2891

1   BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2

3   In the Matter of   )
) DOCKET NO. 980696-TP
4   Determination of the cost of   )
     basic local telecommunications   )
5   services, pursuant to   )
     Section 364.025, Florida   )
6   Statutes.   )
)
7   _____

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9

10   VOLUME 26

11   Pages 2891 through 3003

12

     PROCEEDINGS: HEARING
13
     BEFORE: CHAIRMAN JULIA L. JOHNSON
14   COMMISSIONER J. TERRY DEASON
                               COMMISSIONER SUSAN F. CLARK
15   COMMISSIONER E. LEON JACOBS, JR.
                               COMMISSIONER JOE GARCIA
16
     DATE: Friday, October 16, 1998
17
     TIME: Commenced at 9:00 a.m.
18
19   PLACE: Betty Easley Conference Center
                               Room 148
20   4075 Esplanade Way
                               Tallahassee, Florida
21
     REPORTED BY: NANCY S. METZKE, RPR, CCR
22

23
     APPEARANCES:
24   BUREAU OF REPORTING   (As heretofore noted.)

25   RECEIVED 10-19-98

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I N D E X

WITNESSES

1   EXHIBITS - VOLUME 26

2   NUMBER   ID.   ADMTD.

3   #93   . . .   2902

4   #94   . . .   2902

5   #95   Exhibits GCG-1 through 17   . . .   2936   2974

6   #96   Exhibit DC-1   . . .   2994

7   #97   Deposition transcript and
        late-filed exhibits   . . .   3000
8

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1   P R O C E E D I N G S

2   (Transcript continues in sequence from Volume

3   25).

4   COMMISSIONER DEASON: Call the hearing back to

5   order. Staff.

6   CATHERINE E. PETZINGER

7   Continues her testimony under oath from Volume 25

8   CROSS EXAMINATION

9   BY MR. COX:

10   Q   Good afternoon, Ms. Petzinger. Will Cox on

11   behalf of the Commission staff.

12   A   Good afternoon.

13   Q   I have a few questions regarding the testimony

14   you filed. On Page 17 you discuss how you believe the

15   BCPM -- Excuse me?

16   A   Yes, I'm with you.

17   Q   Okay. You discuss how the BCPM's results over

18   recover BCPM's own identification of USF fund-related

19   switch investments?

20   A   Yes.

21   Q   For a total of approximately 56 million dollars?

22   A   Right.

23   Q   For BellSouth, GTE and Sprint?

24   A   Uh-huh.

25   Q   Now are you saying that the cost of basic local

1 service for BellSouth, GTE and Sprint is overstated by 56

2 million dollars?

3   A   That was the numbers that came out of the BCPM

4 switch module, main logic spread sheet.

5   Q   But do you know if that translates into an

6 overall overstatement of 56 million dollars?

7   A   That was my understanding.

8   Q   In your summary today, you stated that one

9 company has entered fill factors into both the SCIS and the

10 BCPM?

11   A   Yes, that's correct.

12   Q   And you didn't identify which company. Which

13 company was that?

14   A   The company that provided the SCIS data was

15 Sprint, at the time I wrote the testimony.

16   Q   So you're saying they have entered the fill

17 factors twice --

18   A   Well, once --

19   Q   -- in the process?

20   A   Yeah. The way I understand it, it was entered

21 once in SCIS. The SCIS then was used to develop the BCPM

22 default prices, so those prices reflect line fills as

23 entered in SCIS. Then they entered line fill again in BCPM

24 further adjusting the numbers. And later, after I wrote

25 this testimony, we also found the same situation with the

1   BellSouth data. GTE declined to provide us with their cost

2   model runs, so I couldn't review that for GTE.

3   Q   So in summary, what's the result when these

4   results are inputted twice, once in the SCIS and the BCPM?

5   A   Right. My understanding of how this work is

6   that -- well, I know how it works in SCIS. In SCIS it

7   increases the cost in order to account for the fill factor.

8   You know, it's fill -- if you think of fill as being

9   administrative spare and whatever they classify as sparc

10 capacity. So the SCIS results that were then put into the

11 BCPM default prices were increased to account for fill.

12 Now in BCPM, on the input page, they have entered

13 additional fill factors that are further adjusting those

14 prices, a second time for the same concept of fill. The

15 numbers don't match up, by the way, either. The fill

16 inputs are different in SCIS than they were in BCPM.

17   Q   On Page 12 of your testimony, Lines 4 through 12,

18 you discuss the difference in cost between copper base and

19 fiber base remote switches?

20   A   Yes, that's correct.

21   Q   You state at the time you prepared your testimony

22 you did not have the information to determine what types of

23 remote switches were assumed in this proceeding; is that

24 correct?

25   A   This was as far as SCIS data. I didn't have

1 information about precisely what type of remotes.

2   Q   Okay. Now since that time that you filed your

3 testimony, have you received that information?

4   A   I have received the information for Sprint and

5 BellSouth but not GTE.

6   Q   And what does the information tell you for those

7 companies that you have received the information for?

8   A   They do have some copper base remotes.

9   Q   When you say they, is it both?

10   A   I think both of them did. I would have to

11 check. I don't remember explicitly. I did review them

12 quickly in the inputs. It's not a simple process to review

13 those inputs. You have to go through multiple screens.

14 First you have to pull up a wire center, then you have to

15 go to the office inputs, then you have to go to the remote

16 inputs to find out what kind of a remote it was. It's very

17 complicated -- not complicated but just tedious. So I spot

18 checked a few and did see that there were some copper base

19 remotes, but I didn't try to quantify them.

20   Q   Okay. Was it a very few, or was there a

21 substantial amount? Do you have any estimate?

22   A   No, I don't. As I said, I spot checked to see if

23 they were there, and they were, but I didn't actually try

24 to develop a count of the number.

25   Q   Okay. If you could turn to Page 30 of your

1 testimony. On Page 30 you assert that BellSouth has

2 included an absolutely huge amount of reserve CCS for the

3 DMS host and that the 5-ESS reserve CCS input values far

4 exceed any costs I've ever seen; is that correct?

5   A   Yes, that's correct.

6   Q   First, what is the reserve CCS?

7   A   In the SCIS model, when you have equipment that

8 is considered to be what they call dual limiting, meaning

9 that that particular box or piece of equipment can either

10 be used up by two different resources. If one uses up the

11 box first, there may be some stran -- think of it as

12 stranded capacity, in that box left for the other area.

13 Now what we are talking about here is line ports coming in

14 and also at the same time as line ports coming in, you are

15 trying to engineer how many paths through the network you

16 have in order to carry traffic on those lines. When you

17 connect that line into that box, that box has two capacity

18 limitations: One is the number of lines, and one is going

19 to be the amount of traffic it can handle. If you fill up

20 the box with the number of lines first, you may have

21 stranded traffic-carrying capacity in the box, and that's

22 what this is.

23   Q   What does the CCS standing for?

24   A   Centum call seconds. It's just a different --

25   Q   I'm sorry, I didn't hear you. I'm sorry.

1   A   Centum call seconds. It's just a different unit

2 of measure. It means a hundred call seconds instead of

3 60. I don't know -- It has to do with -- I think

4 originally they used our lines. I don't know exactly why

5 they don't use minutes to make everybody's life easier.

6   Q   And how exactly does this huge amount of reserve

7 CCS for the DMS switch host impact the switching cost?

8   A   We provided some data on that. Because of the

9 relatively small percentage of that number compared to the

10 total investment, it wasn't a big impact on the total

11 investment. What it does do, however, is inflate the port

12 cost at the expense of the usage. It's adding -- that

13 input that they have, it's basically adding that directly

14 to the port. So it's distorting the cost of the port more

15 so, but on a total investment basis, it wasn't a big

16 impact. I think I provided that to you in a response.

17   Q   Okay. And when you determined that the reserve

18 CCS inputs for the DMS and 5ES switches were too high, what

19 did you base your opinion on?

20   A   Well, at the time when I wrote my testimony, I

21 had one Sprint contract which was provided, and I had

22 basically publicly available information and my general

23 knowledge of the industry. Since --

24   Q   What was the --

25   A   I'm sorry.

1   Q   I'm sorry. What was the publicly available

2 information?

3   A   That was outlined in my testimony. It was

4 Mr. Raley from Southwestern Bell, the Pacific Bell number,

5 the switched price per line from the NBI report. That was

6 the general public information. And then since then, since

7 the rebuttal testimony, the BellSouth contracts were made

8 available for me to go to their offices and review, which I

9 did and filed supplemental testimony on that.

10   Q   Thank you, Ms. Petzinger.

11   MR. COX: That concludes staff's questions.

12   WITNESS PETZINGER: Thank you.

13   COMMISSIONER DEASON: Commissioners.

14   COMMISSIONER JACOBS: Some of your calculations

15 about the over costs -- overages for the switch had to do

16 with, as I understood it, if you looked at the total

17 investment for the switch, it didn't match the total of the

18 per units once you totaled all those per unit costs up?

19   WITNESS PETZINGER: Exactly.

20   COMMISSIONER JACOBS: And does that remain an

21 observation?

22   WITNESS PETZINGER: Yes.

23   COMMISSIONER JACOBS: Okay.

24   WITNESS PETZINGER: Yes, that is still true.

25 That was -- and we're not talking about total investment.

1 We are talking about the total investment identified by

2 BCPM as USF related. So they have two places where they

3 calculate USF related investment: One is total, and one is

4 unit. So it was --

5   COMMISSIONER JACOBS: Okay. And the one that

6 is reported out of the model is the one that you say is

7 over -- is too high?

8   WITNESS PETZINGER: That was my impression, yes,

9 from looking at the model. It was extremely difficult to

10 trace the model workings through to an output sheet. You

11 know, I even used the audit tool within Excel, and it just

12 sort of dead-ended, and it was very difficult to understand

13 exactly what got reported out.

14   COMMISSIONER JACOBS: But the per-unit costs,

15 they weren't reflective of that; is that -- do I understand

16 that to be the case?

17   WITNESS PETZINGER: The per-unit costs, in this

18 case we are talking about the port plus usage attributable

19 to USF. When it was expressed on a per-line basis, my

20 understanding is that's what is being used to calculate the

21 ultimate results. If it weren't, then I have no idea why

22 they went through all the mechanics of building those

23 numbers up. So that number was what was used, in my

24 opinion, to generate the USF cost.

25   COMMISSIONER JACOBS: All right. Thank you.

1   WITNESS PETZINGER: The ultimate USF cost.

2   COMMISSIONER DEASON: Redirect?

3   MR. HATCH: No redirect.

4   COMMISSIONER DEASON: Exhibits.

5   MR. HATCH: AT&T would move 93, 94.

6   COMMISSIONER DEASON: Without objection, Exhibits

7 93 and 94 are admitted. I think that's all the exhibits.

8   BellSouth, I think your witness is scheduled

9 next, or group of witnesses.

10   MR. CARVER: Yes, sir. BellSouth calls the

11 Georgetown Consulting Group.

12   COMMISSIONER DEASON: Please stand and raise your

13 right hand.

14   MR. CARVER: If it's okay, I believe I'm going to

15 move down to the other end. Now that they are seated, I

16 can tell that I can't see them all.

17 Whereupon,

18   JAMSHED K. MADAN

19   MICHAEL D. DIRMEIER

20   DAVID C. NEWTON

21 was called as a panel of witnesses on behalf of BellSouth

22 and, having been duly sworn, testified as follows:

23   DIRECT EXAMINATION

24 BY MR. CARVER:

25   Q   Would each of you please state your full name and

1   business address?

2   A   (Witness Madan) My name is Jamshed K. Madan. My

3   business address is 456 Main Street, Ridgefield,

4   Connecticut?

5   A   (Witness Dirmeier) My name is Michael Dirmeier,

6   and my business address is the same, 456 Main Street,

7   Ridgefield, Connecticut.

8   A   (Witness Newton) My name is David Newton, and my

9   business address is 75 Squares Glen in Madison,

10 Connecticut.

11   Q   And would each of you please state by whom you

12 are employed and in what capacity?

13   A   (Witness Madan) I'm employed by Georgetown

14 Consulting Group, and I am a principal of that firm.

15   A   (Witness Dirmeier) I am also a principal of

16 Georgetown Consulting Group.

17   A   (Witness Newton) I'm an independent consultant

18 who is currently working for Georgetown Consulting Group.

19   Q   And, Mr. Madan, you will be the lead witness, so

20 to speak?

21   A   (Witness Madan) Yes, I will.

22   Q   Okay. Could you tell us, have you and the panel

23 members caused to be prefiled 31 pages of rebuttal

24 testimony, including 17 exhibits?

25   A   (Witness Madan) Yes, we have.

1   Q   And subsequent to the initial filing, there were

2 some changes filed; is that correct?

3   A   (Witness Madan) Yes.

4   Q   Do you have any additional changes to make today?

5   A   (Witness Madan) No, we don't.

6   Q   If I were to ask you the questions that appear in

7 your testimony, would your answers be the same?

8   A   (Witness Madan) Yes, they would.

9   MR. CARVER: I would request that the Georgetown

10 panel's rebuttal testimony be inserted into the record as

11 though read.

12   COMMISSIONER DEASON: Without objection it shall

13 be so inserted.

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I.
Affiliation, Scope of Engagement
and Purpose of Testimony

4   Q.   PLEASE STATE YOUR NAMES AND BUSINESS AFFILIATIONS.

5   A.   My name is Jamshed K. Madan. I am a founding Principal of Georgetown

6   Consulting Group, Inc. (GCG or Georgetown). The business address of

7   Georgetown is 456 Main Street, Ridgefield, Connecticut.

8   My name is Michael D. Dirmeier. I am a Principal of Georgetown.

9   My name is David C. Newton. I am a consulting telecommunications

10   network engineer. My business address is 75 Squires Glen, Madison, Connecticut.

11   Q.   PLEASE STATE ON WHOSE BEHALF YOU OFFER THIS TESTIMONY, ITS

12   SCOPE AND ITS PURPOSE.

13   A.   This testimony is offered on behalf of BellSouth Telecommunications, Inc.

14   (BellSouth). BellSouth has previously engaged Georgetown to evaluate the

15   application of Hatfield Model Release 4.0 ("HM R4.0") made by AT&T and MCI

16   in various state proceedings where the issue was prices for unbundled network

17   elements ("UNEs"). In each of those cases, Georgetown rebutted the contention of

18   AT&T and MCI that their application of HM R4.0 resulted in reasonable UNE

19   prices, showing that the inputs to HM R4.0 selected by AT&T and MCI fail to

20   reflect the conditions of the territory of BellSouth and fail to be reasonable and

21   forward-looking. In those cases, Georgetown also applied HM R4.0 utilizing

22   inputs it developed that do reflect the conditions of the territory of BellSouth, are

23   reasonable and are forward-looking. Thus, if one were to accept HM R4.0 for use

24   in developing UNE prices, Georgetown's application would be appropriate because

25   it reflects proper inputs.

1

1   In this case, MCI and AT&T have applied HAI Model Release 5.0a ("HAI

2   R5.0a") for purposes of determining the economic cost of providing basic local

3   telecommunications service at the wire center level. The model used in this

4   proceeding, HAI R5.0a, is different from the model (HM R4.0) used by MCI and

5   AT&T witnesses in other state proceedings. If the identical inputs are applied to

6   both HM R4.0 and HAI R5.0a the outputs would be different, with HAI R5.0a

7   producing lower cost and universal service fund requirements. Indeed, the HAI

8   and Hatfield models were originally developed for application to universal service

9   funding issues. The outputs of HAI R5.0a include not only UNE prices, but

10 universal service support outputs as well. The purpose of this testimony is to rebut

11 the contention by MCI and AT&T that their application of HAI R5.0a in this case

12 for purposes of developing the economic cost of providing basic local

13 telecommunications service at the wire center level is reasonable (hereafter, the

14 MCI and AT&T application of HAI R5.0a in this case is referred to as the

15 "MCI/AT&T HAI R5.0a Application").

16   We evaluated the reasonableness of the MCI/AT&T HAI R5.0a Application

17 by focusing on the nature and quality of the inputs selected by MCI and AT&T to

18 apply HAI R5.0a. We did not evaluate the logic and structure of HAI R5.0a,

19 except as necessary to determine the use made by HAI R5.0a of user adjustable

20 inputs ("UAIs").

21   The MCI/AT&T HAI R5.0a Application is not reasonable for use in this

22 case because the default values selected by MCI and AT&T for sensitive user

23 adjustable inputs ("SUAIs") do not meet the requirement of both reflecting the

24 conditions of the territory of BellSouth Florida and being reasonable and forward-

25 looking. Georgetown has applied HAI R5.0a on the basis of values for SUAIs that

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1   do meet the requirement of both reflecting the conditions of the territory of

2   BellSouth-Florida and being reasonable and forward-looking. Georgetown's

3   application of HAI R5.0a is r ferred to hereafter as the "GCG HAI R5.0a

4   Application."

5   Attached as Appendix A and incorporated herein by reference is a Glossary

6   of Defined Terms that will assist in reading this prefiled testimony.

