portion of Enhanced Extended Loops ("EELs").  
7           Specifically, the spreadsheet calculation error occurred because the  
8           original number of reported DS1 loops was multiplied by 12 instead of  
9           24 to determine the number of loop equivalents, causing the DS1 loop  
10          equivalents to be understated by 196,236. In addition, BellSouth failed  
11          to include the DS1 and DS3 loop portion of enhanced extended loops  
12          causing the DS1 loop equivalent number to be understated by 192,384  
13          and the DS3 loop equivalent number to be understated by 2,688. Thus,  
14          the difference between the approximately 406,000 unbundled loops  
15          reflected in my direct testimony and the approximately 797,300  
16          unbundled loops reflected in my amended direct testimony can be  
17          attributed to these errors (196,236 + 192,384 + 2688 = 388,888) and  
18          were not as "a result of a change in how BellSouth defines the term  
19          'unbundled loops'" as Mr. Wood contends.  
20

---

<sup>3</sup> See BellSouth's response, filed October 5, 2006, to CompSouth's 1<sup>st</sup> Set of Interrogatories, Item Nos. 1 and 2. See also BellSouth's response, filed October 25, 2006, to CompSouth's 2<sup>nd</sup> Set of Interrogatories, Item No. 21 which further explains the specific errors in detail.



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1 Q. ON PAGE 12 MR. WOOD ASSERTS THAT BELLSOUTH IS SEEKING  
2 TO INCREASE THE COSTS OF ITS COMPETITORS BY  
3 REDEFINING ACCESS LINES. PLEASE COMMENT.

4

5 A. Mr. Wood is wrong and the facts belie his assertions. As discussed  
6 above, through the application of the utilization factor to high capacity  
7 unbundled loops, coupled with the consistent application of the line-item  
8 charge to BellSouth retail customers that subscribe to high capacity  
9 services, BellSouth is treating all customers in a consistent manner and  
10 on a competitively neutral basis.

11

12 Q. ON PAGES 9 AND 13-16 OF HIS TESTIMONY, MR. WOOD  
13 CONCLUDES THAT "BELLSOUTH'S PROPOSAL TO EFFECTIVELY  
14 RE-PRICE UNE LOOPS IS DIRECTLY AT ODDS WITH THE  
15 REQUIREMENTS OF THE FEDERAL TELECOMMUNICATIONS  
16 ACT." DO YOU AGREE WITH HIS STATEMENT? PLEASE EXPLAIN.

17

18 A. No, I do not agree with Mr. Wood. BellSouth is not seeking to re-price  
19 UNE loops or to change the UNE loop rates established by this  
20 Commission. The line-item charge is a temporary charge that will only  
21 be assessed for a 12-month period. Further, the line-item charge is a  
22 mechanism under Florida law for BellSouth to recover a portion of its  
23 incremental intrastate costs and expenses incurred as a result of the  
24 2005 tropical storm season. The line-item charge has nothing to do  
25 with BellSouth's obligations pursuant to § 251 of the

1           Telecommunications Act of 1996 (the "Act") or the FCC's UNE pricing  
2           rules.

3

4    Q.    WHY IS THE LINE-ITEM CHARGE NOT RELATED TO BELLSOUTH'S  
5           OBLIGATIONS PURSUANT TO § 251 OF THE ACT OR THE FCC'S  
6           PRICING RULES?

7

8    A.    To begin with, the line-item charge has nothing to do with BellSouth's  
9           provisioning of an unbundled network element pursuant to federal law.  
10           Rather, the storm recovery line-item surcharge is being assessed  
11           pursuant to Florida law.

12

13           Mr. Wood's suggestion that such a line-item charge is an increase in  
14           the rate for the specific unbundled network element is also incorrect.  
15           Under Mr. Wood's theory, the Commission's assessment under state  
16           law of the Regulatory Assessment Fee on CLECs would be improper,  
17           because it constitutes an increase in the CLEC's cost of doing business  
18           in Florida; similarly, pursuant to the same rationale, 911 surcharges  
19           imposed under Florida law would also be improper. The line-item storm  
20           recovery charge available here under state law is no different.

21

22           Finally, Mr. Wood's argument renders the statute meaningless. This is  
23           so because it results in a finding that, in no event could the Commission  
24           find that it would be appropriate to apply the line-item charge on

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1           BellSouth's wholesale loop UNE customers, notwithstanding Section  
2           364.051(4)'s clear language to the contrary.

3

4    Q.    IN SEVERAL PLACES IN HIS TESTIMONY (PAGES 4, 5, 9, 20-21),  
5           MR. WOOD SUGGESTS THAT BELLSOUTH IS PROPOSING TO  
6           APPLY THE STORM RECOVERY LINE-ITEM CHARGE TO  
7           WHOLESALE LINES OTHER THAN WHOLESALE UNBUNDLED  
8           LOOPS. IS THAT TRUE?

9

10   A.    No. As stated in BellSouth's response to discovery,<sup>4</sup> "BellSouth is not  
11           proposing to apply the line item charge on resale, special access or  
12           commercial agreement customers."

13

14   Q.    ON PAGE 21 MR. WOOD TAKES ISSUE WITH BELLSOUTH'S  
15           POSITION THAT FAILING TO ASSESS THE LINE-ITEM CHARGE ON  
16           WHOLESALE CUSTOMERS WOULD RESULT IN BELLSOUTH'S  
17           RETAIL CUSTOMERS MAKING UP THE SHORTFALL. PLEASE  
18           RESPOND.

19

20   A.    In the context of this proceeding, Mr. Wood is incorrect. As an initial  
21           matter, the policy implications that result in not imposing the line-item  
22           charge on wholesale unbundled loops are not applicable in this current  
23           proceeding, because BellSouth is entitled to apply the maximum

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<sup>4</sup> See BellSouth's response to CompSouth 2<sup>nd</sup> Set of Interrogatories, Item No. 16, filed October 25, 2006.

