

ORIGINAL

SUPPLEMENTAL TESTIMONY OF
CATHERINE E. PETZINGER

ON BEHALF OF AT&T COMMUNICATIONS
OF THE SOUTHERN STATES, INC.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 980696-TP

October 9, 1998

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3 ON BEHALF OF AT&T COMMUNICATIONS
4 OF THE SOUTHERN STATES, INC
5 DOCKET NO. 980696-TP

6 I. INTRODUCTION

7
8 Q. Please state your name, present position and business address

9 A. My name is Catherine E. Petzinger. I am a District Manager with AT&T Corp.
10 in Regulatory and Legislative Affairs, 295 North Maple Avenue, Basking
11 Ridge, New Jersey.

12 II. PURPOSE OF TESTIMONY

13
14 Q. Please describe why you are filing supplemental testimony

15 A. BellSouth's response to AT&T's Request for Production of switch vendor
16 contracts (AT&T's Third Request for Production of Documents to BellSouth
17 Telecommunications, Item 21) indicated that AT&T would have to review the
18 documents at BellSouth's Atlanta office. Upon review, it is clear that the
19 information contained in these vendor contracts would tremendously impact

1 not only the switch price inputs used in BCPM, but the underlying cost
2 structure of the BCPM switch module methodology as well.

3 **Q. Please explain why this information was not included in your Rebuttal**
4 **Testimony**

5 A. BellSouth's response to the above Document Request was dated Friday,
6 August 28, 1998 requiring AT&T to review the information at BellSouth's
7 Atlanta offices. There simply was no possible way to travel from New Jersey
8 to Atlanta to review the contracts, digest the information and include the
9 material in the Wednesday, September 2 Rebuttal Testimony filing.

10 **II. NEW PRICE INFORMATION AFFECTS BELL SOUTH'S BCPM**
11 **INPUTS**

12 **Q. Please provide the switch prices you found in the latest BellSouth**
13 **contracts for new Lucent switches.**

14 A. The price per line for Lucent switches that are replacing analog 1AESS
15 switches is [] and the price for all other new switches is []
16 . The 1AESS replacement price is contained in Amendment No. 1 -
17 Appendix A to Letter of Agreement #24, effective January 1, 1998 on page 8
18 of 19. The [] for all other new switches is contained in
19 Amendment No. 1 - Appendix B to Letter of Agreement #24, effective January

1 1, 1998 on page 1 of 10. The specified contract pages are attached to this
2 testimony as Exhibit A.

3 Q. What prices did you find in the latest BellSouth contracts for adding
4 growth equipment to Lucent switches?

5 A. Amendment No. 1, Appendix A, described above also included the "Growth
6 Discount Applicable to BST's Embedded Base of Switches". These prices are
7 in the familiar form of "percent discount from list" and are [
8]. This information can
9 be found on Pages 8 and 9 of Appendix A. These pages are attached to this
10 testimony as Exhibit B.

11 Q. How do these Lucent prices compare to the prices used by BellSouth in
12 BCPM?

13 A. The growth discount BellSouth used in BCPM was compared to the
14 BellSouth will receive in 1998-2003. A direct comparison of the
15 new switch price is difficult because the contract information is a [
16], while BellSouth used a percent discount from list in BCPM. To make
17 the appropriate comparison, we ran BCPM at 100% 5ESS switches with 100%
18 of the switches being new in order to have BCPM calculate the price of new
19 5ESS switches. The average BellSouth-filed BCPM price is , compared
20 to the and in BellSouth's contracts.

1 Q. Please provide the switch prices you found in the latest BellSouth
2 contracts for new Nortel switches.

3 A. The Nortel contract indicates that the price of new switches is dependent upon
4 the [line size of the switch]. This information can be found in Letter of
5 Agreement No. 34, effective 1/96-12/02, Attachment G, labeled Flexible
6 Schedule Pricing Matrix. The prices range from [
7
8]]. The arithmetic average BellSouth switch size in
9 BCPM is 24,0137 lines, which would be according to the Nortel
10 contract. These contract pages are attached as Exhibit C.

11 Q. How do these prices compare to the Nortel prices used by BellSouth in
12 BCPM?

13 A. We used the BCPM switch size information to calculate the cost of each switch
14 using the Nortel contract Flexible Schedule Pricing Matrix in Attachment G.
15 Assuming 100% Nortel switches, the average price for a new Nortel switch
16 using the contract prices is This number differs from the price shown
17 above because this is a "weighted" average for all switches in Florida and
18 captures the fact that there are more small switches than large switches. The
19 average price for new Nortel switches as filed by BellSouth in BCPM is
20

1 Q. Why do you assume 100% of the switches are one technology or another
2 when comparing the contract prices to the BCPM prices?