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8   II.
9.   Statement of Qualifications

10
11   Q.   MR. MADAN, PLEASE STATE YOUR BACKGROUND AND EXPERIENCE.

12   A.   I graduated from the Massachusetts Institute of Technology in 1966 with a

13   Bachelor of Science Degree in Electrical Engineering. I continued my graduate

14   studies at M.I.T., graduating in 1968 with a Master of Science Degree in

15   Management from the Alfred P. Sloan School of Management.

16   From August, 1968 through April, 1979 I was employed primarily by

17   Touche Ross & Co., an international public accounting firm. I was promoted to

18   Principal in September 1977 and held the position of National Director of

19   Regulatory Consulting. I left Touche Ross & Co. to become a founding Principal

20   of Georgetown in May, 1979.

21   I have testified extensively on public utility matters before various

22   regulatory bodies. My resume is attached to this prefiled rebuttal testimony as

23   Appendix B and incorporated herein by reference.

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1 Q. MR. DIRMEIER, PLEASE STATE YOUR BACKGROUND AND EXPERIENCE.

2 A. I received a Bachelors of Science degree in Physics in 1971 from Texas A&M

3 University. In 1973 I received my Masters of Business Administration in Finance

4 from The University of Chicago. I also hold a Certificate in Management

5 Accounting.

6   From January, 1974 to June, 1976, I was employed by The Bendix

7 Corporation as a financial planning analyst. From July, 1976 to April, 1979, I held

8 the position of consultant and senior consultant in the consulting division of

9 Touche Ross & Co. In 1979 I joined Georgetown, where since 1983, I have held

10 the position of Principal.

11   I have testified on numerous occasions before various regulatory bodies.

12 My resume is attached as Appendix C and incorporated herein by reference.

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14 Q. MR. NEWTON, PLEASE DESCRIBE YOUR BACKGROUND AND

15 EXPERIENCE.

16 A. I have spent 32 years in telecommunications network design, planning and

17 implementation. The first 27 of those years was spent in service with the Southern

18 New England Telephone Company, where during the last 10 years I served in a

19 series of management positions directing network design, planning and

20 deployment. Since 1991, I have served as a consulting telecommunications

21 network engineer, advising clients and testifying in regulatory proceedings on a

22 variety of network matters. My resume is attached as Appendix D and

23 incorporated herein by reference.

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1 Q. PLEASE EXPLAIN THE DIVISION OF RESPONSIBILITY WITHIN THIS

2   PANEL TESTIMONY.

3 A. Mr. Madan has overall responsibility for the analyses made and the conclusions

4   reached in this rebuttal testimony. He serves as the principal spokesman. Mr.

5   Dirmeier is responsible for evaluating and applying various Hatfield Models,

6   specifically V2.2.2, HM R3.1, HM R4.0 and HAI R5.0a. Mr. Madan and Mr.

7   Dirmeier share responsibility for developing the alternative values for SUAIs used

8   by GCG to apply HAI R5.0a. Mr. Newton is responsible for certain engineering

9   and network analyses that have assisted Mr. Madan and Mr. Dirmeier in critiquing

10   the default values advocated by MCI and AT&T and in fashioning the alternative

11   values utilized by GCG in its application of HAI R5.0a.

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III.
Summary of Findings

16 Q. PLEASE SUMMARIZE YOUR EVALUATION OF THE MCI/AT&T HAI R5.0a

17   APPLICATION.

18 A. The logic and validity of HAI R5.0a and the propriety of using HAI R5.0a to

19   develop universal service support analyses, are issues beyond the scope of this

20   testimony. We offer no opinion on the propriety of using HAI R5.0a whether it is

21   applied for the purpose of developing UNE prices or developing costs for use in

22   determining universal service support. We simply assume the use of HAI R5.0a

23   for purposes of our analyses. We evaluate the MCI/AT&T HAI R5.0a Application

24   for reasonableness by critiquing the default values selected by MCI and AT&T for

25   the user adjustable inputs ("UAIs"), particularly sensitive user adjustable inputs

1 ("SUAIs"), as reflected in the UAI database associated with HAI R5.0a (the UAI

2 database associated with HAI R5.0a is designated Appendix B-5.0a).

3   We presume that the costs to provide basic local exchange service in

4 Florida used by the Commission in this Docket to establish state universal service

5 support should (1) reflect the conditions of the territory of BellSouth-Florida and

6 (2) be forward-looking and reasonable, i.e., reflect cost or other conditions

7 reasonably expected to occur in the future. This means that the values for SUAIs

8 selected for use in applying HAI R5.0a should both reflect the conditions of the

9 territory BellSouth-Florida and be forward-looking and reasonable.

10   The MCI/AT&T HAI R5.0a Application fails this standard. Whatever the

11 integrity of HAI R5.0a as a model, the results of applying it cannot be reasonable

12 if, as is the case here, the values selected by MCI and AT&T for SUAIs do not

13 properly reflect the conditions of BellSouth-Florida and do not reasonably reflect

14 cost or other conditions reasonably expected to occur in the future.

15 Q. CAN HAI R5.0a BE APPLIED BASED ON VALUES FOR SUAIs THAT

16   REFLECT BOTH THE TERRITORY OF BELLSOUTH-FLORIDA AND COST

17   OR OTHER CONDITIONS REASONABLY EXPECTED TO OCCUR IN THE

18   FUTURE?

19 A. Yes. Assuming the validity of HAI R5.0a as a model, and assuming that it is

20   appropriate to use HAI R5.0a for purposes of determining universal service

21   support, its application on the basis of such values will produce forward-looking

22   loop and switching costs, properly reflective of conditions of the territory of

23   BellSouth-Florida, that could be used in this case to develop universal service

24   support.

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1   Q.   HAVE YOU DEVELOPED ALTERNATIVE VALUES FOR SUAIs FOR USE

2   WITH HAI R5.0a?

3   A.   Yes. We have developed values for the SUAIs that reflect conditions of the

4   territory of BellSouth-Florida conditions and that are properly forward-looking,

5   except for values for cost of capital and depreciation, which BST developed and

6   which we have adopted. We have used those values to apply HAI R5.0a, without

7   changing its logic.

8   The following charts show the MCI/AT&T results and the GCG results for

9   both UNE prices and universal service support levels.

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	MCI/AT&T HAI R5.0a APPLICATION	GCG HAI R5.0a APPLICATION
AVG. LOOP PRICE	$ 9.90	$ 20.14
SWITCHING PRICE	$ 3.78	$ 7.00

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		BENCHMARK $/MO	MCI/AT&T HAI R5.0a APPLICATION[1] ($000s)	GCG HAI R5.0a APPLICATION[2] ($000s)
	Annual Universal Service Support:			
1.	Primary Residence Lines	$ 31.00	$ 13,045	$ 103,768
2.	Single Line Business Lines	51.00	18	511
3.	Total		13,063	104,279

[1] The amounts reflected in this table corresponding to Mr. Wood's position are based on the R50a_expense_wirecenter.xls module which is part of the Wood-filed HAI R5.0a Model.
     On his filed CD-ROM, Mr. Wood uses a benchmark value of $0.00 for both Primary Residence Lines and Single Line Business Lines. This results in total annual support of $0.00 since the HAI Model's coding is such that, if the input benchmarks are $0.00, the Model reports $0.00 of support.
     In addition, the Wood-filed CD-ROM contains an output file (FLBS_FIL.xls) that is different from the one that is produced when HAI 5.0a is run. Exhibit DJW-5 reflects the same values for Residence [and Business] usage per line as are reported in FLBS_FIL.xls. However, that file appears to include some logic modifications and at least one error, as compared to the output of HAI R5.0a. Nonetheless, when $31 and $51 are input in FLBS_FIL.xls as benchmark values for Primary Residence Lines and Single Line Business Lines, respectively, a total annual USF support of $15,116,826 is computed.

[2] Average of DLC systems, Exhibit (GCG-17).

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IV.
The Analyses Performed

Q. PLEASE DESCRIBE THE ANALYSES MADE BY GEORGETOWN.

A. We examined HAI R5.0a in order to determine how UAIs affect results. We identified groups of UAIs that are related by the Model's logic and we tested the Model's sensitivity to changes in the values for those groups. For example, HAI R5.0a utilizes several UAIs (including inputs B13, B16, B46 and B54 and B56) to determine costs associated with Copper Feeder Investment. The results of HAI R5.0a were considered sensitive to a group of UAIs (such as the group related to Copper Feeder Investment) if a change in one or more of the default values for the related UAIs changed average loop price or switching price by 1% or more.

For those groups of UAIs determined to be sensitive, we examined whether the default values chosen for them by MCI and AT&T reflect the conditions of the territory of BellSouth-Florida and reflect the cost or other conditions reasonably expected to occur in the future. Where the default values for those groups of SUAIs failed that standard, we fashioned alternative values to meet it. We did so by looking at current cost and other data specific to BellSouth-Florida, stripping it of any embedded characteristics, and then fashioned the type of forward-looking cost or other data value required for use by HAI R5.0a. Fourteen groups of UAIs were determined to be sensitive and in need of alternative values to replace the default values by MCI and AT&T.

The Hatfield Models we reviewed, V2.2.2, HM R3.1, HM R4.0, and HAI R5.0a, each have their own UAI databases containing default values. We compared the default values for certain UAIs common between Appendix 5B (the UAI database associated with V2.2.2), Appendix B-3.1 (the UAI database

9

1   associated with HM R3.1), Appendix B-4.0 (the UAI database associated with

2   HM R4.0), and Appendix B-5.0a (the UAI database associated with HAI R5.0a).

3   We made this comparison in order to test the consistency of the default values

4   contained in successive UAI databases.

5   We applied HAI R5.0a on the basis of the alternative values that we

6   developed for the SUAIs. Thus, we applied HAI R5.0a based on its logic, but also

7   on the basis of values for the SUAIs that reflect the conditions of the territory of

8   BellSouth-Florida and that reflect cost or other conditions reasonably expected to

9   occur in the future.

V.
Sensitive Inputs: Values Selected
for Certain User Adjustable
Inputs Significantly Affect Prices and
Universal Service Support

15 Q.   PLEASE DESCRIBE THE GENERAL COMPONENTS OF THE MCI/AT&T HAI

16   R5.0a FILING.

17 A.   The HAI Model filing made by MCI and AT&T in these Dockets consists of two

18   components: (1) the HAI Model itself (HAI R5.0a) and (2) the databases used to

19   drive HAI R5.0a. Since we have taken as a given the application of HAI R5.0a in

20   this case, without validating or endorsing any HAI Model, the focus properly is on

21   the databases used to apply HAI R5.0a.

10

1   Q.   PLEASE IDENTIFY THE DATABASES USED BY THE MCI/AT&T HAI R5.0a

2   APPLICATION.

3   A.   There are essentially two databases used in the MCI/AT&T HAI R5.0a

4   Application: (1) a voluminous set of cluster data[1] related to Florida and (2) a set

5   of data values that make up a UAI database. The values for the cluster data are

6   fixed, *i.e.*, they are not intended to be user adjustable. The values for the UAIs are

7   not fixed. Indeed, they are designed to be adjusted to reflect the conditions of the

8   carrier for which prices are being developed. We focused on the data values for

9   the UAIs that make up the UAI database.

10

11   Q.   PLEASE DESCRIBE THE MAKEUP OF THE UAIs.

12   A.   Appendix B-5.0a to the HAI R5.0a model documentation identifies 201 UAIs.

13   These UAIs are identified in Appendix B-5.0a as B1 through B201.

14   As defined in Appendix B-5.0a, each UAI has one or more data values

15   associated with it. For example, UAI B1, NID Investment per line, has nine data

16   values associated with it. Similarly, there are two data values associated with UAI

17   B7, Terminal and Splice Investment per line.

18   In total, Appendix B-5.0a identifies about 1,075 data values associated with

19   its 201 UAIs. Those data values are the default values that HAI R5.0a uses if no

20   other data values are substituted for any specific UAI. These default values are

21   generic in nature and national in scope, and largely form the basis for MCI and

22   AT&T filings in numerous states across the nation. HAI R5.0a is designed,

23   however, so that data values for UAIs can be customized.

---

24 [1]   Cluster data includes information concerning customer counts, locations and geophysical

25   characteristics of the service territory.

1   Q.   ARE THE UAIs READILY OBTAINABLE VALUES, OR DOES A USER OF

2   THE HAI MODEL HAVE TO MAKE OTHER COMPUTATIONS IN ORDER

3   TO DERIVE THE INPUTS?

4   A.   Most, if not all of the UAIs are themselves the result of other computations. For

5   example, the development of UAI B1, NID Investment per Line, requires

6   computation of the components of a NID and drop, including the protector and the

7   interface, to ensure that the UAI derived for use by the model is consistent with

8   the use made of it by the Model. In many instances, it is necessary to perform

9   analyses and make computations from relevant and specific information from

10   BellSouth-Florida in order to develop the proper value for the UAI. The point is

11   that the UAIs required by the HAI Model are not readily available "on-the-shelf"

12   values -- they must be carefully developed.

13 Q.   PLEASE DESCRIBE THE SENSITIVITY ANALYSES YOU PERFORMED.

14 A.   As noted earlier in this testimony (see Part IV), the logic of HAI R5.0a treats

15   certain UAIs as related. We identified the groups of related UAIs, and we ran

16   HAI R5.0a to determine the degree to which changes in the default values

17   associated with those groups caused the output of HAI R5.0a to vary in a

18   meaningful way. Specifically, we looked at the default values for a group of

19   related UAIs, adjusted the values for those related UAIs up or down and, holding

20   constant the default values for all other UAIs, ran HAI R5.0a to determine whether

21   its results were sensitive to the change in those default values. We defined

22   sensitive to mean that the change in the data values for the related UAIs within a

23   group caused the output of HAI R5.0a, namely, average loop price and aggregate

24   switching price, to change by 1% or more. We focused on those groups of related

25   UAIs that both appeared sensitive and for which one or more of the default values

12

1 for the group appeared questionable. Thus, the groups of related UAIs that we

2 have identified as sensitive (*i.e.*, that are SUAIs) are ones that (1) have one or

3 more questionable default values and (2) change average loop or aggregate

4 switching price 1% or more when alternative values are substituted for the

5 questionable default values.

6

7 Q. WHAT RESULTS DO YOUR SENSITIVITY ANALYSES SHOW?

8 A. Our sensitivity analyses show that 14 groups of related UAIs, encompassing about

9 70 out of 201 specific UAIs, are sensitive. The remaining UAIs do not

10 individually or as a group significantly affect the end result of applying HAI

11 R5.0a. Attached as Exhibit__(GCG-1), and incorporated herein by reference, is a

12 list identifying the 14 groups of related UAIs that are sensitive, *i.e.*, that identifies

13 14 groups of SUAIs.

14

15 Q. HAVE YOU TESTED TO ENSURE THAT THE INSENSITIVE INPUTS,

16 TAKEN TOGETHER, PRODUCE NO SIGNIFICANT CHANGE IN THE

17 OUTPUT OF HAI R5.0a?

18 A. Yes. We changed each default value of the insensitive UAIs in a direction that

19 decreases loop and switching price. We adjusted them in a magnitude that cannot

20 necessarily be deemed to be within a range that is reasonable. Moreover, we ran

21 all of these changes together in combination. On a combined basis, the total loop

22 and switching price decreased by less than $1.

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1   Q.   WHAT CONCLUSION DO YOU DRAW BASED ON THE SENSITIVITY

2   ANALYSES THAT YOU PERFORMED?

3   A.   The default values selected for the 14 groups of SUAIs have a significant effect on

4   the results derived by applying HAI R5.0a. Therefore, it is essential that the data

5   values selected for use with those SUAIs reflect the conditions of the territory of

6   BellSouth-Florida and reflect cost and other conditions reasonably expected to

7   occur in the future. Otherwise, the Commission will not have developed loop and

8   switching prices and universal service support levels that are specific to the

9   territory of BellSouth-Florida and reasonable for use in this case.