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1 amount of recovery due to the massive damages incurred with the 2005  
2 Storms. It is appropriate, however, to consider this policy argument  
3 because of the possibility that the assessment established in future  
4 years may not reach the maximum allowed amount (\$.50 per access  
5 line). For instance, if wholesale unbundled loop customers were not  
6 included in the assessment of the line-item charge in a future  
7 proceeding where BellSouth was not entitled to collect the maximum  
8 amount allowed, then BellSouth's retail customers would be making up  
9 the shortfall. For example, if the Commission determined that the  
10 amount of the storm related expenses was \$25 million and could only  
11 be recovered from BellSouth's 5 million retail access line customers,  
12 then a per line-item charge of \$.42 per access line per month would be  
13 assessed. However, if the line-item charge is also assessed to 500,000  
14 unbundled loops, then the line-item charge to be assessed to both retail  
15 lines and wholesale loops would be reduced to \$.39 per access line per  
16 month. In the above example, not assessing the line-item charge to  
17 unbundled loop customers results in only BellSouth's retail end users  
18 being responsible for charges that both BellSouth end users and CLEC  
19 end users received benefit from.

20

21 Q. ON PAGE 23 MR. WOOD ASSERTS THAT THERE IS NO PUBLIC  
22 POLICY REASON FOR "A PRICE-REGULATED COMPANY, HAVING  
23 MADE THESE DECISIONS" OF NOT HAVING A STORM RESERVE  
24 OR INSURANCE "SHOULD NOT BE REQUIRED TO LIVE WITH THE  
25 CONSEQUENCES OF ITS ACTIONS." PLEASE COMMENT.

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1 A. Mr. Wood's assertion is misplaced. The Florida Legislature expressly  
2 recognized that companies subject to price-cap regulation can recover  
3 these storm-related costs, notwithstanding the fact that they are price-  
4 cap regulated. Although Mr. Wood asserts that he can think of no  
5 public policy reasons, the Legislature has deemed it appropriate for  
6 BellSouth to recover these unique and extraordinary expenses. Under  
7 his theory, no local exchange carrier ("LEC") could qualify under  
8 §364.051(4) unless it maintained insurance for its outside plant facilities  
9 or a storm reserve fund. Neither of these requirements, however, is  
10 required under the law. Rather, the law simply provides that to the  
11 extent a company has a storm reserve fund, that fund has to be taken  
12 into account in determining the amount a LEC can recover. Finally, as  
13 Mr. Hilyer discusses in his testimony, even if BellSouth had insurance  
14 coverage and a storm reserve fund, BellSouth would still be seeking  
15 recovery of its storm related costs in this proceeding.

16  
17 Q. MR. WOOD CLAIMS, ON PAGE 24 OF HIS TESTIMONY, THAT  
18 BELL SOUTH IS SEEKING THE PROTECTION OF RATE OF RETURN  
19 REGULATION WITH THIS FILING. IS THIS CLAIM APPROPRIATE?

20  
21 A. No, it is not. BellSouth is making this filing under the provisions of  
22 Florida Statutes § 364.051(4)(b), a section of Florida law that applies to  
23 local exchange telecommunications companies that are subject to  
24 carrier-of-last-resort obligations and operating under price regulation.  
25 On page 23 of his testimony, Mr. Wood states that he "do[es] not take

1 issue with BellSouth's ability to operate pursuant to §364.051...,” yet  
2 that is exactly what he is doing when he attempts to characterize  
3 BellSouth's request for recovery as rate of return regulation. Florida  
4 Statute § 364.051(4)(b) gives BellSouth the opportunity to recover from  
5 its customers a limited portion (approximately 16%) of the incremental  
6 amount BellSouth expended on 2005 storm damage recovery.  
7

8 Q. ON PAGE 27 MR. WOOD STATES “BEFORE A COMPANY COMES  
9 TO THE COMMISSION SEEKING TO IMPOSE A SURCHARGE ON  
10 FLORIDA RATEPAYERS AND WHOLESALE CUSTOMERS, IT  
11 OUGHT TO HAVE EXHAUSTED A REASONABLE STORM RESERVE  
12 FUND, APPLICABLE INSURANCE COVERAGE, OR BOTH.” PLEASE  
13 RESPOND.

14  
15 A. Mr. Wood is creating requirements that do not exist. The statute does  
16 not require a price-regulated LEC to maintain a storm reserve fund nor  
17 does it require insurance coverage. Again, however, even if BellSouth  
18 had both insurance coverage and a storm reserve fund, BellSouth  
19 would still be seeking to recover its expenses under the statute, as  
20 further described by Mr. Hilyer.  
21  
22  
23  
24  
25

1 Issue 4:

2 *What is the appropriate line item charge per access line, if any?*

3

4 Q. WHAT AMOUNT IS BELL SOUTH PROPOSING FOR THE LINE-ITEM  
5 CHARGE PER ACCESS LINE?

6

7 A. As I stated in my direct testimony, pursuant to Florida Statute  
8 § 364.051(4), BellSouth is proposing to apply a \$0.50 charge on certain  
9 retail and wholesale access lines to recover a portion of its intrastate,  
10 incremental expenses incurred due to the damage caused by the 2005  
11 Storms.

12

13 Q. WHY IS BELL SOUTH PROPOSING TO APPLY \$0.50 PER ACCESS  
14 LINE?

15

16 A. BellSouth incurred approximately \$202.4 million in storm related  
17 damage as a result of the 2005 Storms. Of the \$202.4 million,  
18 approximately \$95.5 million is attributable to incremental, intrastate  
19 storm related expenses. Pursuant to the statute, BellSouth is permitted  
20 to petition this Commission to recover its incremental, intrastate costs  
21 for damage caused by tropical storms up to a maximum of \$0.50 per  
22 access line. BellSouth is proposing to charge the \$0.50 line-item  
23 charge, which will recover only a small portion of the intrastate,  
24 incremental costs it incurred due to the 2005 Storms.