3 A. BellSouth has not explicitly identified which switches are Nortel and which are
4 Lucent. It has entered user inputs indicating of switches are Lucent and
5 are Nortel. Assuming 100% of the switches are the technology being
6 reviewed allows us to compare apples to apples; in this case, new switch
7 contract prices for each technology to the new switch price used by BellSouth
8 in BCPM.

9 Q. What would be the new switch contract price using the Lucent and
10 Nortel melding used by BellSouth?

11 A. The average price for new switches would be

12 Q. Are these low new switch prices per line reasonable?

13 A. Yes. As stated in my Rebuttal testimony, the most recent information
14 available indicated that numbers of this magnitude are being reported, and that
15 prices are continuing to decline. In my experience, these are reasonable prices
16 for new switch purchases and these most recent BellSouth contracts show
17 lower prices than earlier contracts I reviewed. Growth prices are also declining
18 as can be seen in the larger discounts for growth in BellSouth's most recent
19 contracts. In addition, the price difference between the two switch

1 manufacturers is not large -- for Lucent compared to for Nortel.
2 This difference is understandable as it appears BellSouth purchases
3 significantly [
4]].

5 **III. NEW PRICE INFORMATION THAT AFFECTS BCPM'S OVERALL**
6 **SWITCH METHODOLOGY**

7 **Q. You stated that these contracts impact more than just the price inputs to**
8 **BCPM. Please explain.**

9 **A. BCPM infers that it has superior switch cost methodology because it can**
10 **accurately assign the costs to subcategories of switching, based on cost**
11 **causation. Examples of these categories include processor, trunk, line usage,**
12 **etc. (see Functional Investment Category Rationale included in BCPM3.1**
13 **Switch Curve Methodology, page 131.) These subcategories are required by**
14 **BCPM's methodological structure in order to calculate call set-up costs and**
15 **other micro-functions that are subsequently aggregated into the USF-related**
16 **usage and line port categories. These new contracts highlight the fact that**
17 **BellSouth's forward-looking costs are not caused by these micro-functions.**
18 **The contracts unequivocally specify a [**
19 **of lines] the true cost causer. BellSouth's use of BCPM's functional cost**
20 **categorization, with all its complexity that attempts to imply more accuracy,**

1 ends up being an arbitrary allocation of the straight-forward cost per line
2 clearly stated in the contract.

3 **IV. SUMMARY AND CONCLUSION**

4 **Q. Please summarize your testimony**

5 A. BellSouth's latest switch vendor contracts demonstrate that the BCPM model
6 methodology does not accurately reflect cost causation because new switches
7 are purchased on a [], and not BCPM's functional categories.
8 BCPM's detailed identification of subcategory switch costs is not only overly
9 complex and dependent upon proprietary models, it does not accurately reflect
10 the cost-causation of BellSouth's forward-looking switch costs.

11 The contracts also prove that BellSouth's discount inputs are causing the
12 BCPM switch cost results to be seriously overstating the forward-looking
13 switch investment as specified in BellSouth's own contracts and should not be
14 accepted. Please refer to Exhibit D showing a summary of BellSouth's BCPM
15 wire center results when the new switch contract prices are substituted for the
16 as-filed prices. Exhibit E is the wire center by wire center results.

17 **Q. How should BellSouth's inputs be corrected?**

18 A. As detailed in my rebuttal testimony, the only valid cost for a switch is the new
19 switch price for an incremental, long-run cost study that assumes that the entire

1 network is being purchased new and the increment of demand is the total
2 demand being served. AT&T also recommends the HAI model be used as
3 discussed by Mr. Wood. However, should this Commission decide that the
4 BCPM model should be used and that growth prices should be included, the
5 BellSouth inputs must be made to reflect the growth price percentages in its
6 latest contracts. In addition, the percent of growth pricing as input by
7 BellSouth is [] which is illogical, given that all the current demand must
8 be priced at new switch prices. For new switch discount inputs, BellSouth will
9 have to iteratively run the BCPM model to determine what discount input
10 would be required to generate new switch priced that reflect the contract prices.

11 Q. Does this conclude your testimony.

12 A. Yes, it does.

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