10   Q.   YOU HAVE PREVIOUSLY INDICATED THAT THE MCI/AT&T HAI R5.0a

11   APPLICATION PRODUCES AN AVERAGE LOOP PRICE OF $9.90,

12   AGGREGATE SWITCHING PRICE OF $3.78 AND TOTAL PRICE OF $13.68,

13   WHILE THE GCG HAI R5.0a APPLICATION PRODUCES AN AVERAGE

14   LOOP PRICE OF $20.14, AGGREGATE SWITCHING PRICE OF $7.00 AND

15   TOTAL PRICE OF $27.14. YOU HAVE ALSO INDICATED THAT YOUR

16   SENSITIVITY ANALYSES IDENTIFY 14 GROUPS OF SUAIs. CAN YOU

17   INDICATE HOW THE DIFFERENCE BETWEEN THE AT&T HAI R5.0a

18   APPLICATION ($13.68 TOTAL) AND THE GCG HAI R5.0a APPLICATION

19   ($27.14 TOTAL) IS ACCOUNTED FOR BY THE 14 GROUPS OF SUAIs?

20   A.   Yes. The chart on the following page shows how the 14 groups of SUAIs account

21   for the relative differences in average loop and aggregate switching prices between

22   the MCI/AT&T result ($13.68 total) and the GCG result ($27.14 total). The

23   reconciliation is not exact, *i.e.*, it does not add up exactly to GCG's HAI R5.0a

24   Application result of $27.14, because the relative differences shown in the chart

25   below for each of the 14 SUAI groups are calculated on a stand-alone basis by

making 14 separate model runs. The most precise application of HAI R5.0a is to utilize alternative values for all 14 of the SUAIs all at the same time in one HAI R5.0a run, so that each alternative value affects the other interactively. Of course, GCG has done exactly that in order to establish its results from the GCG HAI R5.0a Application ($27.14 total). However, such a methodology does not show the relative effects of each of the 14 SUAI groups.

	Loop	Agg. Switching	Total
MCI/AT&T HAI R5.0a Application	$ 9.90	$ 3.78	$ 13.68
HAI R5.0a Default-Florida Result	$ 10.57	$ 3.97	$ 14.54
1. NID & Drop	$ 1.27	$ (0.05)	$ 1.22
2. Terminal & Splice	(0.82)	0.04	(0.78)
3. Distribution Investment	1.50	(0.06)	1.44
4. Copper Feeder Investment	0.49	(0.11)	0.38
5. Fiber Feeder Investment	(0.21)	0.01	(0.20)
6. Structure Placement	0.42	0.01	0.43
7. Structure Sharing	1.96	(0.06)	1.90
8. Copper & Fiber Fill Factors	0.10	0.00	0.10
9. DLC	1.25	(0.04)	1.21
10. Interoffice Investment	(0.06)	(0.05)	(0.11)
11. Switching Factors	(0.08)	0.99	0.91
12. Expense Factors	2.33	1.41	3.74
13. Cost of Capital	1.52	0.56	2.08
14. Depreciation Lives	0.59	0.35	0.94
Cumulative Effect 1-14 (Sum)	$ 10.26	$ 3.00	$ 13.26
GCG HAI R5.0a Application	$ 20.14	$ 7.00	$ 27.14

15

1   Q.   CAN YOU INDICATE THE DIFFERENCE IN THE UNIVERSAL SERVICE

2   SUPPORT LEVELS RESULTING FROM THE MCI/AT&T APPLICATION AND

3   THE GCG APPLICATION OF HAI R5.0a?

4   A.   Yes. The chart below shows how the 14 groups of SUAIs fashioned by GCG

5   affects the universal service support levels computed by HAI R5.0a. This chart

6   shows the aggregate results only and does not show the individual effect of each

7   individual group of SUAIs.

		BENCHMARK $/MO	MCI/AT&T HAI R5.0a APPLICATION[1] ($000s)	GCG HAI R5.0a APPLICATION[2] ($000s)
	Annual Universal Service Support:			
7	1. Primary Residence Lines	$ 31.00	$ 13,045	$ 103,768
8	2. Single Line Business Lines	51.00	18	511
9	3. Total		13,063	104,279

[1]   The amounts reflected in this table corresponding to Mr. Wood's position are based on the R50a_expense_wirecenter.xls module which is part of the Wood-filed HAI R5.0a Model.
      On his filed CD-ROM, Mr. Wood uses a benchmark value of $0.00 for both Primary Residence Lines and Single Line Business Lines. This results in total annual support of $0.00 since the HAI Model's coding is such that, if the input benchmarks are $0.00, the Model reports $0.00 of support.
      In addition, the Wood-filed CD-ROM contains an output file (FLBS_FIL.xls) that is different from the one that is produced when HAI 5.0a is run. Exhibit DJW-5 reflects the same values for Residence [and Business] usage per line as are reported in FLBS_FIL.xls. However, that file appears to include some logic modifications and at least one error, as compared to the output of HAI R5.0a. Nonetheless, when $31 and $51 are input in FLBS_FIL.xls as benchmark values for Primary Residence Lines and Single Line Business Lines, respectively, a total annual USF support of $15,116,826 is computed.

[2]   Average of DLC systems, Exhibit (GCG-17).

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1   Q.   DO MCI AND AT&T APPEAR TO AGREE THAT IT IS VALUABLE AND

2   APPROPRIATE TO SUBJECT THE HAI MODEL AND ITS DATABASE TO

3   SENSITIVITY ANALYSES?

4   A.   Yes. In his prefiled testimony in Georgia Public Service Commission Docket

5   No. 7061-U, Mr. Wood extolled the virtues of HM R3.1, remarking that its

6   openness and availability allow BellSouth

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> to gain an understanding of how the Hatfield Model works, to review all inputs and assumptions; and to determine which inputs and assumptions have a significant effect on the Model outputs. (Wood testimony, Georgia Public Service Commission Docket No. 7061-U, p.4, l.20 to p.5, l.2)

12   In an earlier Georgia Public Service Commission Docket, in which Mr.

13   Wood testified on behalf of AT&T in its Georgia arbitration case with BellSouth,

14   Mr. Wood stated that

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> [b]ecause the Hatfield Model is publicly available and its inputs can be varied by the user, it is possible to directly evaluate the Hatfield Model for accuracy and to ascertain the sensitivity of the Hatfield Model to changes in various inputs. (Wood testimony, Georgia Public Service Commission Docket No. 6801-U, Tr. p.812, l.5 to l.10.)

20   As we have on other occasions, we agree with Mr. Wood that sensitivity

21   analyses of the HAI Model, particularly analyses directed to the default values for

22   the UAIs in the UAI database, are a valuable exercise.

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VI.
Inappropriate Results: MCI and AT&T Select Values for the Sensitive User Adjustable Inputs That Do Not Reflect BellSouth-Florida Conditions or Conditions Reasonably Expected to Occur in the Future

6 Q. IN YOUR OPINION, ARE THE RESULTS OF THE MCI/AT&T HAI R5.0a

7 APPLICATION APPROPRIATE FOR USE IN THIS CASE?

8 A. No. Those results are not appropriate because the cost and other data values MCI

9 and AT&T have selected as default values for the SUAIs do not reflect the

10 conditions of the territory of BellSouth-Florida conditions and are not reasonably

11 reflective of forward-looking cost and other conditions. These failures cause the

12 AT&T HAI R5.0a Application to be inappropriate for use in this case.

13 Q. PLEASE EXPLAIN WHY THE COST AND OTHER DATA VALUES

14 SELECTED BY MCI AND AT&T AS DEFAULT VALUES FOR THE SUAIs

15 ARE NOT APPROPRIATE.

16 A. HAI R5.0a is designed to be applied on the basis of cost and other data values for

17 UAIs that (1) reflect the conditions of the territory of BellSouth-Florida and

18 (2) reflect conditions that reasonably can be expected to occur in the future. It

19 should be applied on that basis. In the Georgia Public Service Commission cost

20 docket, Mr. Wood observed that

21 a fundamental issue with any cost study is the integrity of the
22 assumptions, calculations and input values used to develop the
23 ultimate outputs. (Wood testimony, Georgia Public Service
24 Commission Docket No. 7061-U, p. 7, l.10 to l.11.)

25 We agree.

18

1 Q. DO THE COST AND OTHER DATA VALUES THAT MCI AND AT&T HAVE

2   SELECTED FOR THE SUAIs MEET THE STANDARD YOU HAVE

3   DESCRIBED?

4 A. No. We have reviewed the cost and other data values that MCI and AT&T have

5   used as default values for the SUAIs. Those values do not meet the standard we

6   have described.

7   Attached to this testimony are 14 exhibits, one for each of the 14 SUAI

8   groups that we have identified in Exhibit__(GCG-1). These 14 exhibits,

9   designated Exhibit__(GCG-3) through Exhibit__(GCG-16), are incorporated into

10   this testimony. A portion of each of the Exhibits shows that, for the SUAI group

11   in question, the cost and other data values used by AT&T as default values for the

12   SUAIs fail the standard we have described.

13   VII.
14   A Comparison: Default Values for User
15   Adjustable Inputs Common to
16   Different HAI Model Databases

17 Q. HAVE YOU PERFORMED OTHER ANALYSES THAT SUGGEST THAT THE

18   DEFAULT VALUES IN APPENDIX B-5.0a FOR SUAIs MAY NOT BE

19   REASONABLE?

20 A. Yes. MCI and AT&T sometimes points to the fact, as they did during a Hatfield

21   Model workshop held in Georgia, that successive versions of the Model have

22   produced consistently close average loop prices. The contention appears to be that

23   the Model therefore should be considered "validated."

24   It appears to us that the consistently close average loop prices are more

25   likely due to significant (downward) changes that have been made in UAI

19

1   databases associated with successive versions of the Model. In other words, later

2   results appear consistent with earlier results because of (downward) changes in the

3   UAI databases for later versions of the Model, not because successive versions of

4   the Model would otherwise produce similar results.

5   Q.   PLEASE EXPLAIN YOUR OBSERVATION.

6   A.   The chart below shows the results of an analysis we performed. The version of

7   the Hatfield Model known as V2.2.2 has a UAI database associated with it,

8   Appendix 5B. HM R3.1 also has a UAI database associated with it, Appendix

9   B-3.1, as does HM R4.0 and HAI R5.0a, namely, Appendix B-4.0 and Appendix

10 B-5.0a. Each succeeding Model, applied on the basis of its associated UAI

11 database, does, indeed, modestly change the average loop price and annual

12 universal support levels produced by the prior Model. However, it appears that the

13 reason that results from later versions of the Model do not show even greater

14 changes, namely increases, from results from earlier versions of the Model is

15 because of adjustments (mostly downward) in each subsequent UAI database.

16 That conclusion is suggested to us by the results we obtained when we ran

17 HM R3.1 on the basis of the UAI database associated with an earlier versions of

18 the Model, namely, V2.2.2. And, that conclusion was confirmed when we later

19 ran HM R4.0 and HAI R5.0a using the UAI database associated with HM R3.1

20 and then with the UAI database associated with V2.2.2. Specifically, we isolated

21 those UAIs common between the V2.2.2 UAI database (Appendix 5B) and the

22 HM R3.1 UAI database (Appendix B-3.1), and then ran HM R3.1 using the V2.2.2

23 UAI values for those common UAIs. We next isolated those inputs common

24 between the HM R3.1 UAI database (Appendix B-3.1) and the HM R4.0 UAI

25 database (Appendix B-4.0), and then ran HM R4.0 using the HM R3.1 UAI values

1   for those common UAIs. We ran HM R4.0 using the Appendix 5B UAIs common

2   between V2.2.2 and HM R4.0. Finally, we followed the same procedure for HAI

3   R5.0a using inputs from prior Hatfield Model Releases. We found the results to

4   be revealing, as shown by the following chart.

5

	Hatfield Model Version			
	2.2	3.1	4.0	5.0a
Data Base	(Universal Service Support ($ millions))[1]			
2.2	$ 7.3	$ 24.1	$ 45.2	$ 24.8
3.1		16.4	38.1	25.5
4.0			27.1	11.4
5.0a				11.3

[1]   Using the default inputs derived by AT&T for each model and a benchmark support level of $31 per primary residence line and $51 per single business line per month.

14   Q.   WHAT IS THE SIGNIFICANCE OF WHAT YOU HAVE OBSERVED?

15   A.   As the chart shows, had the values for UAIs common between V2.2.2 and

16   HM R3.1 remained the same, the universal service support would have risen by

17     $16.8 million (from $7.3 million to $24.1 million). Instead, as a result of changing

18   the UAI database, HM R3.1 (using its new UAI database) produces a $9.1 million

19   increase in universal support (from $7.3 million to $16.4 million). In addition, if

20   the values for UAIs common between HM R3.1, HM R4.0, and HAI R5.0a had

21   remained the same, the average universal service support would have risen by $9.1

22   million (from $16.4 million to $38.1 million to $25.5 million, respectively).

23   Instead, as a result of changing the UAI database, HAI R5.0a (using its new UAI

24   database) lowers the universal service support by $5.1 million (from $16.4 million

25   to $27.1 million to $11.3 million, respectively). And, finally, if the values for

1   UAIs common between V2.2.2 and HAI R5.0a had remained the same, the

2   universal service support would have risen by $17.5 million (from $7.3 million to

3    $24.8 million). Note that these values are based on the default monthly benchmark

4   support levels of $31 for Primary Residence Lines and $51 for Single Line

5   Business Lines.

6

7

8   **VIII.**

9   **Reasonable Results: GCG Applies HAI R5.0a Based on**
10   **Values for Sensitive User Adjustable Inputs**
11   **that Reflect BellSouth-Florida Conditions and Conditions**
12   **Reasonably Expected to Occur in the Future**

13

14   Q.   PLEASE EXPLAIN THE GCG HAI R5.0a APPLICATION IN THIS CASE.

15   A.   We have applied HAI R5.0a on the basis of alternative values for the SUAIs that

16   we developed. We developed values that reflect cost and other conditions of the

17   territory of BellSouth-Florida and that reflect cost and other conditions that

18   reasonably can be expected to occur in the future.

19   Q.   WHAT VALUES FOR THE SUAIs HAVE YOU USED?

20   A.   Attached as Exhibit__(GCG-2), and incorporated herein by reference, is a print-out

21   of all the values for the UAIs, sensitive and insensitive, that we used to apply HAI

22   R5.0a.

23   Q.   WHAT RESULTS DOES THE GCG HAI R5.0a APPLICATION PRODUCE?

24   A.   The following chart compares the results from the GCG HAI R5.0a Application

25   and the MCI\AT&T HAI R5.0a Application.

22

	MCI/AT&T HAI R5.0a Application	GCG HAI R5.0a Application
Average Loop Price Per Line Per Month	$ 9.90	$ 20.14
Switching Price Per Line Per Month[1]	$ 3.78	$ 7.00
Total Charge Per Line Per Month	$ 13.68	$ 27.14
Annual Universal Service Support for Primary Residence & Single Line Business Customers Lines[2]	$ 13,063,000	$ 104,279,000

[1] Page 2 of the HAI Model R5.0a documentation indicates that the model computes costs for fourteen (14) UNEs. The model also provides a summary of the UNE rates for loop and total cost, both expressed in terms of cost per line per month. The difference between the total cost of all UNEs and the total loop cost is presented in this table as "Switching Price per Line per Month." We emphasize that this is an aggregate number reflecting multiple UNEs. There is no single switching UNE priced at the indicated rate per line per month.

[2] Using a benchmark support level of $31 per primary residence line and $51 per single business line per month.

IX.
The GCG HAI R5.0a Application Results
in Prices that Are Specific to the
Conditions of BellSouth-Florida,
Forward-Looking and Reasonable

Q. DOES THE GCG HAI R5.0a APPLICATION RESULT IN LOOP AND SWITCHING PRICES AND UNIVERSAL SERVICE SUPPORT LEVELS THAT ARE FORWARD-LOOKING?

A. Yes, with the provision that we have not validated the computations within the model.

Q. PLEASE EXPLAIN WHY THE GCG HAI R5.0a APPLICATION RESULTS IN LOOP AND SWITCHING PRICES AND UNIVERSAL SERVICE SUPPORT LEVELS THAT ARE FORWARD-LOOKING.

A. There are three features to the GCG HAI R5.0a Application that ensure that its results are forward-looking. One, the structure and logic of HAI R5.0a purport to reflect a telecommunications network of the future, i.e., a most efficient network built from scratch, using forward-looking technology, assuming only BellSouth-Florida's existing wire centers. The GCG HAI R5.0a Application leaves that feature of the model untouched. Therefore, if the Commission determines that the logic and structure of HAI R5.0a properly reflect the technology of a forward-looking network, the GCG HAI R5.0a Application shares equally in that characteristic.

Two, HAI R5.0a assumes quantities of materials corresponding to its hypothetical network design. The GCG HAI R5.0a Application leaves those quantities unchanged.

1   Three, HAI R5.0a calls for cost and other data values associated with its

2   UAI database that reflect conditions that reasonably can be expected to occur in

3   the future. The GCG HAI R5.0a Application fashions values for the SUAIs that

4   reflect the conditions of the territory of BellSouth-Florida and that are reasonable

5   and forward-looking. Those values are based on current BellSouth-Florida data

6   that have been carefully developed to ensure that no embedded cost or other

7   embedded characteristics are captured. The GCG alternative values reflect current

8   conditions in BellSouth-Florida's territory, but also conditions reasonably expected

9   to occur in the future.