25

1 **Issue 5:**

2 ***If a line item charge is approved in Issue 4, on what date should the***  
3 ***charge become effective and on what date should the charge end?***

4

5 Q. WHAT IS BELLSOUTH'S POSITION REGARDING THIS ISSUE?

6

7 A. BellSouth's proposal is that the assessment of the storm recovery line-  
8 item charge should begin approximately 60 days following a final order  
9 of the Commission. BellSouth has begun the process of developing a  
10 mechanism to assess the line-item charge as it believes will be  
11 ultimately ordered by this Commission. However, absent some  
12 unforeseen systems modifications, completion of the necessary  
13 implementation activities may take 30-60 days from the Commission's  
14 final order. With respect to when the assessment of the line-item  
15 charge should end, BellSouth's position is that it will stop applying the  
16 line-item charge after it has been billed for a 12 month period.

17

18 Q. IS IT NECESSARY FOR BELLSOUTH TO AMEND ITS CLEC  
19 INTERCONNECTION AGREEMENTS BEFORE IT CAN ASSESS THE  
20 LINE-ITEM CHARGE TO WHOLESALE UNBUNDLED LOOP  
21 CUSTOMERS?

22

23 A. Not unless the Commission specifically orders BellSouth to do so. It is  
24 BellSouth's position that, because the line-item charge is totally  
25 unrelated to BellSouth's Section 251 obligations under the Act, the



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1 Commission's order resulting from this proceeding will provide  
2 BellSouth with the necessary authority to assess the line-item charge to  
3 its CLEC wholesale loop customers. As such, the administrative  
4 process of amending the Interconnection Agreement of 30 CLECs  
5 should not be required.

6

7 Q. IS THERE ANY EXISTING LANGUAGE IN THE INTERCONNECTION  
8 AGREEMENT THAT OBTVIATES THE NEED TO AMEND THE  
9 AGREEMENTS?

10

11 A. Yes. In addition to the above argument, once the Commission issues  
12 its Order providing BellSouth with the necessary authority to assess the  
13 line-item charge to its CLEC loop customers, BellSouth's standard  
14 agreement and the agreements of CompSouth members I reviewed,  
15 state that the purchasing party (in this case, the CLEC purchasing  
16 wholesale loops from BellSouth) is obligated to pay taxes and fees or  
17 tax-like fees. The term, "taxes and fees" or "tax-like fees" encompasses  
18 fees and surcharges that may be imposed by the State or by the  
19 Commission. This language is an additional reason why there is no  
20 need to amend interconnection agreements to assess the line-item  
21 charge authorized by the Commission's order in this proceeding.

22

23 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

24

25 A. Yes.

Florida Storm Cost Recovery

<b>Estimated Florida Storm Cost Recovery Amount</b>				
<b>Retail Basic and Nonbasic Services</b>				
<b>( Access Line data as of June 2006)</b>				
		<b>Line</b>	<b>Monthly</b>	<b>Annual</b>
<b>State</b>		<b>Equiv.</b>	<b>Revenue</b>	<b>Revenue</b>
FL	Residence Lines	3,413,192	\$1,706,596.00	\$20,479,152
FL	Business Lines	1,557,740	\$778,870.00	\$9,346,440
FL	COCOTS Lines	4,131	\$2,065.50	\$24,786
<b>Total</b>		<b>4,975,063</b>	<b>\$2,487,531.50</b>	<b>\$29,850,378</b>

**Florida Storm Cost Recovery**

<b>Estimated Florida Storm Cost Recovery Amount</b>					
<b>Wholesale Unbundled Loops</b>					
<b>(Loop data as of June 2006)</b>					
<b>Product Code</b>	<b>Loop Type</b>	<b>Number in Service June 2006</b>	<b>Number to Apply Surcharge*</b>	<b>Monthly Revenue</b>	<b>Annual Revenue</b>
601	4-wire 19.2, 56 or 64 Kbps Digital Grade\ Loop	3	3	\$1.50	\$18.00
602	2-wire Analog Voice Grade Loop - Service Level 2	28,375	28,375	\$14,187.50	\$170,250.00
603	4-wire Analog Voice Grade Loop	1	1	\$0.50	\$6.00
604	2-wire ISDN Digital Grade Loop	5,353	5,353	\$2,676.50	\$32,118.00
609	2-wire High Bit Rate Digital Subscriber Line (HDSL) Compatible Loop	993	993	\$496.50	\$5,958.00
610	2-wire Asymmetrical Digital Subscriber Line (ADSL) Compatible Loop	5,229	5,229	\$2,614.50	\$31,374.00
618	2-wire Analog Voice Grade Loop - Service Level 1	166,863	166,863	\$83,431.50	\$1,001,178.00
645	2-wire and 4-wire Unbundled Copper Loop	168	168	\$84.00	\$1,008.00
684	2-wire Unbundled Copper Loop - Non-designed	84	84	\$42.00	\$504.00
606	4-wire Unbundled DS1/ISDN Digital Grade Loop	16,353	179,883	\$89,941.50	\$1,079,298.00
659	4-wire Unbundled DS1/ISDN Digital Grade Loop in EEL Combination	8,016	88,176	\$44,088.00	\$529,056.00
607	DS3 Unbundled Digital Loop	4	1,260	\$630.00	\$7,560.00
660	DS3 Unbundled Digital Loop in EEL Combination	4	1,260	\$630.00	\$7,560.00
		<b>231,446</b>	<b>477,648</b>	<b>\$238,824.00</b>	<b>\$2,865,888.00</b>
* DS1 and DS3 counts based on applying 47% Utilization Factor (DS1 = 11 equivalent loops; DS3 = 315 equivalent loops)					