10 Q.   CAN YOU ILLUSTRATE THE STATEMENT THAT YOU MADE

11   REGARDING THE GCG HAI R5.0a APPLICATION BEING BASED ON THE

12   CONDITIONS OF THE TERRITORY OF BELLSOUTH-FLORIDA AND

13   RESULTING IN REASONABLE FORWARD-LOOKING PRICES?

14 A.   Yes. As an example, we will focus on UAI B10 to illustrate these points.

15   Specifically, we compare MCI and AT&T's default values for UAI B10 to the

16   alternative values GCG has crafted for UAI B10. The comparison reveals (1) that

17   the GCG alternative values reflect the conditions of the territory of

18   BellSouth-Florida, while the default values used by AT&T do not, and (2) that the

19   GCG alternative values reflect conditions reasonably expected to occur in the

20   future, while the default values used by MCI and AT&T do not.

21   UAI B10 is one of the eleven UAIs in the SUAI group for Distribution

22   Investment (see Exhibit__(GCG-5)). UAI B10 is Copper Distribution Cable,

23       $/foot, defined by HAI R5.0a (Appendix B-5.0a) as the cost per foot of copper

24   distribution cable, as a function of cable size, including the costs of engineering,

25   installation and delivery, plus the cost of the cable.

1   The chart below compares values for UAI B10 developed by MCI/AT&T
2   and GCG. "Default" reflects MCI/AT&T values and "BST-FL Specific" reflects
3   GCG values.

4
UAI B10: Copper Distribution Cable, $/Foot[1]		
Cable Size	Default	BST-FL Specific[2]
6	$ 0.63	$1.14
12	0.76	1.28
25	1.19	1.60
50	1.63	2.22
100	2.50	3.39
200	4.25	5.86
400	6.00	10.43
600	7.75	15.24
900	10.00	21.29
1200	12.00	27.64
1800	16.00	40.90
2400	20.00	52.23

[1] For comparable line sizes, UAI B56, copper feeder cable cost, would reflect the same values as those listed in this chart.

[2] BST-FL-specific values include terminal and splicing, whereas Default values do not. Accordingly, as noted in Exhibit__(GCG-4), the BST-FL-specific value for cost of terminal splicing, UAI B7, is $0.

23   For UAI B10, GCG obtained the cost per foot of copper distribution cable
24   that reflects the current cost of such cable to BellSouth-Florida, including the
25   current cost to BellSouth-Florida to engineer, install and deliver that type of cable.

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1   On the other hand, the default values selected by MCI and AT&T are claimed to

2   be based on the "opinion" of outside plant engineers. In discovery, in proceedings

3   in other states, BST has asked MCI and AT&T to (1) provide all the back up

4   papers demonstrating the support for the default values associated with UAI B10

5   and (2) explain in detail (with supporting papers) the analyses MCI and AT&T

6   made, and the results therefrom, to ensure that the default values associated with

7   UAI B10 are actually reflective of the conditions in those states. MCI and AT&T

8   have not supplied answers, much less support for answers, to those inquiries.

9   A failure to provide answers to this type of discovery is particularly

10 troubling in light of the changes in the UAI database for HM R3.1 and HAI R5.0a

11 for UAI B10. The following chart shows the change made by MCI and AT&T

12 from one UAI database to the next, with the explanation that for certain cable sizes

13 a less course cable gauge was used. No backup documentation or workpapers

14 were provided.

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Changes in UAI Databases For UAI B10 HM R3.1 to HAI R5.0a		
Cable Size	HM R3.1 Default	HM R4.0 and HAI R5.0a Default
6	$ 0.63	$ 0.63
12	0.76	0.76
25	1.19	1.19
50	1.63	1.63
100	2.50	2.50
200	4.25	4.25
400	7.75	6.00*
600	11.25	7.75*
900	16.50	10.00*
1200	21.75	12.00*
1800	32.25	16.00*
2400	42.75	2u.u0*

* Highlights changed values caused by a change in the gauge of cable assumed for these cable sizes.

The alternative values crafted by GCG for UAI B10 are not only based on cost data that reflects the current conditions of the territory of BellSouth-Florida, they also reflect costs that can be expected to occur in the future. There is every indication that the current cost of copper distribution cable, including the cost to deliver, engineer and install it, is actually a conservative measure of the cost of copper distribution cable in the future. It is not reasonable to expect that the installed cost of copper distribution cable will go down.

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1 Q.   PLEASE EXPLAIN HOW YOU DEVELOPED THE COST FOR COPPER

2   DISTRIBUTION CABLE TO ENSURE THAT IT IS FORWARD-LOOKING

3   AND NOT REFLECTIVE OF EMBEDDED COSTS.

4 A.   Copper distribution cable that has been installed over a number of years is

5   recorded on BellSouth-Florida's books as an investment. Therefore, were it

6   necessary to obtain the embedded investment dollar figure per foot of copper

7   distribution cable, this would be obtained by dividing the total investment in

8   copper distribution cable recorded on BellSouth-Florida's books by the total length

9   of copper distribution cable that has been installed over the years. Since HAI

10   R5.0a requires a forward-looking and not an embedded cost per foot of copper

11   distribution cable, we applied a different procedure to obtain the forward-looking

12   cost. GCG began its analysis by considering 26 gauge copper distribution cable

13   and obtained costs associated with the activity of installing this size of cable in

14   1997. This information is contained in the 1997 books and records of

15   BellSouth-Florida in the specific field recording code associated with the

16   installation of 26 gauge copper distribution cable. This data provided the 1997

17   costs associated with the installation of 26 gauge copper distribution cable and the

18   length of cable that was installed for that year. We then derived the current (1997)

19   cost per foot for installation of copper distribution cable for each of the cable sizes.

20   This is precisely the information that is required for UAI B10 in order to make it

21   BellSouth-Florida specific, forward-looking and not reflective of embedded costs.

22 Q.   WHAT POINT DO YOU MAKE BASED ON YOUR EXAMPLE OF UAI B10?

23 A.   The alternative values for UAI B10 developed by GCG are based on conditions in

24   the territory of BellSouth-Florida and are reasonable as forward-looking costs. The

25   basis for the default values for UAI B10 used by MCI and AT&T is unknown, but

1   they most certainly are not specific to the conditions of the territory of

2   BellSouth-Florida. Moreover, MCI and AT&T provides no explanation of how

3   their default values are properly reflective of reasonable forward-looking

4   conditions.

5   Q. ARE THE TYPES OF SHORTCOMINGS IN THE MCI/AT&T DEFAULT

6   VALUES FOR UAI B10 THAT YOU HAVE DESCRIBED IN THIS

7   TESTIMONY ALSO FOUND WITH RESPECT TO THE DEFAULT VALUES

8   MCI AND AT&T HAS CRAFTED FOR OTHER SUAIs?

9   A. Yes. Although, as you would expect, the exact deficiencies in the MCI/AT&T

10   default values related to UAI B10 are not the precise deficiencies found in the case

11   of other SUAIs, the same type and magnitude of deficiencies is found in the case

12   of virtually every other SUAI. Attached to this testimony are Exhibit___(GCG-3)

13   through Exhibit___(GCG-16), which address each of the 14 SUAI groups and

14   identify some of the deficiencies in the MCI/AT&T default values associated with

15   those SUAI groups.

16   X.
17   Conclusion: If the HAI Model is Used, It Should
18   Be Applied on the Basis of the Alternative Values for
19   The Sensitive User Adjustable Inputs Developed by GCG

20 Q. PLEASE STATE THE CONCLUSION YOU REACH.

21 A. If this Commission determines that it wishes to establish universal service support

22   levels for BellSouth-Florida on the basis of applying HAI R5.0a, it should do so

23   on the basis of values for the SUAIs that properly reflect the conditions of the

24   territory of BellSouth-Florida. In other words, the cost and other data used to

25   fashion values for the SUAIs should reflect the conditions of the territory of

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1   BellSouth-Florida. In addition, the values for the SUAIs should reflect cost and

2   other conditions that are reasonably expected to occur in the future, *i.e.*, that are

3   both forward-looking and reasonable. Only in that circumstance will the

4   application of HAI R5.0a produce cost for purposes of determining universal

5   service support that are both forward-looking and reasonable for application in this

6   case.

7   The values for the SUAIs fashioned by Georgetown meet this standard.

8   The values used by MCI and AT&T for the SUAIs do not. If the Commission

9   utilizes HAI R5.0a, it should use the values for the SUAIs fashioned by

10   Georgetown.

11   Q.   DOES THIS CONCLUDE YOUR TESTIMONY?

12   A.   Yes, it does.

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1   MR. CARVER: And if we could have marked for

2 identification please their exhibits. I believe they are

3 GCG-1 through 17.

4   COMMISSIONER DEASON: GCG-1 through 17 will be

5 identified as Exhibit 95.

6   MR. CARVER: Thank you.

7   COMMISSIONER DEASON: What about the appendices

8 attached, is that part of prefiled testimony to be inserted

9 in the record, or do those appendices need to be identified

10 as a composite exhibit?

11   MR. CARVER: They should probably be inserted

12 into the record as though read also. These are changes

13 that were filed about a week ago, and they were to change

14 some numbers.

15   COMMISSIONER DEASON: The appendices that I'm

16 looking at basically are, it's the qualifications of the --

17   MR. CARVER: I think what they have labeled as

18 appendices are actually part of Exhibits 1 through 17.

19 About a week ago we found that there was a numerical error,

20 so they made a supplemental filing to correct all the

21 instances in their testimony where that error occurred. So

22 that change that's been filed would -- I guess it should

23 just be inserted into the record in lieu of the original

24 testimony for those particular pages.

25   COMMISSIONER DEASON: Well, I guess I'm a little

1 unclear. Are you saying the appendices themselves are

2 actually part of the prefiled exhibits that we just

3 identified on a composite basis as Exhibit 95, or are they

4 separate?

5   MR. CARVER: Let me make sure we are on the same

6 page here. It appears that they are separate.

7   COMMISSIONER DEASON: Do you wish to have those

8 identified as a separate exhibit?

9   MR. CARVER: I think we could make it part of the

10 same as the Exhibits 1 through 17. Just make it part of

11 the same composite.

12   COMMISSIONER DEASON: Okay. That would be part

13 of -- Then the appendices, I believe there are four

14 appendices, will become part of Composite 95.

15   MR. CARVER: Thank you.

16 BY MR. CARVER (Continuing):

17   Q   Mr. Madan, could you summarize, please, the

18 testimony of the panel?

19   A   (Witness Madan) Yes, I will.

20   Good afternoon. Given our post position in this

21 hearing, I'll try and make our summary brief and concise.

22   Basically, our testimony in this proceeding

23 focuses on the inputs to the Hatfield Model rather than the

24 logic of the model. We have taken the logic of the model

25 as a given. We provide no opinion concerning the integrity

1   of the model.

2   Our conclusions in this proceeding are that the

3   default inputs sponsored by AT&T and MCI are inappropriate

4   and if used would result in significant errors. To provide

5   some estimate of this discrepancy, we come to the following

6   specific conclusions: A, that AT&T and MCI inputs are not

7   specific to Florida, are not reasonable and are not

8   forward-looking. If these inputs were to be used in the

9   Hatfield Model in this proceeding to provide some estimate

10   of the discrepancy, they would produce a loop cost of

11   $10.57 per month. Using $31 and $51 as benchmarks for the

12   overall estimate of the universal service fund, their model

13   would produce a fund for the state in the BellSouth

14   territory of approximately 13.1 million dollars.

15   The inputs that we have created do reflect the

16   conditions of Florida. They are forward-looking. We

17   believe they are reasonable and reflect achievable

18   efficiencies. These inputs do not include any embedded

19   costs. To provide -- they produce a loop cost of $20.09 a

20   month compared with the $10.57 a month that would come out

21   of the AT&T position. And using the same revenue

22   benchmarks of $31 and $51 as an illustration, they would

23   produce a universal service fund of 103.7 million dollars

24   compared with the 13 million dollars that was referred to

25   earlier.

1   There are two types of inputs that are in this

2   proceeding. The first is the demographic and geological

3   (sic) data. Numerically, these represent the vast majority

4   of the inputs concerning locations of customers and

5   geographic characteristics. They are not in dispute in

6   this proceeding. The second general set of inputs are

7   user-adjustable inputs, and these are those that most

8   directly affect the investment and cost resulting from the

9   model and are the major focus of our effort in this

10 proceeding.

11   There are 201 user-adjustable inputs. These

12 inputs have been changed in only three areas by AT&T and

13 MCI in this proceeding. These three areas are cost of

14 capital, depreciation, and a labor index. Only these three

15 out of the 201 have been changed. In every other case, the

16 inference is made that the input is equally valid in

17 Tallahassee, Miami, New York City, San Francisco, pick any

18 place you want. Their position is that these inputs are

19 reasonable for every single location. We do not believe

20 this to be a reasonable assumption.

21   What we have done is developed inputs

22 specifically for the territory here, and we did this by

23 examining the current data of the largest telephone company

24 in the state, that of BellSouth, with approximately 6.7

25 million telephone lines. The data has been conformed to be

1 efficiently, currently-available technology, inclusive only

2 of forward-looking costs and containing no embedded

3 characteristics. That's what we did. As I said before, we

4 do not alter the structure of the HAI model. That is, we

5 leave untouched the scorched node approach that is assumed

6 in the logic of the model.

7 In making our presentation here, there are two

8 areas that we'd like to point out plainly at the beginning

9 that we have adopted BST's position on, and those are the

10 areas of rate of return and depreciation. These are

11 generic issues, and rather than develop independent

12 estimates of the rate of return portion of the model and

13 the depreciation characteristics of the plant, we have

14 adopted the values directly from BST's witnesses. These

15 are the only two areas in the model where we have adopted

16 directly, in effect, the recommendation of other witnesses;

17 otherwise, there would be yet additional rate of return and

18 depreciation testimony.

19 The differences that we have spoken about earlier

20 and that we referred to earlier in the loop, basically

21 there are five major categories we would like to summarize

22 the differences on in the summary. The rest is contained

23 in our direct testimony.

24 First, in the area of the NID and the drop, there

25 is approximately $1.27 difference between our position and

1   AT&T/MCI's position; and that is accounted for primarily in
2   two areas: First, labor rates. We have reflected the
3   current union negotiated labor rate of $41 an hour for this
4   function. The default number that is used in this
5   proceeding in the HAI model is $28.60. Again, there is no
6   backup for this figure. We do not know where it comes
7   from. It's based on the opinion of five people that got
8   together and decided that this would be an appropriate rate
9   for Florida. The difference between the $28.60 and the $41
10 speaks for itself.

11   Secondly, in the NID and the placement -- I'm
12 sorry, with regard to the placement of the drop, we have
13 reflected the fact that in the territory BellSouth
14 negotiates a fixed price of $74.50 to bury a drop, and the
15 length of that drop could be anywhere from zero to 500
16 feet. These are based on several contracts that are
17 negotiated in the territory. This represents the average,
18 and we have taken into account this arms-length negotiated
19 rate in computing the cost of a buried drop.

20   Again, the HAI model does not reflect this. It
21 creates inputs based on the judgment of people. Those
22 judgments, it appears to us, is significantly different
23 from reality. And given the fact that it's a fixed price
24 for a drop anywhere from zero to 500 feet, the length of
25 that buried drop doesn't matter because it's going to be

1 somewhere between the zero and the 500 feet. The default

2 number used in the Hatfield Model for a drop is 75 feet.

3 The estimate that we have used for a drop -- again, the

4 buried drop length doesn't matter -- is between 200 and 250

5 feet.

6   The second area of difference is in distribution

7 investment, and this is worth about 68 cents on the loop.

8 Our inputs are based upon a study we did to look at the

9 current cost of installing copper, the most recent cost,

10 the price actually paid, the discounts actually received,

11 and the labor actually used to install this distribution

12 plant. We will state here that because the information

13 that we received from BellSouth includes the splice and the

14 terminal, these numbers are already included in our

15 distribution figures. What we, therefore, did to make the

16 two numbers equivalent is go to the terminal and splice

17 inputs into the HAI model and put those to zero. We have

18 done some independent testing and believe that's a

19 reasonable approach producing similar results to what would

20 have happened had we broken it out separately.

21   Structure sharing is a large issue. It's worth

22 almost $2 a loop. It's $1.96 on the loop difference

23 between our estimates and the HAI model estimates. BST, as

24 I said before, has approximately 6.7 million lines already

25 in place. Nothing in our testimony changes the manner in

1 which those lines are put into a scorched node model. What

2 we would point out is there is no requirement for other

3 utilities, for cable TV companies, for electric companies

4 or for any other utility, for them to adopt a scorched node

5 approach. Given that this plant is already in place, we

6 believe it's very unreasonable to assume that the other

7 utilities would abandon their plant and somehow on the same

8 lines on a three for one basis have a sharing of three

9 utilities for some of the facilities that are in the HAI

10 model.

11 Incrementally, we have assumed that some of the

12 sharing is appropriate, could be put into place, but to

13 assume that 6.7 million lines will be treated in this

14 fashion, reducing the investment in some cases by a third

15 of what it should be, we believe is extremely unreasonable;

16 and we don't believe that a reasonable showing can be made

17 that this kind of sharing is anywhere in the near term. It

18 may be forward-looking but it may be forward-looking to

19 perhaps a different century.

20 With regard to expense factors, we want to point

21 out that significant changes have been made in the HAI

22 model, in our opinion, fairly arbitrarily.

23 For network operations expense, AT&T and MCI

24 reduce one half the current expense, one half; 117.5

25 million dollars, $1.50 a loop. If this were a rate case,

1 you would need a little bit more justification than the

2 opinion of some people where when asked to quantify provide

3 absolutely no backup.

4   The actual operations expense of BST is $3 per

5 line and is in line with numbers contained in the Hatfield

6 Model for 160 companies. This data produces an average of

7 $3.08. Our figure your is $3 a line. Nonetheless, we have

8 recommended that this input factor be reduced by 10%.

9   For switching expenses, on the expense side, the

10 actual ratio of 5.72% is reduced to 2.69%. The average

11 data, again, for the same 160 companies in the Hatfield

12 Model is 5.7%. Nonetheless, we recommend a 10% reduction

13 in the expense factor to 5.8%.

14   There is yet another expense grouping for a

15 circuit equipment, and AT&T/MCI uses 1.53%. We have

16 recommended an input ratio of 1.7% in keeping with this

17 industry average.

18   There is yet another very significant expense

19 change that is made in the model and not even included as a

20 user-changeable input. There is a group of expenses that

21 have been reduced from 337 million to 131 million, a

22 difference of almost 200 million dollars. This is a

23 reduction of $2.63 per loop per month. We recommend a 20%

24 reduction rather than the reduction that has been input

25 into the model by AT&T and MCI and not put in as a

1   user-changeable input.

2   Finally, I just want to say a few words with

3   regard to model validation. The authors of the HAI model

4   state that the model is validated because, as they have

5   gone from earlier versions of the model to newer versions

6   of the model, the end result appears to be approximately,

7   they say, in the same ball park, indicating to the reader

8   that there is some validation going on. What we have done

9   on Page 21 of our testimony, there is a table, and you can

10   look at it at your leisure later, but what happens is when

11   you go from model to model, from earlier model to later

12   model, if you hold the inputs the same, the actual values

13   go up substantially. And what happens is that the major

14   reason that the end result appears reasonable is that as

15   the model is pushing the values up, the authors are taking

16   the inputs and pushing them down. So as you go from an

17   earlier version to a later version of the model using the

18   same input, there are significant differences. These

19   differences then are covered over by changing the value of

20   the inputs downwards to get approximately the same result.

21   We do not believe that this showing is any validation.

22   There doesn't appear to be any proper validation of the

23   model, and we believe that, in fact, the model is not

24   validated at this point. That concludes our remarks.

25   MR. CARVER: Thank you. The witnesses are

1 available for cross examination.

2   MR. COKER: Thank you.

3   CROSS EXAMINATION

4 BY MR. COKER:

5   Q   Good afternoon, gentlemen. My name is Gene

6 Coker, and I represent AT&T.

7   A   (Witness Madan) Good afternoon.

8   Q   Mr. Madan, at the beginning of your testimony, I

9 see where you have a degree in electrical engineering that

10 you obtained in 1966; is that correct?

11   A   (Witness Madan) That's correct.

12   Q   Have you practiced as an electrical engineer

13 since that time?

14   A   (Witness Madan) No.

15   Q   Have you been involved in the procurement of any

16 telecommunications equipment since that time?

17   A   (Witness Madan) No, not in the context of your

18 question.

19   Q   Have you been involved in the installation of any

20 telecommunications equipment?

21   A   (Witness Madan) No.

22   Q   Okay. Now it's your opinion and the opinion of

23 your colleagues sitting beside you there that you have

24 conducted an independent and objective evaluation of the

25 inputs of the HAI model; is that correct?

1   A   (Witness Madan)   That's correct.

2   Q   And I believe you said in your summary that you
3 just focused on the inputs rather than the structure or the
4 logic of the model itself?

5   A   (Witness Madan)   That's correct. We took the
6 logic as a given.

7   Q   Would you agree that the purpose of a cost proxy
8 model is not to replicate the costs of an individual
9 company but to determine the forward-looking cost, the
10 forward-looking economic cost of an economic provider in
11 the territory being served?

12   A   (Witness Madan)   That could be one use of the
13 model, although in reading the -- in reading the Hatfield
14 Model, I believe it does indicate that the authors believe
15 that the engineering assumptions are reasonable as well.

16   Q   Now as I read through your testimony, correct me
17 if I'm wrong, but I believe you recommended that the input
18 values for certain sensitive user adjustable inputs should
19 not be used for two reasons: One that they don't reflect
20 the conditions of the territory; and two, that they are not
21 forward-looking and reasonable; is that a fair
22 summarization?

23   A   (Witness Madan)   Yeah. Just a clarification.
24 The answer is yes, and just to clarify that: The HAI
25 default values are not reflective of current conditions and

1   are not forward-looking or reasonable. That doesn't mean

2   to say you shouldn't use the variables if it's properly

3   constructed.

4   Q   Did you reject all the default values or just

5   some of them?

6   A   (Witness Madan)   We adjusted approximately 70 of

7   them out of the 201.

8   Q   Now with respect to the purpose of a cost model

9   which we just talked about, in doing your analysis, you've

10   assumed one of the important parts of the purpose, and

11   that's whether the inputs or the costs that result are that

12   of an efficient provider. Have you done any type of

13   analysis, a management audit to determine the efficiencies

14   of BellSouth?

15   A   (Witness Madan)   No, we did not take that added

16   step. We took the position that the current data

17   reflected -- when we got the data, that it would reflect

18   efficient operations. BellSouth-Florida is operating

19   currently in a price cap regime, if you would; and in many

20   instances, as we already pointed out, for example, on the

21   network operations cost, after having achieved significant

22   efficiencies for the last few years, we again, just for

23   illustrative purposes, have recommended yet a further 10%

24   decrease in those costs. With regard to circuit equipment

25   and those other factors we mentioned, we recommended a

1 further 20% reduction, so in many cases we've taken the
2 current information. We've tried wherever possible to be
3 conservative. Conservative being defined for our purposes
4 in this proceeding is, given a choice, we would input a
5 lower cost rather than a more reasonable cost.

6   Q   I thought I heard you say in that answer that
7 after BellSouth had achieved significant efficiencies over
8 the last few years. Did you do some kind of analysis to
9 determine that they have, indeed, achieved a certain amount
10 of efficiencies over the past couple of years?

11   A   (Witness Madan) Yeah, in fact, we were both in
12 the room this morning, I think. There was like 11 thousand
13 employees that have -- that the work force is shorter, that
14 the lines have grown in this time period. So using the
15 definition used this morning of more with less, you
16 certainly have -- for a telephone company, the major input
17 of expenses is labor as fuel would be to an electric
18 company. So the major input of cost is down and the output
19 and lines are up. It's fairly trivial and fundamental to
20 see that significant efficiencies have been achieved.

21   Q   In determining the economic cost in this
22 proceeding, if it were shown that a particular item --
23 let's take poles, for example -- could be purchased less
24 expensively than BellSouth is obtaining them, would you
25 recommend putting that lower value in as an input value?

1   A   (Witness Madan) If it's reasonable, certainly.

2 With regard to poles, we had actually the opposite

3 information showing that BellSouth was actually

4 procuring -- the actual figures that they would procure at

5 would be a little bit higher than the default. But in the

6 testimony that is before us, we have actually used your

7 figures on the poles, and we've used the defaults.

8   Q   I'd like to talk a little bit about the process

9 that you used in your analysis, and I think it's laid out

10 at about Page 9 in your testimony.

11   A   (Witness Madan) Right.

12   Q   As I understand it, you did a sensitivity

13 analysis and determined that there was 14 groups of

14 sensitive user-adjustable inputs; is that correct?

15   A   (Witness Madan) Yes. That was the end result of

16 that analysis.

17   Q   That was the end result of your analysis or the

18 beginning of your analysis?

19   A   (Witness Madan) No, it couldn't be the

20 beginning. That's the end result of the analysis. What we

21 did is we went through the vast amount of inputs. HAI has

22 a significant amount of inputs. And we went through each

23 one and tried to figure out the sensitivity of those inputs

24 to the loop cost that would be derived from the model. We

25 went through it, and as a parallel function, we also

1 applied our judgment. We began doing our analysis. These

2 things were all going down at the same time in parallel to

3 see what sort of reason -- for each input what would be a

4 reasonable factor as a first cut. And we took these

5 analyses together, figured that various inputs were grouped

6 together, and when we did our analysis and did a

7 sensitivity then around those factors we thought would be

8 sensitive, we looked to see if we changed them as a group

9 by themselves did they change the end result by 1%. We

10 finally came up with 14 groups that exhibited this

11 tendency. Those are the 14 groups that we have used in all

12 of our analyses.

13   Q   I think we might have been talking past each

14 other. That didn't complete your analysis. You did work

15 beyond that once you --

16   A   (Witness Madan) Yes, we did work beyond that

17 once we established the 14 groups.

18   Q   Okay. Once those groups were identified, then

19 you took -- looked at the HAI input values, and you looked

20 at those and you determined whether or not they were, they

21 met your standard, the standard of whether they met the

22 conditions of the territory or were forward-looking and

23 reasonable; is that correct?

24   A   (Witness Madan) Yes, the standards required by

25 the Act that they be forward-looking, that they reflect the

1   most efficient technology and they reflect the conditions

2   of the territory.

3   Q   What do you mean by conditions of the territory?

4   A   (Witness Madan)   Conditions that exist within the

5   State of Florida, what it takes to operate a

6   telecommunications company within the state; and as a

7   surrogate for that, we decided that for our analyses we

8   would take the conditions that existed in the BellSouth

9   territory, what it took to provide telecommunication

10 service on an extended area basis in the State of Florida.

11   Q   And where did you get your information that was

12 necessary to judge whether it met the conditions of the

13 territory?

14   A   (Witness Madan)   We state very specifically in

15 our testimony that we got this information from the largest

16 provider of telecommunications in the state, that's

17 BellSouth, with about 6.7 million lines.

18   Q   You relied very heavily on information you

19 obtained from BellSouth, didn't you?

20   A   (Witness Madan)   We relied very heavily on

21 information we received with regard to its operations here

22 in this state and comparable operations in the other states

23 in which it operates.

24   Q   You determined the user sensitive -- or the

25 sensitive user-adjustable inputs.   You looked at the HAI

1 values, measured them against the information you got from

2 BellSouth to determine if they reflected conditions of the

3 territory to determine whether the standard was met; and if

4 the standard wasn't met, then you fashioned values of your

5 own; is that correct?

6   A   (Witness Madan)   No, I think once we decided that

7 we had the group of 14 we already knew they were sensitive.

8 They were extremely sensitive. We then went ahead and

9 simply determined what the appropriate input would be,

10 which required determining precisely what Hatfield required

11 in the model, and then we fashioned, from our point of

12 view, independently what those inputs would be using the

13 most current information, financial and operational

14 information available to us; and so we fashioned those

15 inputs.

16   Q   On Page 9 of your testimony at Line 12, it says:

17 For purposes of groups of UAIs, user-adjustable inputs,

18 determined to be sensitive, we examined whether the default

19 values chosen by them -- for them by MCI and AT&T reflect

20 the conditions of the territory of BellSouth-Florida and

21 reflect the cost or other conditions reasonably expected to

22 occur. Where the default values for those groups of SUAIs

23 failed that standard, we fashioned alternative values to

24 meet it. Is that a correct reading of your testimony

25 there?

1   A   (Witness Madan) That is correct.

2   Q   And in determining whether the default values

3 failed the standard, you measured them against BellSouth

4 data; is that correct?

5   A   (Witness Madan) We measured it against the data

6 that we derived using inputs from BellSouth. This is not

7 data that was given to us, as we explain in quite some

8 detail in our testimony. Even the inputs don't come off

9 the shelf. They require elements to be put together and

10 fashioned together and, therefore, we would take data that

11 we would request from BellSouth -- In many cases they may

12 or may not have known exactly what we were doing with it.

13 We requested that data, configured the data ourselves, and

14 then determined whether the Hatfield input and this number

15 that we obtained basically asking BellSouth two fundamental

16 questions: Give us the prices you paid for this various

17 equipment, for cable, for fiber, for DLC, for switching.

18 We took those figures, made sure they reflected only the

19 current costs, nothing from the past. We made sure that

20 the maximum discounts were reflected, made sure that those

21 discounts were reflected, put them together in a fashion

22 that we determined were reasonable, not what BellSouth

23 determined. There are significant differences between our

24 approach, for example, to DLC and what BellSouth may have,

25 et cetera; and then we put that number into the Hatfield

1 Model. So, yes, we used the only place that we could get

2 current prices tha` we were confident in, was from a

3 substantial amount of pricing data available from the

4 utilities in the state.

5   Q   In reaching your conclusion that a --   Did you

6 reach your conclusion that a particular HAI input value did

7 not meet your standard before or after you received data

8 from BellSouth?

9   A   (Witness Madan) I'm not sure I can answer that.

10 It was a process, and some of it before, some of it later.

11 We were always refining our estimates. We did the

12 sensitivities before we got all the final values from

13 BellSouth of all the data we requested. That was an

14 ongoing process that took quite a while.

15   We took this data and then produced the final

16 inputs, but in terms of determining what was sensitive, we

17 were doing it as an ongoing process, just looking at the

18 figures and what we knew about certain numbers. For

19 example, we wouldn't need final data from BellSouth to

20 determine that a one third, one third, one third sharing of

21 most of the facilities just didn't make any sense, so we

22 didn't have to wait for any data on that; we ran the

23 number. We figured it was worth $2 a loop if you used

24 assumptions that we believe were totally unreasonable and

25 we then got some data from BellSouth, but eventually

1   created our own input for that.

2   Q   I'd like to refer for just a minute to GCG-4.

3   A   (Witness Madan)   Okay.

4   Q   Terminal and splice investment per line.

5   A   (Witness Madan)   Right.

6   Q   The default there for aerial is 32 and buried is

7   42.50.

8   A   (Witness Madan)   Right.

9   Q   Did you determine that those two values did not

10   meet the standard that you have established?

11   A   (Witness Madan)   I'm not sure that I can answer

12   that question yes or no.   What we determined was that the

13   cable values appeared to be low.   They appeared to be low

14   both based on the fact that the total cost to the material

15   cost in the manual is two and a half to one.   For every

16   dollar of material the total installed cost is like two and

17   a half dollars.   We figured that was low, and it turned out

18   that a number more like $6 to $7 is much more reasonable

19   for that particular input.

20   We then asked BellSouth to give us the data with

21   regard to its material cost, its installation cost, its

22   engineering cost, its vendor cost, only related to activity

23   that occurred within the last year and on those gauges that

24   we believed the Hatfield Model called for.   We then took

25   those numbers and found out that contained in those numbers

1 were the price of the terminal and splice, that the

2 accounting system did not segregate those costs; and,

3 therefore, what we did is we said, if we are going to use

4 those costs that we develop -- And there was no way to

5 break them out. There would have to be a very detailed

6 study to break these numbers out, and we've done some

7 estimates on it, but there was no way to break it out, so

8 we left them in the cable cost and forced the terminal and

9 splice cost to zero, which basically accomplished the same

10 thing. So in other words, we have integrated what were two

11 inputs in Hatfield, the terminal and splice, and the cable

12 into one input. It doesn't make a big difference; we

13 simply combined them.

14   Q   And that is reflected on page twenty -- the table

15 on Page 26 of your testimony, isn't it?

16   A   (Witness Madan) I'm sorry?

17   Q   The cable prices.

18   A   (Witness Madan) Yes.

19   Q   They appear in that right-hand column?

20   A   (Witness Madan) That's correct, and our numbers,

21 as we say in the footnote, includes the prices for the

22 terminal and splicing.

23   Q   Well, how much of the values that appear in that

24 right-hand column are attributable to terminal and

25 splicing?

1   A   (Witness Madan) We don't know for sure, but an

2 estimate would be in the 18 to $20 range perhaps.