REPRESENTATIVE SAMPLE OF MEGALINK CHANNEL SERVICE ACCOUNT  
WITH USOC IDENTIFIED FOR STORM RECOVERY FEE ASSESSMENT

407 M91 [REDACTED] [REDACTED] \*CSR\* E  
QTY USOC

---S&E

CKL 2-123 MAIN STREET, ORL  
/SN ABC COMPANY

13 1LDPA MegaLink Local Channel,  
/CLF [REDACTED]  
ORLDFLSAK99/LSO 407 351  
/TAR 000,901/SED [REDACTED]  
/CLS 30. [REDACTED] ..SB  
/ZSER [REDACTED]  
/CKL 2

1 1LDPZ MegaLink Local Channel,  
/CLF [REDACTED]  
ORLDFLSAK99/LSO 407 351  
/TAR 000,901/[REDACTED]  
/SED [REDACTED]  
/CLS 30. [REDACTED] ..SB  
/ZSER [REDACTED]  
/CKL 2

CKI; 1-4959 W SAND LAKE RD, ORL  
/SN SBT CO

1 CTG Private Line Service, Cir+  
/CLS 30. [REDACTED] ..SB  
/LSO 407 351/TAR 000,901/[REDACTED]  
/SSP/ZNEA/SED [REDACTED]  
/ZSER [REDACTED]  
/CKL 1

CKL 2-123 MAIN STREET, ORL  
/SN ABC COMPANY

1 DPN3L Dataphone Digital Service  
/CLS 30. [REDACTED] ..SB  
/LSO 407 352/TAR 000,901  
/SED [REDACTED]/ZSER [REDACTED]

REPRESENTATIVE SAMPLE OF PBX TRUNK ACCOUNT  
WITH USOCS IDENTIFIED FOR STORM RECOVERY FEE ASSESSMENT

407 352 [REDACTED] [REDACTED] \*CSR\* E SLA: 1  
QTY USOC

---S&E

1 NQM MegaLink Channel Service+

/TN 407 [REDACTED] /PIC [REDACTED]  
/LPIC [REDACTED] /BLKD [REDACTED] /PSM .TKNC  
/GST/ADSR/MTP N/ZLCP K  
/PCA FR, [REDACTED]  
/CFA [REDACTED] ORLDFLSAK99  
[REDACTED]  
/DSNA 30, [REDACTED] ..SB  
/LPCA FR, [REDACTED]  
/SED [REDACTED] /ZSER [REDACTED]  
/RMKR (A)

1 TFBCX PBX Service, combination +

/TLI 407 345- [REDACTED] / [REDACTED]  
/TN 407 354- [REDACTED] /PSM .TKNC  
/HML [REDACTED] /ZLCP K/MTP N  
/SED [REDACTED] /ZSER [REDACTED]

1 TTTXB Long distance trunks conn+

/TLI 407 345- [REDACTED] /TER [REDACTED]  
/PIC [REDACTED] /LPIC [REDACTED] /HML [REDACTED]  
/GST/PSM .LTNC  
/PCA FR, [REDACTED] /MTP N  
/ZLCP K/ [REDACTED]  
/LPCA FR, [REDACTED]  
/SED [REDACTED] /ZSER [REDACTED]  
/RMKR (A)

1 NQT MegaLink Channel Service+

/TLI 407 351- [REDACTED] /TER [REDACTED]  
TN 407 345- [REDACTED] /PIC [REDACTED]  
/LPIC [REDACTED] /HML [REDACTED] /BLKD [REDACTED]  
/PSM .TKNC/GST/ [REDACTED] /MTP N  
/ZLCP K/PCA FR, [REDACTED]  
/CFA [REDACTED] ORLDFLSAK99  
[REDACTED]  
/DSNA 30, [REDACTED] ..SB  
/LPCA FR, [REDACTED]  
/SED [REDACTED] /ZSER [REDACTED]  
/RMKR (A)

1 TFU PBX Service, outgoing fla+  
/TLI 407 351- [REDACTED] /TER [REDACTED]  
/PTC [REDACTED] /LPIC [REDACTED] /HML [REDACTED]  
/BLKD [REDACTED] /PSM .TKNC/GST/MTP N  
/PCA FR, [REDACTED] /ZLCP K  
/LPCA FR, [REDACTED]  
/SED [REDACTED] /ZSER [REDACTED]  
/RMKR (A) [REDACTED]

1 TFC PBX Service, combination +  
/TLI 407 352- [REDACTED] /TER [REDACTED]  
/TN 407 352- [REDACTED] /PIC [REDACTED]  
/LPIC [REDACTED] /HML [REDACTED] /PSM .TKNC  
/GST/MTP N/BLKD [REDACTED]  
/PCA FR, [REDACTED] /ZLCP K  
/LPCA FR, [REDACTED]  
/SED [REDACTED] /ZSER [REDACTED]  
/RMKR (A) [REDACTED]

1 NQP MegaLink Channel Service+  
/TLI 407 354- [REDACTED] /DID [REDACTED]  
/RTI [REDACTED] /PSM .DINC/ [REDACTED]  
/ZLCP K  
/CFA [REDACTED] ORLDFLSAK99  
[REDACTED] /ANR C  
/DSNA 30, [REDACTED] ..SB  
/SED [REDACTED] /ZSER [REDACTED]  
/RMKR (F)

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**BELLSOUTH TELECOMMUNICATIONS, INC.**  
**SURREBUTTAL TESTIMONY OF RONALD L. HILYER**  
**BEFORE THE**  
**FLORIDA PUBLIC SERVICE COMMISSION**  
**DOCKET NO. 060598-TL**  
**NOVEMBER 17, 2006**

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

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

Q. ARE YOU THE SAME RONALD L. HILYER WHO FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed direct testimony in this proceeding on behalf of BellSouth on September 1, 2006.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to testimony of Mr. Don J. Wood filed on behalf of The Competitive Carriers of the South, Inc. (hereinafter referred to as "CompSouth"). Specifically, I will

1 address the comments and assertions made by Mr. Wood that  
2 BellSouth should have simply purchased insurance coverage for its  
3 outside plant and/or maintained a storm reserve fund as a means to  
4 "buffer its losses". Additionally, I will address Mr. Wood's contention  
5 that the costs of storm damage, such as those BellSouth is seeking to  
6 recover in this proceeding, are already included in BellSouth's TELRIC  
7 cost studies used to set rates for unbundled network elements.