3   Q   My question is how much -- how much of each of

4 these values relate to the terminal and splicing value that

5 appears in the Hatfield Model?

6   A   Again, I think we've been pretty direct on what

7 we did. The information that we got combined them, so we

8 have no way of being absolutely certain. But on an overall

9 basis, an 18 to 20% reduction looks like it may be in the

10 ball park.

11   Q   But you made no independent evaluation that the

12 $32 and the 42.50 for aerial and buried do not meet your

13 standard?

14   A   (Witness Madan) Well, again, I don't know what

15 you mean by do not meet our standard. We have that

16 information, and where it's appropriate to combine two

17 inputs into one to get the correct information, we believe

18 we've done that. Rather than guess at it, we've simply

19 combined both inputs into one, and we believe that's

20 appropriate. And when you combine them, they do produce a

21 result that is significantly different from the default.

22   Q   Well, in fact, what you did is obtain data from

23 BellSouth that had combined them and you had just accepted

24 that without doing any further evaluation of the Hatfield

25 inputs individually; isn't that true?

1   A   (Witness Madan) No, that's not true, and maybe

2 at this early stage let's get this issue clear. We've had

3 this debate in other places of, quote, just accepting data

4 from AT&T. We got data. We analyzed it, and it became

5 clear to us when we read the chart of accounts and the data

6 we got that what BellSouth had given us was cable data plus

7 terminal data.

8   We looked at it. We requested that this data to

9 be broken out. There was no way to break this data out.

10 It's just too complicated and too big a job. The chart of

11 accounts does not call for a separation of that data. So,

12 therefore, what we did is we didn't just, quote, accept the

13 data. We took the data. We worked with it. We produced

14 our independent analyses of what we believed the proper

15 inputs to be. In this case it would be the cable sizes and

16 the installed costs, and we knew the installed costs would

17 include the terminal. We determined that very early. And,

18 therefore, from the very first time we ran the model, we

19 always set the terminal cost to zero.

20   In no case did we, quote, just accept data from

21 BellSouth. That just did not occur. We had a significant

22 amount of data, more generally than data that we have

23 requested in rate cases where we request tons and tons of

24 data from a utility. This data was provided to us in a

25 straightforward manner. We took the data. We adjusted

1   it. We worked with what we believed an independent value

2   should be, and then we adopted it.

3   Q   In obtaining the data that you used from

4   BellSouth, did you talk to a lot of people at BellSouth?

5   Did you have one particular contact person or a panel of

6   people? Can you describe how that operated?

7   A   (Witness Madan) We had a panel of people. There

8   were several people. There was a cost group that was

9   headed by Jim Anderson. There was a contact group. There

10   were particular contact people within the cost group that

11   we worked with, and probably four or six key individuals;

12   and Mr. Dirmeier, who is a witness here, had the majority

13   of the contact. And we had several meetings on-site, and

14   then a significant amount of information back and forth

15   between the contact group and ourselves.

16   Q   Were some of these people some of the same people

17   developing or working on the BCPM model?

18   A   I don't know. I don't believe they were working

19   on the BCPM model as such. They may have been working on

20   BellSouth's inputs to the model. When we first started, of

21   course, it was just on the cost dockets, and at that time

22   Bell was developing and had developed its own cost model or

23   the TELRIC engine, and I think the majority of these people

24   were involved in that effort. It was only later on that

25   some of these people crossed over and worked with regard to

1 BCPM, and I'm not sure which ones of them directly worked

2 on BCPM. It was not our function to look at BCPM, and that

3 was not a focus of our inquiry. Our mission with this

4 group was to get them to give us the information that we

5 wanted. And in most cases, at the time we were doing our

6 work, I think we had a facility to run the HAI model. We

7 did this independently, looked at what we needed, and

8 specifically asked this group just for input information

9 and nothing else.

10   Q   Did you look at or were you provided copies of

11 BCPM cost inputs?

12   A   (Witness Madan) Yes, later on, significantly

13 later on. I think the first one we did was -- I'd have to

14 refresh my memory -- perhaps in Kentucky, several months,

15 maybe a little shy of a year from when we started the

16 engagement, I mean significantly later.

17   Q   When did you start your evaluation of the cost

18 inputs for Florida, before or after the Kentucky time

19 you're talking about?

20   A   (Witness Madan) After. Although, I mean that --

21 but I just have to modify that slightly, and say that when

22 you mean Florida you mean this proceeding. Of course, all

23 of the work we have done before would carry over into this

24 proceeding in terms of the logic, but the specifics were

25 after.

1   Q   Other than BellSouth, have you personally talked

2   with anybody from another ILEC or interexchange carrier or

3   any other RBOC?

4   A   (Witness Madan)   For what?

5   Q   To determine whether the HAI model inputs were

6   reasonable.

7   A   (Witness Madan)   I don't believe that we've had

8   discussions of the kind you are talking about.   Mr. Newton

9   has worked for Southern New England Telephone, and we've

10   asked him from time to time to check on inputs.   Our focus

11   is on inputs.   It's all inputs.   It's not the logic of this

12   model.   We take it as a given, and so in certain cases

13   where there were engineering estimates or things of that

14   nature, we would request Mr. Newton to make contacts with

15   whoever he knew out in the field or with other

16   professionals to validate some of the data for us.

17   Q   My question did relate to the input values that

18   you were evaluating, and so the question is: Did you have

19   any conversations yourself with representatives of other

20   RBOCs, ILECs or interexchange carriers?

21   A   (Witness Madan)   No.

22   Q   I'd like to refer you for just a moment to GCG-3,

23   "NID and Drop" is the title of that --

24   A   (Witness Madan)   Okay.

25   Q   -- exhibit, and particularly with regard to Page

1   4.

2   A   (Witness Madan)   Okay.

3   Q   Now there in paragraph 3 near the bottom of the

4   page you've adopted 35 minutes for the installation time

5   associated with NID; is that correct?

6   A   (Witness Madan)   That's correct.

7   Q   Now is that based on information you got from

8   BellSouth?

9   A   (Witness Madan)   Yes.

10   Q   Did you change that at all?

11   A   (Witness Madan)   No.

12   Q   And there is also in the next paragraph, 4,

13   travel time, 22 minutes.   Is that based on information you

14   got from BellSouth?

15   A   (Witness Madan)   Yes, it is.   This is a series of

16   information regarding this group of inputs that we got from

17   BellSouth.

18   Q   And did that originally come to you in a

19   handwritten document for each state served by BellSouth?

20   A   (Witness Madan)   Amongst other things.   There was

21   this one page that you're referring to.

22   Q   It looks kind of like this?

23   A   (Witness Madan)   We've seen that before.

24   Q   What other document did you see that supported

25   that?

1   A   (Witness Madan) Well, there were --

2   Q   Those values.

3   A   (Witness Madan) Yeah, in this group of documents

4 my recollection is that there were data responses that Bell

5 had provided in other proceedings. We had requested as

6 well information and catalog information and price

7 information with regards to the NID itself. Those are

8 provided to us. And then we took that information and

9 work.d up, if you would, the inputs that are in GCG-3.

10   With regard to the studies that backed up the

11 travel time, we did not have time or the facility at this

12 time to redo those studies. And on those particular ones,

13 we did rely on the studies provided by Bell as being

14 estimates from the subject-matter experts.

15   Q   You've also in paragraph 6 at the top of the next

16 page adopted average drop length of 250 feet for aerial and

17 200 feet for buried; is that correct?

18   A   (Witness Madan) Yes, that's correct.

19   Q   And, again, is that based on information you got

20 from BellSouth?

21   A   (Witness Madan) That is based -- And that's on

22 that sheet you have, of course. What we did is we did have

23 discussions and basically took into accourt the fact that

24 the buried drop is a fixed price from anywhere up to 500

25 feet, so on the buried the distance didn't matter that

1   much because it's a fixed price; and on the price of

2   material, we are actually less than the Hatfield default.

3   Q   Where did these values come from specifically?

4   A   (Witness Madan) They came from subject-matter

5   experts that Bell relied on to produce those studies. We

6   did not have any contact with the source people

7   themselves. Our contact was through the liaison group.

8   Q   What did you do to independently verify the

9   validity of these values?

10   A   (Witness Madan) We had discussions, and there

11 were several discussions of some concern from us regarding

12 that particular exhibit, and we went back and forth. We

13 were satisfied that on the buried there is no exposure

14 because it's a fixed price, and as I say, the cost of

15 material we came up with was actually less than the

16 Hatfield; and wherever it was less, we put those numbers

17 in.

18   On the aerial, there is a problem. Our number

19 for material is less than the HAI input. It's about 10 or

20 20% lower than what Hatfield estimated, but with regard to

21 the drop, there wasn't any way to particularly verify that

22 on a statistical basis given the nature of the proceedings

23 and the time frames in which they were progressing. What

24 we did do is a sensitivity study around it, and we dropped

25 the 200-foot length to a hundred feet, and we found that

1　the impact on the entire loop was less than a quarter. So

2　again, it wasn't something that was of great concern to

3　us. It had some impact. We verified it. We went to the

4　extent of satisfying ourselves that this was not a big

5　exposure, area of exposure, and basically left it at that.

6　We've done that sensitivity study, and it's worth less than

7　a quarter on the entire loop; and, of course, we've given

8　you the benefit of the lower prices that we obtained from

9　BellSouth as being the current prices for material, which

10　is actually less than what you all had estimated.

11　　　　Q　With respect to these values, you talked to some

12　folks at BellSouth and relied upon their opinion and

13　judgment; is that correct?

14　　　　A　(Witness Madan)　No, my previous answer is

15　correct. We went --

16　　　　Q　You did not rely on the opinion and judgment of

17　the people at BellSouth for these values?

18　　　　A　(Witness Madan)　I think the previous answer

19　describes what we did completely.

20　　　　Q　Can you answer my last question, please? Did you

21　or did you not rely on the judgment of the people at

22　BellSouth?

23　　　　MR. CARVER:　I'm going to object. It's been

24　asked and answered.

25　　　　COMMISSIONER DEASON:　Objection sustained. The

1 question has been asked and answered.

2   Q   Let's move on to GCG-5, please.

3   A   (Witness Madan) Okay.

4   Q   Let's look at Page 5 of that exhibit.

5   A   (Witness Madan) Okay.

6   Q   In paragraph 1, the cost per foot of copper

7 distribution, you relied, again, on data supplied from

8 BellSouth; is that correct?

9   A   (Witness Madan) Yes, this is a fairly

10 substantial database that we got from BellSouth, and we

11 basically obtained the data we needed.

12   Q   And in paragraph 5 which refers specifically to

13 values for labor, that also was based on data from

14 BellSouth; is that correct?

15   A   (Witness Madan) That is correct, but I mean

16 that's quite simply the negotiated union labor rate. I

17 mean that's nothing that BellSouth gave us. That's a

18 matter of the rate -- the rate that is in the contract,

19 so --

20   Q   Is it your opinion that the negotiated union

21 labor rate is the most efficient labor rate for Florida?

22   A   (Witness Madan) I think for purposes of this

23 proceeding it's up to the Commission to decide, but it

24 would seem to me it would be unreasonable for somebody to

25 assume that you can take a $41 labor rate and make it go to

1   $28 on the basis of five people meeting up in New York

2   somewhere.

3   Q   Let's move over to GCG-10, Page 3 of that

4   document.

5   A   (Witness Madan)   GCG-10?

6   Q   Yes, sir.

7   A   (Witness Madan)   Okay

8   Q   These are the copper and fiber sizing factors.

9   A   (Witness Madan)   Right.

10   Q   Now am I correct in saying that the inputs for

11 this exhibit, the inputs are the sizing factors, the output

12 is the utilization rate? In other words, you've determined

13 a sizing factor that when it's put into the model ends up

14 in a utilization rate as an output?

15   A   (Witness Madan) Yes. We determined what we

16 wanted the result to be, and the HAI model doesn't give you

17 that facility to do that easily. It doesn't say, Here is

18 the output you want, put that in, and we'll compute it for

19 you. It tells you what the input should be, so we had to

20 iterate this thing a couple of times to make sure that the

21 output came out to be what we wanted it to be.

22   Q   Based on the information you got from BellSouth

23 for distribution cable, you found that they had a 41.3%

24 utilization rate, and you experimented around until you

25 came up with a sizing factor that produced that particular

1 utilization rate; is that correct?

2   A   (Witness Madan) If your question goes to what we

3 did mechanically, that is correct, and Mr. Dirmeier could

4 respond to the mechanics of it. If the question goes to

5 what are the engineering considerations, Mr. Newton will

6 answer that question.

7   We basically went through a process with

8 Mr. Newton of deciding what was reasonable. 41.3 was

9 reasonable. We then -- Mr. Dirmeier ran the model and

10 produced the input that would give us that answer.

11   Q   Is the data that you relied upon for these

12 values, was that embedded data?

13   A   (Witness Madan) Well, it's current data. I

14 don't know what you mean by embedded data. This is as of

15 today or as of the date we got the data the number of lines

16 out there in the field versus the capacity in the field, so

17 it's current forward-looking data. It's not the data that

18 existed in 1960.

19   Q   It reflects all the cable that is in the ground

20 today that's been there for -- the day it was installed?

21   A   (Witness Madan) Yes.

22   Q   What did you do to make it look forward-looking?

23   A   (Witness Madan) I'll let Mr. Newton answer why

24 he believes 41.3 is a reasonable forward-looking fill

25 factor.

1   A   (Witness Newton) What we did is we took all the

2 results from all of the nine BellSouth states and stacked

3 them up together to see how they related to each other. In

4 addition, I talked to some of my former colleaguer at SNET,

5 about the reasonableness of those on a going-forward

6 basis. Obviously there is some difference between states

7 and companies, but we determined along with another

8 gentleman that works with me that these were figures that

9 we would anticipate on seeing in the next several years, so

10 we used them.

11   Q   Mr. Newton, if I understand your answer, it was

12 that you talked to several people, but you made no

13 particular adjustment to make it different? You came to

14 the conclusion that it was forward-looking as it was -- as

15 it is, and made no further adjustment; is that correct?

16   A   (Witness Newton) Based on my judgment and my

17 discussions with the people that I mentioned, it was

18 determined that these were appropriate numbers to use.

19   Q   Mr. Newton, in today's environment where you have

20 customers out there that have computers in their homes and

21 FAX machines, the growing popularity of the Internet,

22 doesn't it seem logical to you that there is going to be

23 more utilization of the plant that is in the ground?

24   A   (Witness Newton) I think a lot of that has

25 already been seen as far as putting in second lines and

1   stuff like that. It might possibly increase what it's --

2   Q   Do you know what number exhaustion is?

3   A   (Witness Newton)   Pardon?

4   Q   Do you know what number exhaustion is?

5   A   (Witness Newton)   Number exhaustion?   Absolutely.

6   Q   Is that a growing problem?

7   A   (Witness Newton)   It is.   That's primarily caused

8 by -- well, one of the large reasons is your cellular

9 telephones are taking up huge, huge blocks of numbers in

10 the numbering series.

11   Q   Mr. Madan, I believe you mention again in your

12 summary that you left two important factors out of your

13 evaluation here, and that was cost of capital and

14 depreciation. Was that your decision not to evaluate these

15 two factors, or did BellSouth ask you not to investigate

16 them?

17   A   (Witness Madan) No, very early on when we were

18 doing the engagement and we started with Version 2 of the

19 model and we were looking at the substantial amount of work

20 that had to be done simply in understanding the inputs and

21 understanding the manual, as it were, that we had several

22 discussions, I think that we initiated, as to what the

23 proper scope would be; and just given our experience as we

24 go around the country participating in just numerous rate

25 cases on behalf of commissions and advocates and everybody

1 We have asked those questions every which way. We have

2 reviewed whatever data you all have provided to us, which

3 isn't very much.

4   Q   Have you been provided a list of source documents?

5   A   (Witness Madan) We have seen some source

6 documents. We've seen some under protective cover. I

7 think the most disclosure we ever got was something that

8 came out of Louisiana. That was protected. It certainly

9 wasn't sorted. It had no narrative. It was difficult to

10 read, difficult to understand, and I think that's the best

11 we've got.

12   Q   Can you tell me right now what documents that you

13 have looked at that were relied upon by MCI and AT&T?

14   A   (Witness Madan) I think discovery that's come in

15 response to most of -- responses to most of the discovery

16 we've engaged in. I cannot give you an exhaustive list,

17 but whatever has come in we have looked at. And in

18 Louisiana, I believe, MCI and AT&T limited physically the

19 people that could review these documents to 10 or 20 or 12,

20 and we were one of the 12 allowed to look at the documents,

21 so we've seen those and other responses in other

22 proceedings.

23   Q   In response to interrogatory -- or Production of

24 Document Number 57 in this proceeding, you were asked, or

25 BellSouth was asked to produce all the documents that you

1 relied upon in doing your evaluation. Did that include any

2 of the information that was utilized by AT&T or BellSouth?

3   A   (Witness Madan) Utilized by AT&T or BellSouth?

4   Q   I'm sorry.

5   A   (Witness Madan) MCI you mean?

6   Q   Yes.

7   A   (Witness Madan) I don't believe we have anything

8 that was relied upon by AT&T or MCI.

9   Q   Thank you.

10   MR. COKER: That's all I have.

11   COMMISSIONER DEASON: Mr. Melson?

12   MR. MELSON: No questions.

13   THE COURT: Staff.

14   MR. COX: Staff has no questions.

15   THE COURT: Commissioners.

16   (NO RESPONSE)

17   COMMISSIONER DEASON: Redirect?

18   MR. CARVER: No redirect.

19   COMMISSIONER DEASON: Exhibits.

20   MR. CARVER: BellSouth moves Exhibit 95.

21   COMMISSIONER DEASON: Without objection Exhibit

22 95 is admitted.

23   COMMISSIONER DEASON: Thank you gentlemen, you

24 may be excused.

25   Are we there?

1   MR. WAHLEN: We are there. We are at the witness

2 everyone has been waiting for, the last one. Mr. Curry.

3   COMMISSIONER GARCIA: Mr. Wahlen, noticing you

4 haven't asked very many questions, should we have taken

5 your witness first and let you go home?

6   MR. WAHLEN: No, I think you'll understand this

7 witness a lot better after all this, rather than before all

8 this.

9   COMMISSIONER DEASON: Mr. Curry, since you've

10 been here all week, I assume you've been sworn.

11   WITNESS CURRY: Yes, I have.

12   MR. WAHLEN: Are you ready to proceed?

13   WITNESS CURRY: Is that on? Yes, I have.

14 Whereupon,

15   DENNIS CURRY

16 was called as a witness on behalf of AllTell and, after

17 being duly sworn, testified as follows:

18   DIRECT EXAMINATION

19 BY MR. WAHLEN:

20   Q   Would you please state your name and business

21 address?

22   A   It's Dennis Curry, and my address, business

23 address is One Allied Drive, Little Rock, Arkansas.

24   Q   Are you the same Dennis Curry who prepared and

25 caused to be filed on August 3rd direct testimony

1 consisting of 11 pages?

2   A   Yes, I am.

3   Q   Are there any changes or corrections to your

4 direct testimony?

5   A   No, there isn't.

6   Q   Did you also file rebuttal testimony on September

7 2nd, 1998, consisting of six pages?

8   A   Yes, I did.

9   Q   Are there any changes or corrections to your

10 rebuttal testimony?

11   A   No, there isn't.

12   Q   If I were to ask you the questions contained in

13 your direct and rebuttal testimony today, would your

14 answers be the same as those in your direct and rebuttal

15 testimony?

16   A   Yes, they would.

17   MR. WAHLEN: I'd like to move Mr. Curry's direct

18 and rebuttal testimony into the record at this time.

19   COMMISSIONER DEASON: Without objection the

20 direct and rebuttal testimony will be inserted in the

21 record.

22

23

24

25

1   BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2   DIRECT TESTIMONY

3   OF

4   DENNIS CURRY

5

6   Q. Please state your name.

7

8   A. My name is Dennis Curry

9

10 Q. By whom are you employed and in what position?

11

12 A. I am employed by ALLTEL Communications Service Corporation

13   as Director of Regulatory Methods and Universal Service.

14

15 Q. What is your business address?

16

17 A. My business address is One Allied Drive, Little Rock,

18   Arkansas 72202.

19

20 Q. Please describe your education and work experience.

21

22 A. I am a graduate of RCA Institutes in New York City with an

23   Associates Degree in Electrical Engineering. I have worked

24   or the last 32 years in the telephone industry primarily in

25   the areas of jurisdictional separations, access charges and

1   universal service.

2

3   Q.   What is the purpose of your testimony?

4

5   A.   My testimony serves two purposes. The first purpose is to

6   explain the universal service embedded cost methodology used

7   by all of the small local exchange companies ("small LECs")

8   in this docket. These companies include ALLTEL Florida,

9   Inc. ("ALLTEL"), Vista-United Telecommunications, Northeast

10   Florida Telephone Company, Frontier Communications of the

11   South, Inc., TDS Telecom/Quincy, GTC Inc., and ITS

12   Telecommunications Systems, Inc.

13

14   The second purpose of my testimony is to attest to the cost

15   information used as inputs in ALLTEL's embedded cost study,

16   and present the results of that study.

17

18   Q. Have you prepared an exhibit to accompany this testimony?

19

20   A. Yes. Exhibit ___ (DC-1) is a composite exhibit containing

21   the embedded cost study and supporting documents prepared

22   for ALLTEL under my direction and supervision for this

23   proceeding. The information in that exhibit is true and

24   correct to the best of my information and belief.

25

1   Small Company Methodology

2

3   Q.   What was the basic premise for determining the cost of

4   universal service for the small LECs in this proceeding?

5

6   A.   All embedded non-traffic sensitive plant investments and

7   their associated costs along with the local portion of the

8   embedded traffic sensitive plant investments and their

9   associated costs were assigned to universal service. All

10   non-plant related expenses currently allocated to local

11   service through the separations process were also assigned

12   to universal service.

13

14 Q.   What methodology was used by the small LECs?

15

16 A.   All of the small LECs used Part 36 jurisdictional

17   separations procedures in developing the embedded costs for

18   each of the companies.

19

20 Q.   Is the Part 36 methodology used by the small LECs consistent

21   with the new law as set out in HB 4785?

22

23 A.   While I am not a lawyer, I believe that HB 4785 has set out

24   certain prescribed rules for small rural LECs under 100,000

25   access lines. Under my reading of new Section 364.025,

3

1   Florida Statutes, the Legislature has allowed the small LECs

2   in Florida an opportunity to develop their universal service

3   costs by using an embedded cost methodology. The

4   legislation also goes on to say that these studies may use

5   fully distributed costing methodologies. By utilizing FCC

6   section 47 C.F.R., Sections 32, 36, 64 and 65, I believe

7   that the small LEC methodology satisfies the legislative

8   requirements for embedded studies.

9

10 Q. Is the methodology used by the small LECs consistent with

11   the FCC's approach for universal service?

12

13 A. The approach of using embedded costs is consistent with what

14   the FCC has stated in its Universal Service Order. Therein,

15   the FCC stated that the available proxies are not

16   appropriate for small rural local exchange carriers at this

17   time. That order goes on to say that rural LECs should

18   continue to calculate their Universal Service Costs

19   utilizing embedded costs until at least January 1, 2001.

20

21 Q. What was the base year for the small LEC studies?

22

23 A. All of the small LECs used 1997 costs for their embedded

24   studies. Each of the small LECs will attest to the validity

25   and the accuracy of their company specific costs. As far as

4

1   the inputs are concerned, I can answer questions relating

2   specifically to ALLTEL costs only.

3

4 Q. What rate of return was used in the studies?

5

6 A. All of the small LECs used an 11.25% return on net

7   investment in the studies. This rate is the currently

8   authorized interstate rate for rate of return regulated

9   telephone companies.

10

11 Q. Does the small company methodology include modifications to

12   Part 36 for the universal service cost study?

13

14 A. Yes, non-traffic sensitive plant was assigned 100% to the

15   state jurisdiction "local service bucket" in the cost study.

16   These costs included all loop related plant, line port

17   equipment, and COE transmission equipment utilized for

18   providing local dial tone to customers. All non-traffic

19   sensitive local switching equipment was identified and

20   allocated in the same manner as loop investment.

21

22 Q. How does the small company methodology allocate the loop

23   investment in the universal service cost study?

24

25 A. A Gross Allocator Factor of 100% was assigned to the state

1   jurisdiction and allocated all loop related plant to local

2   service bucket. This was done in order to capture all loop

3   costs for the purpose of this universal service study

4   utilizing Part 36 costing methodologies.

5

6 Q. How does the small LEC methodology allocate the local

7   switching investment?

8

9 A. Each company analyzed their continuing property records to

10   determine the non-traffic sensitive investment in line

11   related equipment, common equipment and power equipment.

12   The non-traffic sensitive local switching investment was

13   then subtracted from the total local switching investment to

14   determine the local switching traffic sensitive investment.

15   Power and common investment was spread to traffic sensitive

16   and non-traffic sensitive switching based on the relative

17   investment in each. A "local dial office factor" was then

18   developed by multiplying the percent of non-traffic

19   sensitive local switching investment times 100% and adding

20   the product of the percent traffic sensitive investment

21   times the "local" unweighted dial equipment minutes "DEM"

22   Factor. The dial office factor was then substituted for the

23   DEM Factor in the universal service cost study.

24

25 Q. Does the small LEC methodology include any additional

1   adjustment to the Part 36 Study to develop the embedded cost

2   of local service?

3

4 A. Yes, first for those companies that could not separate local

5   private line costs from switched service costs, the small

6   LEC approach moved local private line loop counts, local

7   private line termination counts, local private line circuit

8   mile counts, local private line exchange trunk circuit

9   equipment investment and local private line exchange trunk

10   cable and wire investment to the interstate jurisdiction for

11   the study. Moving these costs to interstate provides a way

12   for the small LEC to identify its embedded universal service

13   costs, which would exclude private line costs from the

14   embedded costs as requested by the Commission Staff.

15

16   Second, the small LEC methodology adjusts the Part 36 study

17   to exclude costs for local private line billing and

18   collection functions from the embedded universal service

19   costs. This is done by reassigning local private line

20   allocation factors to the interstate jurisdiction. Factor

21   changes included: contacts, billing, and user allocations.

22   These local private line factors were assigned to the

23   interstate jurisdiction in Part 36 to ensure that local

24   private line billing and collection costs were excluded from

25   the embedded costs of universal service as requested by this

1   Commission.

2

3   Third, all expenses, investments and reserves associated

4   with pay telephones were removed from the study.

5

6 Q. How are the results of the model presented?

7

8 A. The resulting embedded universal service costs were divided

9   by the company's average 1997 switched access lines counts

10   and then divided by twelve months to develop the company's

11   study area average monthly universal service cost per access

12   line.

13

14   ALLTEL's Study

15

16 Q. Please describe ALLTEL.

17

18 A. ALLTEL is a small local exchange company that serves

19   approximately 80,000 access lines in several counties in

20   north central and northeastern Florida. ALLTEL has not

21   elected price regulation and is regulated under the

22   Commission's traditional form of rate base, rate of return

23   regulation.

24

25 Q. Please describe the data used in ALLTEL's embedded cost

1   study.

2

3 A.   For the embedded cost study, I used 1997 financial

4   information for the regulated operations of ALLTEL.

5   Thirteen-month averages for the period from December 31,

6   1996 through December 31, 1997 are reflected for

7   investments, reserves, and deferred income taxes. For

8   expenses and other taxes, I used 1997 calendar year data.

9   Depreciation reserve and the associated expense balances are

10   stated in accordance with the last approved depreciation

11   rates prescribed by the Florida Public Service Commission.

12   The data that supports the embedded cost study is the same

13   as that reflected in the Annual Report (PSC/AFA 18) and the

14   Telephone Earnings Surveillance Report (PSC/AFA 15), which

15   are filed with the FPSC, and the underlying data used to

16   calculated the Part 36 cost study submitted to the National

17   Exchange Carrier Association (NECA).

18

19 Q.   Are the rate base items and expense data utilized in your

20   costs in the embedded study the same that you utilized in

21   determining your company's access costs for interstate

22   services you provide?

23

24 A.   No. For this embedded study, an adjustment was made to

25   exclude all paystation related costs, since these costs were

1   included in the 1997 interstate cost study submitted to

2   NECA. On April 15, 1997, these costs were reclassified as

3   non-regulated consistent with the FCC's Paystation Order in

4   CC Docket 96-128.

5

6 Q. Have you made adjustments to ALLTEL's study for non-

7   regulated or deregulated service you provide to your

8   customers?

9

10 A. Yes. Our company adheres to the FCC mandated rules as

11   codified in the Code of Federal Regulations (CFRs) for Parts

12   32, 36, 64, 65 and 69. Non-regulated activities have been

13   removed from the regulated accounts through the application

14   of FCC Part 64 rules. This is consistent with the

15   procedures ALLTEL follows in the development of its

16   interstate cost study that is submitted to NECA.

17

18 Q. What are the embedded costs of basic local service for

19   ALLTEL Florida, Inc. based on the methodology described

20   above?

21

22 A. ALLTEL's total embedded cost of universal service was

23   calculated to be $38,533,609 and the average cost per line

24   per month is $41.97.

25

1   Q.   Does that conclude your prepared direct testimony?

2

3   A.   Yes.

4

5

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1   BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2   REBUTTAL TESTIMONY

3   OF

4   DENNIS CURRY

5

6   Q.   Please state your name.

7

8   A.   My name is Dennis Curry.

9

10 Q.   Are you the same Dennis Curry who previously filed direct

11   testimony in this docket?

12

13 A.   Yes.

14

15 Q.   What is the purpose of this rebuttal testimony?

16

17 A.   The purpose of this testimony is to respond to the witnesses

18   who have suggested that there is no need for a state

19   universal service fund in Florida. This testimony is being

20   submitted on behalf of the small local exchange companies in

21   Florida.

22

23 Q.   Is the need for a state universal service fund one of the

24   issues identified in the Order on Prehearing Procedure in

25   this docket?

1 A.   No. The direct testimony suggesting that there is no need

2   for a state universal service fund does not relate to any of

3   the issues identified in the Order on Prehearing Procedure.

4   Moreover, while I am not a lawyer, my reading of HB 4785

5   suggests to me that the Legislature did not specifically

6   request a recommendation from the Commission regarding the

7   need for a state universal service fund. Nevertheless, if

8   the Commission decides to explore this subject, I think that

9   they should be aware of the ramifications of this issue for

10   the small local exchange companies ("small LECs") operating

11   in Florida.

12

13 Q. How many small LECs are operating in Florida?

14

15 A. There are seven (7) small LECs operating in Florida. These

16   small LECs serve approximately two (2) percent of the access

17   lines in Florida. As a general rule, the small LECs serve

18   rural, rather than urban areas. These rural areas tend to

19   have fewer access lines per square mile and cost more to

20   serve than more dense, urban areas.

21

22 Q. From the perspective of small LECs, is there a need for a

23   state universal service fund in Florida?

24

25 A. Yes. If the Commission is concerned about maintaining and

1   promoting universal service in rural areas, there is a need

2   for a permanent state universal service fund.

3

4   Q.   Please explain.

5

6   A.   The objective of a universal service program is to ensure

7   that basic local exchange services are available to a large

8   number of customers at affordable prices.   The federal

9   Telecommunications Act of 1996 ("Act") was intended to

10   promote local exchange competition while maintaining and

11   improving universal service.   As part of this effort, the

12   Act requires the removal of implicit subsidies from rates,

13   and the establishment of an explicit mechanism to keep basic

14   local   telecommunications   rates   just,   reasonable   and

15   affordable.   The Act also discourages price differences

16   between rural and urban areas. The Act gives states the

17   authority to establish a universal service support mechanism

18   as necessary, to continue the goals of universal service.   A

19   permanent state universal service fund is one explicit

20   mechanism that would accomplish these goals.

21

22   The cornerstone of a smooth transition to robust local

23   exchange competition is a permanent state universal service

24   funding mechanism that ensures competitive and structural

25   neutrality for all telecommunications service providers.

1   This can only be accomplished by moving universal service

2   contributions that are now implicit in rate structures of

3   incumbent local exchange carriers ("ILECs") to a mechanism

4   that is explicit in nature as directed by the Act. A

5   permanent state universal service fund would allow the

6   Commission to replace displaced implicit subsidies, but

7   would not result in a windfall for any company.

8

9   If implicit subsidies are not replaced by an explicit

10 funding mechanism, the unavoidable result will be the

11 increase in the prices of basic local exchange

12 telecommunications services. This is inconsistent with the

13 goals of universal service.

14

15 Q. Are there any other reasons for the Commission to conclude

16   that a permanent state universal service fund is

17   appropriate?

18

19 A. Yes. It appears that the FCC will eventually change the

20   existing federal universal service funding methodology for

21   small LECs. One approach being considered for the small

22   LECs is to adopt the method of funding prescribed by the FCC

23   for non-rural LECs.

24

25 The FCC has considered federal universal service funding for

4

1 non-rural LECs and decided to change the current universal

2 service mechanism for non-rural LECs beginning in 1999.

3 Under the new approach, only 25% of total universal service

4 funding for non-rural LECs will come from the federal

5 (interstate) jurisdiction. The remaining 75% will have to

6 come from a state universal service fund, increased local

7 rates or some combination of the two.