8

9 ***Issue 1: What amount of any storm damage reserve fund should be***  
10 ***considered when determining the amount of tropical-system related***  
11 ***intrastate costs and expenses to be recovered?***

12

13 Q. MR. WOOD APPARENTLY AGREES WITH YOUR DIRECT  
14 TESTIMONY THAT GENERALLY ACCEPTED ACCOUNTING  
15 PRINCIPLES (GAAP) DO NOT ALLOW BELLSOUTH TO ESTABLISH  
16 A STORM RESERVE FUND BY ACCRUING EXPENSES RELATED  
17 TO FUTURE STORM DAMAGE. HOWEVER, HE CLAIMS THAT  
18 GAAP DOES NOT PREVENT BELLSOUTH FROM SETTING ASIDE  
19 CASH OR OTHER LIQUID ASSETS TO BE USED FOR FUTURE  
20 STORM DAMAGE. WOULD YOU LIKE TO COMMENT ON MR.  
21 WOOD'S SUGGESTION THAT BELLSOUTH SHOULD HAVE SET  
22 ASIDE SUCH A "CASH RESERVE" FOR USE FOR THE 2005 STORM  
23 DAMAGE?

24

25 A. Yes. Mr. Wood's recommendation appears to be for BellSouth to  
26 simply move cash out of one cash account to another cash account  
27 without recording any expense impact and label it "storm reserve fund".



1           Essentially, his testimony recognizes that GAAP prohibits BellSouth  
2           from having an accrued storm reserve fund and acknowledges that  
3           BellSouth, as a price-cap Local Exchange Carrier ("LEC"), is not  
4           required to maintain a storm reserve fund. Notwithstanding these  
5           concessions, he then suggests that BellSouth should have maintained  
6           a "rainy day" fund to cover these expenses before the Commission  
7           should find that the 2005 Storm-related expenses incurred by BellSouth  
8           were reasonable.

9  
10          Such a suggestion demonstrates a lack of understanding of what a  
11          storm reserve is intended to accomplish. As explained below, a storm  
12          reserve, whether funded or unfunded, is an accounting tool used to  
13          levelize the earnings impact resulting from restoration efforts  
14          associated with future major storms by recording periodic expense  
15          accruals. A funded reserve sets aside cash in conjunction with the  
16          expense recognition. This tool is beneficial in a rate-of-return  
17          environment because it helps minimize rate volatility. It provides no  
18          such benefit and is in fact prohibited under GAAP in a price regulation  
19          environment, as I explained in my direct testimony.

20  
21          What Mr. Wood proposes would not serve the traditional purposes of a  
22          storm reserve to levelize earnings and to minimize rate volatility,  
23          because in accordance with GAAP a price-regulated company such as  
24          BellSouth must record the losses and expenses associated with storm  
25          damage in the period incurred. Therefore, a "cash reserve" as  
26          suggested by Mr. Wood would not have reduced or mitigated in any

1 way the financial implications of the damage caused by the 2005  
2 storms. This is so because BellSouth still would have incurred and  
3 paid for the expenses resulting from the 2005 Storms regardless of  
4 whether it had a fictitious storm reserve fund.

5

6 Q. HAS BELLSOUTH EVER HAD A CASH STORM RESERVE FUND  
7 SUCH AS THAT PROPOSED BY MR. WOOD?

8

9 A. No. During the term (1994-1997) of the Stipulation and Settlement in  
10 Florida Public Service Commission Docket 920260-TL (Stipulation),  
11 BellSouth accrued \$10 million a year for storm reserve expenses for  
12 purposes of calculating the Company's return on equity for sharing  
13 purposes. Accordingly, over this 4-year period, BellSouth accrued for  
14 rate-of-return regulation purposes a total of \$40 million in storm  
15 expense and reversed against this accrual actual storm damage costs  
16 of \$5.5 million. With the expiration of the Stipulation and the related  
17 sharing requirement at the end of 1997 and BellSouth's operation  
18 under price-cap regulation on January 1, 1998, the return on equity  
19 calculation was no longer relevant and future accruals and reversals  
20 were discontinued. In this regard, the Florida Supreme Court has held  
21 that once a company elects to be price-cap regulated, "price-capped"  
22 companies are exempted from rate base, rate of return regulation. . . ."  
23 *Verizon Florida, Inc. v. Jacobs*, 810 SO. 2d 906 (Fla. 2002).

24

25

1 Q. ON PAGE 23 OF HIS TESTIMONY MR. WOOD STATED THAT  
2 BELLSOUTH CHOSE TO DISCONTINUE MAINTAINING THE STORM  
3 RESERVE AS PART OF A PROFIT MAXIMIZING STRATEGY AND  
4 THAT, IF IT HAD CONTINUED TO MAINTAIN A RESERVE, IT  
5 WOULD HAVE PROVIDED A MEANS TO BUFFER LOSSES  
6 RESULTING FROM STORM DAMAGE. IS THIS AN ACCURATE  
7 ASSESSMENT?

8

9 A. No. BellSouth did not choose to discontinue the storm reserve  
10 accruals to increase profits. These expense accruals could no longer  
11 be recognized for financial reporting purposes under GAAP and were  
12 no longer needed for rate-of-return regulation purposes after the  
13 inception of price regulation and the expiration of the sharing  
14 requirement of the Stipulation. Even if BellSouth had "set aside a cash  
15 reserve" as Mr. Wood suggests, this would not have provided a means  
16 to "buffer losses". This is so because, for price regulated companies,  
17 profits and losses are determined in accordance with GAAP, and  
18 GAAP requires that the losses or expenses associated with storm  
19 damage be recorded in the period incurred.

20

21 Q. ARE YOU AWARE OF ANY FLORIDA ELECTRIC UTILITIES OR  
22 TELECOMMUNICATIONS COMPANIES THAT HAVE A CASH  
23 STORM RESERVE FUND SUCH AS THAT PROPOSED BY MR.  
24 WOOD?

25

1 A. No. To my knowledge the storm reserves being maintained today by  
2 the Florida electric utilities were established through the accrual of  
3 expenses for future storm costs. A storm reserve is an accounting  
4 technique used by rate-of-return regulated utilities to minimize the  
5 earnings and rate volatility that can result from major storms. Below is  
6 an excerpt from a February 2005 article, "After the Disaster: Utility  
7 Restoration Cost Recovery", prepared by Bradley W. Johnson for the  
8 Edison Electric Institute describing storm reserves and how they work.

9  
10 A storm reserve is an accounting technique that allows utilities  
11 to smooth out the earnings impact of major storms. With the  
12 exception of FPL, storm reserves are not funded with cash  
13 and therefore do not minimize the cash-flow impact of having  
14 to pay the costs of a major storm.

15  
16 When a utility establishes a storm reserve, it credits a fixed  
17 amount each year to the reserve through monthly accruals.  
18 These accruals are deducted from the current month's  
19 earnings even though no actual storm costs are incurred.  
20 When a major storm strikes, the storm costs are charged  
21 against the balance in the storm reserve account. The  
22 reserve, however, provides no cash to pay the actual storm  
23 costs.

24  
25 The big benefit of this type of accounting treatment is that it  
26 allows utilities to smooth out the earnings impact of major  
27 storms. When a big storm strikes, the only charge to earnings  
28 the utility incurs is its normal monthly accrual to its storm  
29 reserve account, assuming that it has a balance in its storm  
30 reserve account.

31

1 The investor-owned electric utilities in Florida have established such  
2 reserves.<sup>1</sup> Telecommunications companies in Florida do not have  
3 storm reserves.<sup>2</sup>

4

5 Q. WHY ARE THE FLORIDA ELECTRIC UTILITIES ALLOWED TO  
6 RECORD EXPENSE ACCRUALS FOR FUTURE STORM DAMAGE  
7 UNDER GAAP BUT BELLSOUTH IS NOT?

8

9 A. The electric utilities are cost-based regulated utilities that are subject to  
10 Statement of Financial Accounting Standards (SFAS) No. 71,  
11 Accounting for the Effects of Certain Types of Regulation. This  
12 statement allows cost-based regulated entities to record for GAAP  
13 purposes assets and liabilities that are created by their regulator's  
14 treatment of costs for ratemaking purposes. As a price-regulated  
15 telecommunications company facing significant competition, BellSouth  
16 is not subject to SFAS 71. Instead, as previously stated in my direct  
17 testimony, BellSouth is subject to SFAS 5, Accounting for  
18 Contingencies, which prohibits accruing expenses for future damage to  
19 establish storm reserves.

20

21 Q. IN CONSIDERING PREVIOUS PETITIONS BY PRICE-CAP  
22 REGULATED LECS FOR THE RECOVERY OF STORM RELATED  
23 DAMAGES, HAS THE COMMISSION EVER ADOPTED THE

---

<sup>1</sup> The Viability of Establishing a State Administered Catastrophic Reinsurance Fund for the Utility and Telecommunications Industries, 2005 Interim Project, Florida House of Representatives Utilities and Telecommunications Committee, February 2006, p. 5-6.

<sup>2</sup> *Id.*

1 PROPOSAL SUGGESTED BY MR. WOOD THAT A CASH STORM  
2 RESERVE FUND BE MAINTAINED AND EXHAUSTED BEFORE  
3 DETERMINING THAT STORM EXPENSES ARE REASONABLE?

4

5 A. No. The Sprint petition for 2004 storm damage and the GTCOM  
6 petition for 2005 storm damage stated that they do not have storm  
7 reserves. Based on my review of the Commission orders in these  
8 proceedings, there was no finding that they should have maintained a  
9 cash storm reserve fund such as that proposed by Mr. Wood.

10

11 Q. ON PAGE 25 OF HIS TESTIMONY, MR. WOOD CLAIMS THAT IF  
12 BELL SOUTH HAD NOT STOPPED MAINTAINING A STORM  
13 RESERVE FUND IN 1997, IT WOULD HAVE A "RAINY DAY FUND"  
14 AVAILABLE. DO YOU AGREE?

15

16 A. No. In fact, purely for hypothetical purposes, if BellSouth had  
17 continued to maintain its storm reserve after the expiration of the  
18 Stipulation in 1997, the reserve balance would have been negative by  
19 over \$75 million at the end of the 2005 storm season. RLH Proprietary  
20 Exhibit 3 is a hypothetical calculation of the estimated reserve if  
21 BellSouth had continued to record accruals and reversals to the  
22 reserve after the term of the Stipulation. This exhibit shows that, if  
23 BellSouth had continued maintaining the reserve for rate-of-return  
24 regulation purposes, the reserve would have been approximately \$120  
25 million through annual accruals of \$10 million per year for 12 years  
26 (1994 through 2005) but would have been reduced by incremental

1 intrastate storm expense of \$195.3 million (see RLH Proprietary  
2 Exhibits 4 and 5 for supporting detail) over this same period.<sup>3</sup> As a  
3 result, the reserve balance at the end of the 2005 storm season would  
4 have been a NEGATIVE \$75.3 million. If BellSouth is granted the  
5 recovery requested in this Petition, estimated to be approximately  
6 \$32.7 million, there would still be a reserve deficit of \$42.6 million at the  
7 end of the 2005 storm season even after recovering the maximum  
8 amount BellSouth estimates it can collect under the statute.

9

10 Q. WHAT WAS THE SOURCE OF THE INCREMENTAL EXPENSE  
11 AMOUNTS FOR 1994-2004 USED IN THE ABOVE ANALYSIS AND  
12 SHOWN ON RLH PROPRIETARY EXHIBITS 4 AND 5?

13

14 A. The amounts for 1994 through 1997 are those amounts actually  
15 reversed against the reserve and considered in sharing computations  
16 per the Stipulation. The amounts for 1998 through 2004 represent the  
17 incremental expense associated with storm restoration work performed  
18 by the Florida Network Field Operations organization. As stated in the  
19 surrebuttal testimony of Mr. Steve Pendergrass, the methodology used  
20 to determine these amounts is consistent with the methodology used to  
21 determine the 2005 incremental expense. Detail of the 2004  
22 incremental storm expense is provided as SP Exhibit 4 of Mr.  
23 Pendergrass' surrebuttal testimony.

24

---

<sup>3</sup> BellSouth also incurred \$57.9 million in intrastate capital as a result of the 1998 through 2005 named storms.

1 Q. WHY ARE THE INCREMENTAL STORM RESTORATION EXPENSE  
2 AMOUNTS PRESENTED IN RLH PROPRIETARY EXHIBITS 3, 4,  
3 AND 5 LOWER THAN THE AMOUNTS PROVIDED TO STAFF AND  
4 INTERVENORS IN DISCOVERY IN THIS PROCEEDING?

5  
6 A. In order to be consistent with the incremental expense associated with  
7 the 2005 storms included in our petition, I have revised the amounts for  
8 prior years to only include those expenses incurred by the Network  
9 Field Operations organization.<sup>4</sup> The amounts provided in various data  
10 requests<sup>5</sup> are valid incremental intrastate storm recovery expenses;  
11 however, the amounts for 1998 and 2004 included the Network Field  
12 Operations incremental expense and the incremental expense of other  
13 organizations such as Real Estate, Supply Chain, etc. Reducing the  
14 reserve by only the Network Field Operations incremental expense  
15 produces a more conservative estimate of the reserve deficit.

16  
17 ***Issue 2: What is the appropriate amount of intrastate costs and***  
18 ***expenses related to damage caused during the 2005 tropical storm***  
19 ***season, if any, that should be recovered by BellSouth, pursuant to***  
20 ***Section 364.051(4), Florida Statutes?***

21  
22 Q. ON PAGES 23 AND 24 OF HIS TESTIMONY, MR. WOOD STATES  
23 THAT BELLSOUTH'S DECISION NOT TO PURCHASE INSURANCE  
24 ON ITS OUTSIDE PLANT WAS SIMPLY A PROFIT MAXIMIZING

---

<sup>4</sup> 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.

<sup>5</sup> Staff's First Interrogatories, Item 3; Citizens' First Interrogatories, Item 4; Citizens' First Request for Production of Documents, Item 2.



1 STRATEGY OF BELL SOUTH MANAGEMENT TO RETAIN HIGHER  
2 PROFITS UNDER PRICE REGULATION. IS THIS AN ACCURATE  
3 ASSESSMENT?

4

5 A. Absolutely not. As documented in BellSouth's responses to  
6 CompSouth's 1<sup>st</sup> Set of Interrogatories, Items 3 and 4, the last time  
7 BellSouth purchased insurance coverage for its outside plant was in  
8 1993. Following Hurricane Andrew in 1992, the available insurance  
9 capacity for named windstorms was reduced dramatically. Since then,  
10 insurance coverage for outside plant has either not been available or if  
11 available, not reasonably priced and the coverage terms were  
12 prohibitive. BellSouth evaluated outside plant insurance capacity again  
13 in 1998 and found that reasonably priced coverage was still not  
14 available. At that time \$200 million of outside plant insurance was  
15 available in excess of a \$100 million per occurrence at an annual cost  
16 of \$14.9M.

17

18 Q. HAVE OTHER COMPANIES IN FLORIDA MADE THE DECISION NOT  
19 TO PURCHASE INSURANCE FOR OUTSIDE PLANT?

20

21 A. Yes. BellSouth's experience and decisions regarding outside plant  
22 insurance coverage are consistent with those of other companies in  
23 Florida. According to the February 2006 Florida House of  
24 Representatives Utilities and Telecommunications Committee report  
25 "The Viability of Establishing a State Administered Catastrophic  
26 Reinsurance Fund for Utility and Telecommunications Industries"

1 referenced above, since 1992, various electric and telecommunications  
2 companies have looked into obtaining insurance on their outside plant  
3 and have been unable to obtain it at a reasonable price. The report  
4 states that "based on information received, insurance is generally not  
5 economically available on outside plant".<sup>6</sup>

6

7 Q. IN THE PREVIOUS STORM RECOVERY PROCEEDINGS FOR THE  
8 ELECTRIC UTILITIES AND TELECOMMUNICATIONS COMPANIES,  
9 HAS THE COMMISSION EVER ADOPTED THE SUGGESTION  
10 ARTICULATED BY MR. WOOD THAT STORM RECOVERY COSTS  
11 SHOULD NOT BE CONSIDERED REASONABLE IF A COMPANY  
12 DECIDES NOT TO PURCHASE INSURANCE ON OUTSIDE PLANT  
13 BECAUSE IT IS NOT ECONOMICALLY AVAILABLE?

14

15 A. No. Based on my review of the recent Commission decisions in these  
16 proceedings no such findings have been made.

17

18 Q. IF BELLSOUTH HAD CONTINUED TO MAINTAIN A STORM  
19 RESERVE FUND FOR RATE OF RETURN REGULATION  
20 PURPOSES AND PURCHASED INSURANCE ON OUTSIDE PLANT  
21 EVEN THOUGH IT WAS NOT ECONOMICALLY AVAILABLE WOULD  
22 BELLSOUTH STILL BE FILING UNDER THIS STATUTE FOR THE  
23 MAXIMUM RECOVERY?

24

---

<sup>6</sup> The Viability of Establishing a State Administered Catastrophic Reinsurance Fund for the Utility and Telecommunications Industries, *supra*, at 6..

1 A. Yes. As explained above, if BellSouth had continued to maintain the  
2 storm reserve after the expiration of the Stipulation and Agreement in  
3 1997, the balance at the end of the 2005 storm season would have  
4 been a NEGATIVE \$75.3 million. Likewise, if BellSouth had purchased  
5 outside plant insurance at the terms of the last formal quote that carried  
6 a \$100 million deductible per occurrence, it still would be filing for the  
7 maximum recovery allowed under this statute.

8

9 Q. IS MR. WOOD'S TESTIMONY ON PAGE 16-19 THAT THE COSTS  
10 OF STORM DAMAGE ARE ALREADY INCLUDED IN BELLSOUTH'S  
11 TELRIC COST STUDIES USED TO SET UNE RATES ACCURATE?

12

13 A. No. Mr. Wood appears to be picking and choosing portions of  
14 BellSouth's response to CompSouth's Interrogatory No. 12 in an  
15 attempt to support his erroneous conclusion. He quotes a section from  
16 the "Capital Cost Calculator" that describes the type of expenses  
17 journalized to "Plant Specific Expenses" as required by Part 32 of the  
18 FCC's Rules and Regulations. While it is true that expenses incurred  
19 as a result of storm damage are journalized to the "Plant Specific  
20 Expense" accounts, BellSouth has a normalization process in place to  
21 exclude, for TELRIC study purposes, extraordinary expenses which  
22 may not be representative of on-going expenses (such as expenses  
23 associated with hurricane restoration).<sup>7</sup> In fact, BellSouth's response

---

<sup>7</sup> See BellSouth's response to CompSouth's Second Request for Production, Item No. 13 for a description of BellSouth's normalization process and specific items normalized in its last TELRIC study.

1 to CompSouth's Interrogatory No. 12 on which Mr. Wood relied, clearly  
2 states:

3  
4 The ACF factors were developed on the calendar base  
5 year of 1998 (1999 Vintage factors). The expenses for  
6 that year were normalized (adjusted under BellSouth's  
7 normal ongoing procedures) to exclude several types of  
8 costs including extraordinary costs resulting from  
9 hurricane damage.<sup>8</sup>

10  
11 Thus, Mr. Wood is entirely incorrect in his statement that BellSouth's  
12 TELRIC rates include storm recovery expenses, because BellSouth's  
13 TELRIC study procedures specifically exclude extraordinary expenses  
14 resulting from hurricane damage.

15

16 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

17

18 A. Yes.

---

<sup>8</sup> See BellSouth's Response to CompSouth's First Interrogatories, Item No. 12, p. 2.

BellSouth Telecommunications, Inc. - Florida  
Calculation of Hypothetical Storm Reserve Balance  
\$ in 000s

RLH Exhibit 3  
Page 1 of 1

(Dr) Cr to the Reserve

Amounts

1. Storm Reserve Accruals 1994 - 2005 (\$10M per year times 12 years)
  2. Incremental Intrastate Storm Expense/Reversals (See RLH Exhibits 4 and 5)
  3. Hypothetical Storm Reserve Deficit before any recovery from Storm Petition (Ln 1 + Ln 2)
  4. Estimated Maximum Recovery Requested in Storm Petition (per Surrebuttal Testimony of Kathy Blake)
  5. Hypothetical Storm Reserve Deficit after Recovery (Ln 3 + Ln 4)
- 

**Note:** In addition to the \$ M in incremental intrastate storm expense used in the calculation above, BellSouth also incurred \$ M in intrastate capital as a result of the named storms.

BellSouth Telecommunications, Inc. - Florida  
Summary of Intrastate Incremental Storm Expense for 1994 - 2005  
\$ in 000s

RLH Exhibit 4  
Page 1 of 1

<u>Storm Year</u>	<u>Named Storms</u>	<u>Incremental Intrastate Expense</u>
1994-1997	TS Gordon, H. Erin, H. Opal	
1998	H. Earl, H. Georges	
1999	H. Irene	
2000	H. Gordon	
2001	TS Allison, TS Barry, H. Gabrielle	
2002	TS Edouard	
2003	TS Henri	
2004	H. Charley, H. Frances, H. Jeanne, H. Ivan	
2005	TS Arlene, H. Cindy, H. Dennis, H. Katrina, H. Rita, H. Wilma	
Total Incremental Intrastate Storm Expense for 1994 through 2005		<hr/> <hr/>

**Note:**

See RLH Exhibit 5 calculations of the incremental intrastate expense amounts shown above.

BellSouth Telecommunications, Inc. - Florida  
 Calculation of Intrastate Storm Costs  
 \$ in 000s

RLH Exhibit 5  
 Page 1 of 1

<u>Col A</u>	<u>Col B</u>	<u>Col C</u>	<u>Col D</u>	<u>Col E</u>	<u>Col F</u>	<u>Col G</u> (B * E)	<u>Col H</u> (C * F)	<u>Col I</u> (G + H)
<u>Storm Year</u>	<u>Incremental Expense</u>	<u>Capital</u>	<u>Total</u>	<u>Intra Exp Factor</u>	<u>Intra Plant Factor</u>	<u>Intra Exp</u>	<u>Intra Cap</u>	<u>Total Intra</u>
1994-1997								
1998								
1999								
2000								
2001								
2002								
2003								
2004								
2005								

Totals Thru 2005

---

**Notes:**

1. Column E jurisdictional factors were computed from Florida ARMIS 43-01, Plant Specific and Non-Specific Operating Expenses.
2. Column F jurisdictional factors were computed from Florida ARMIS 43-01, Total Plant in Service.