8

9 The FCC has not decided how to change the federal universal

10 service funding methodology for rural LECs at this time, but

11 has stated that universal service funding for rural LECs

12 will not change until 2001. Until then, universal service

13 funding for rural ILECs is not expected to change.

14

15 The FCC could adopt the approach it has prescribed for non-

16 rural LECs for rural LECs. Recognizing that as a

17 possibility, the Commission should be in favor of the

18 creation of a mechanism at the state level that would allow

19 for the increase in prices of basic local telecommunications

20 services to some maximum affordable price, or increase the

21 company's recovery of implicit subsidies from an explicit

22 source such as the state universal service fund, or a

23 combination thereof on a revenue neutral basis. This will

24 assure the continued provision of basic local exchange

25 telecommunications service, at affordable rates in both

1   urban and rural areas of the state, as required by federal

2   law.

3

4   Q.   Does that conclude your prepared rebuttal testimony?

5

6   A.   Yes.

7

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1 BY MR. WAHLEN (Continuing):

2   Q   Mr. Curry, did you prepare an exhibit to your

3 direct testimony consisting of 19 pages and labeled DC-1?

4   A   Yes, I did.

5   Q   Is the information in that exhibit true and

6 correct to the best of your information and belief?

7   A   Yes, it is.

8   MR. WAHLEN: Commissioner Deason, we'd request a

9 number identified for that exhibit.

10   COMMISSIONER DEASON: It would be identified as

11 Exhibit 96.

12 BY MR. WAHLEN (Continuing):

13   Q   Mr. Curry, would you please summarize your

14 testimony?

15   A   Yes, I will.

16   Good afternoon. Again, my name is Dennis Curry.

17 Today I am here representing the small rural LECs of

18 Florida. The small -- the rural LECs include

19 AllTell-Florida, Vista-United Telecommunications, Northeast

20 Florida Telephone Company, Frontier Communications of the

21 South, TDS Telecom-Quincy, GTC, Incorporated, and ITS

22 Telecommunications Systems.

23   The purpose of my testimony is to sponsor an

24 embedded cost model for determining the cost of universal

25 service for small rural LECs. House Bill 4785 set out

1 certain prescribed rules for the small rural LECs. While

2 I'm not a lawyer, it appears to me, and the small LECs

3 believe, that Section 364.025 permits the use of embedded

4 costs to determine the cost of universal service by small

5 companies under one hundred thousand lines. This is also

6 consistent with federal policy which mandates that rural

7 LECs use embedded costs to determine the cost of universal

8 service until at least January 1, 2001.

9   The Federal Communications Commission determined

10 the proxy models do not accurately predict costs in low

11 density rural areas. Without criticizing either of the

12 models being considered in this case, I think it's safe to

13 say that the record developed this week supports the FCC's

14 conclusion.

15   The small rural LEC embedded cost methodology

16 starts with existing Part 36 allocation rules. The rules

17 are modified to allocate all non-traffic sensitive plant

18 investment to the cost of universal service. Local

19 switching, traffic-sensitive plant investment is allocated

20 to the cost of universal service using dial equipment,

21 minutes factor with no small company, toll waiting factor

22 applied. All other Part 36 allocations to the exchange

23 operation are assigned to the cost of universal service.

24 The small LEC embedded cost methodology is consistent with

25 the methodology used by the proxy models in determining the

1 cost of universal service. That concludes my summary.

2 Thank you.

3   MR. WAHLEN: The witness is available for cross

4 examination.

5   COMMISSIONER DEASON: Any questions?

6   COMMISSIONER CLARK: Staff is the only one that

7 had questions.

8   COMMISSIONER DEASON: Okay. Staff.

9   CROSS EXAMINATION

10 BY MR. COX:

11   Q   Good afternoon, Mr. Curry. Will Cox on behalf of

12 the Commission staff.

13   A   Good afternoon.

14   Q   Mr. Curry, do you have a copy of the legislation

15 that gave rise to this proceeding with you?

16   A   Yes, I do.

17   Q   If you could turn to the section of that that

18 pertains to small companies which is 364.025, I believe

19 (4)(C), and if you could read the first sentence of

20 paragraph (C).

21   A   "In determining the cost of providing basic local

22 telecommunications service for the small local exchange

23 telecommunications company which serve less than one

24 hundred thousand lines, the Commission shall not be

25 required to use the cost proxy model selected pursuant to

1 paragraph B until a mechanism is implemented by the federal

2 government for small companies, but no sooner than January

3 1, 2001. The Commission shall calculate a small local

4 exchange telecommunication company's cost of providing

5 basic local telecommunications service based on one of the

6 following options: A different proxy model, or a fully

7 distributed allocation of embedded costs."

8   Q   Now, Mr. Curry, you have been responsible for the

9 methodology for all the small companies in this proceeding;

10 is that correct?

11   A   That's correct.

12   Q   And on behalf of AllTell you filed an embedded

13 cost methodology consistent with your reading of the

14 requirements of this statute, correct?

15   A   That's correct also.

16   Q   What similarities exist, just in general terms,

17 between the embedded cost methodology you filed compared to

18 the BCPM cost proxy model methodology filed by the other

19 parties -- the parties that sponsored it in this

20 proceeding?

21   A   Well, basically the proxy models, again, they

22 take all the non-traffic sensitive costs and assign it to

23 the cost of universal service. In addition,

24 traffic-sensitive costs associated with local switching are

25 assigned by a factor that equates to local usage through

1 the end-office switch, and that's basically the cost

2 drivers in the embedded cost study also.

3   Q   Okay. And would these same similarities be true

4 when comparing your methodology to the Hatfield Model?

5   A   Yes, Hatfield does the same.

6   Q   Okay. Now if you'd turn to the exhibit attached

7 to your direct testimony, DC-1, Page 1, it refers to your

8 study as the embedded cost of universal service study; is

9 that correct?

10   A   Let me find it.

11   Q   Okay.

12   A   Attachment DC-1?

13   Q   DC-1, yes.

14   A   Yes, I have it. And the question was again?

15   Q   That that is the embedded cost of universal

16 service study, and that is for AllTell; is that correct?

17   A   The summary at the bottom of that is, yes. The

18 38 million 533 thousand.

19   Q   Okay. And that stands for the 1997 universal

20 service revenue requirement?

21   A   Yes, it does.

22   Q   Now this figure comes from Page 4 of your exhibit

23 at Line 36 under the column labeled "Exchange;" is that

24 correct?

25   A   Yes, that's correct.

1   Q   And does the number shown at row 36 under the

2 column "Total" equal the sum of the other columns to the

3 right?

4   ?   No, it doesn't.

5   Q   Okay. That total there would be 46 million 613

6 thousand --

7   A   Right, that's total of -- not on a universal

8 service cost, but that would include access and special

9 access costs in that number.

10   Q   So that's total company?

11   A   That's total company, yes.

12   Q   So is it correct to say that in your study the 38

13 million figure is about 83% of AllTell's total revenue

14 requirement, and that is considered the cost of universal

15 service?

16   A   Yes, it would.

17   Q   It appears also that when you look at the total

18 cost per line produced by the BCPM model running inputs for

19 AllTell you have a consistently higher cost per line in the

20 embedded method in your testimony; is that correct?

21   A   I'd have to look at my summary here. The

22 information I give you, I didn't break it down to a cost

23 per line. I'm going to have to go back into the studies

24 themselves to look at that.

25   Q   Okay.

1   MR. COX: Commissioner Deason, at this time staff

2   would ask that we mark as an exhibit -- I had forgotten to

3   do this -- the deposition transcript and the Late-filed

4   Deposition Exhibits 1 through 5. It's identified as DC-2.

5   COMMISSIONER DEASON: It will be identified as

6   Exhibit 97.

7   BY MR. COX (Continuing):

8   Q   Do you have a copy of that exhibit with you,

9   Mr. Curry?

10   A   From the deposition?

11   Q   Yeah, particularly I want to look at the

12 late-filed deposition exhibits.

13   A   Yes, I have it.

14   Q   Okay. And on, I think it's Page 48 of the

15 exhibits, of this exhibit, which is now Exhibit 97, can you

16 turn with me to that page?

17   A   Yeah, I've got to question whether we are looking

18 at the same numbers now.

19   Q   Okay.

20   A   Okay. On Page 48, yes.

21   Q   Just one moment. Maybe you can help me find this

22 quicker than I can, Mr. Curry. This was the number you

23 reported as a cost per line running the BCPM model for

24 AllTell?

25   A   Well, again, I reported the total universal

1 service contribution, not the cost per line to you, all

2 right? Now the backup studies, or at least a summary of

3 the backup studies was included with that; and that

4 includes the cost per line in the summary of the studies

5 themselves.

6   Q   Okay. I think it's on Page 48 of the exhibit.

7   A   Well, there seems to be two sets of numbers.

8   Q   Yeah, I've noticed that.

9   A   I've got one here that has 1-13 on it, is the one

10 you're looking for, and I've got a number that has another

11 one that has number 48 on it plus the 1-13.

12   Q   It's the one with the 48 and 1-13.

13   A   Yes, okay.

14   Q   Sorry about that discrepancy. We are on the same

15 page now, and it has the figure of $66.37 per line?

16   A   Right, for the uncapped amount.

17   Q   Right, for the uncapped cost per line.

18   A   Which compares to our cost per line of 41.97

19 under the embedded methodology.

20   Q   Okay. Good. Why does the -- to the best of your

21 understanding, why does the BCPM cost proxy model result in

22 a significantly higher cost per line compared to your

23 embedded cost methodology?

24   A   Well, I would go back to the assumption that the

25 price of the embedded plant when we installed it must be

1   much less over the average of the last 20 or 30 years as

2   compared to the cost of replacement new, or forward-looking

3   costs. That's the only answer there is.

4   Q   Okay. There was a question on Page 91 of the

5   Late-filed Exhibit Number 2. I guess -- part of the same,

6   Page 91, and the question at the top of the page says: What

7   is the anticipated federal high cost support for

8   AllTell-Florida in 1999 based on 1997 costs?

9   A   And what page was this?

10   Q   This was Late-filed Exhibit Number 2. My page

11 says 91 with a 2-1 at the bottom.

12   A   Yes, I see it.

13   Q   Okay. You report an amount of $1,122,399 is the

14 anticipated 1999 federal USF amount for AllTell based on

15 the 1997 cost?

16   A   Yes, I see that, and I can see that is an error

17 also.

18   Q   Okay.

19   A   It should have been 2,122,399. Sorry, I never

20 caught that until you brought it up, and I looked at it,

21 and I seen it was the wrong number.

22   Q   Okay. So the 2 million figure is the correct

23 figure?

24   A   Yes, it should be two million 122, and you'll see

25 the next page is the filing out of the latest USF filing

1 with the AllTell-Florida along with several other telephone

2 companies in Florida listed on it.

3   Q   Okay. Are you familiar with the federal

4 universal -- the federal USF adjustment applied to some

5 companies that result in a reduction in the amount of

6 corporate expenses included in a company's USF cost based

7 on a specific formula?

8   A   Yes, I am.

9   Q   Do you know the reasoning behind limiting

10 corporate expenses for some companies receiving federal USF

11 funds?

12   A   The FCC felt they exceeded averages for companies

13 of those sizes, so they made an adjustment for them.

14   (Transcript continues in Sequence in Volume 27).

15

16

17   *   *   *   *

18

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25

#93 2893:3	**audit** 2901:11	**1**	**fiber** 2896:19
#94 2893:4	**available** 2899:22 2900:1,8	**costs** 2898:4 2900:15,18	**filed** 2894:14 2897:2 2900:9
#95 2893:5		2901:14,17	2904:2
#96 2893:6	**B**	**couldn't** 2896:2	**filing** 2904:1
#97 2893:7		**count** 2897:24	**fill** 2895:9,16,23 2896:7,8,8,11,
	back 2894:4	**Cox** 2892:6 2894:9,10 2900:11	13,14,15 2898:19
★	**base** 2896:18,19 2897:8,18	**Cross** 2892:6 2894:8	**fills** 2895:22
	2899:19	**currently** 2903:18	**find** 2897:16
· 2893:9,9,9,9	**basic** 2894:25	**CURRY** 2892:12	**firm** 2903:14
	basically 2899:13,22		**First** 2897:14 2898:6,11,20
1	**basis** 2899:15 2901:19	**D**	**FLORIDA** 2891:1
	BCPM 2894:15 2895:3,21,23		**follows** 2902:22
12 2896:17,17	2896:4,11,12,16 2901:2	**data** 2895:14 2896:1,25 2899:	**found** 2895:25
17 2893:5 2894:14 2903:24	**BCPM's** 2894:17,18	8	**full** 2902:25
	Because 2899:8	**DAVID** 2902:20 2903:8	**fund-related** 2894:18
2	**BEFORE** 75:1	**DC-1** 2893:6	**further** 2895:24 2896:13
	behalf 2894:11 2902:21	**dead-ended** 2901:12	
25 2894:7	**believe** 2894:14 2902:14	**DEASON** 2891:14 2894:4	**G**
26 2891:10 2893:1	**Bell** 2900:4,4	2900:13 2902:2,4,6,12 2904:12	
2891 2891:11	**BellSouth** 2894:23 2895:1	**declined** 2896:1	**GCG-1** 2893:5
2902 2893:3,4	2896:1 2897:5 2898:1 2900:7	**default** 2895:22 2896:11	**general** 2899:22 2900:6
2905 2892:10	2902:8,10,21	**DENNIS** 2892:12	**generate** 2901:24
2936 2893:5	**Betty** 2891:19	**Deposition** 2893:7	**Georgetown** 2902:11 2903:
2974 2893:5	**between** 2896:18	**Determination** 2891:4	13,16,18 2904:9
2975 2892:13	**big** 2899:10,15	**determine** 2899:22	**Glen** 2903:9
2984 2892:6	**both** 2895:9 28 7:9,10	**determined** 2899:17	**Good** 2894:10,12
2988 2892:14	**box** 2898:9,11,12,17,17,20,21	**develop** 2895:21 2897:24	**got** 2901:13
2994 2893:6	**building** 2901:22	**didn't** 2895:12 2896:25 2897:	**group** 2902:9,11 2903:14,16,
	business 2903:1,3,6,9	19,23 2898:25 2900:17	18
3		**difference** 2896:18	**GTE** 2894:23 2895:1 2896:1,2
	C	**different** 2896:16 2898:10,24	2897:5
30 2897:25 2898:1		2899:1	
3003 2891:11	**calculate** 2901:3,20	**difficult** 2901:9,12	**H**
31 2903:23	**calculations** 2900:14	**Direct** 2892:10,13 2902:23	
	Call 2894:4 2898:8,24 2899:1,	**directly** 2899:13	**hand** 2902:13
4	2	**DIRMEIER** 2892:8 2902:19	**handle** 2898:19
	called 2902:21	2903:5,5,15	**HATCH** 2902:3,5
4 2896:17	**calls** 2902:10	**discuss** 2894:14,17 2896:18	**having** 2902:22
4075 2891:20	**came** 2895:3	**distorting** 2899:14	**hear** 2896:25
456 2903:3,6	**can** 2898:9,19 2902:16	**DMS** 2898:3 2899:7,18	**hearing** 2894:4
	can't 2902:16	**does** 2897:6 2898:23 2899:6,	**here** 2898:13
5	**capacity** 2896:10 2898:12,17,	11 2900:20	**high** 2899:18 2901:7
	21 2903:12	**dollars** 2894:21 2895:2,6	**host** 2898:3 2899:7
5-ESS 2898:3	**carry** 2898:16	**down** 2902:15	**how** 2894:14,17 2896:5,6
56 2894:21 2895:1,6	**CARVER** 2902:10,14,24 2904:	**dual** 2898:8	2898:15 2899:6
5ES 2899:18	9	**duly** 2902:22	**however** 2899:11
	case 2901:16,16		**huge** 2898:2 2899:6
6	**CATHERINE** 2892:5 2894:6	**E**	**hundred** 2899:2
	caused 2903:23		
60 2899:3	**CCS** 2898:2,3,6,23 2899:7,18	**each** 2902:25 2903:11	**I**
	Center 2891:19 2897:14	**easier** 2899:5	
7	**Centum** 2898:24 2899:1	**Easley** 2891:19	**ID** 2893:2
	changes 2904:2,4	**either** 2896:15 2898:9	**idea** 2901:21
75 2903:9	**check** 2897:11	**employed** 2903:12,13	**identification** 2894:18
	checked 2897:18,22	**end** 2902:15	**identified** 2901:1
9	**classify** 2896:9	**engineer** 2898:15	**identify** 2895:12
	coming 2898:13,14	**entered** 2895:9,16,20,23,23	**impact** 2899:7,10,16
93 2902:5,7	**COMMISSION** 2891:1 2894:	2896:12	**impression** 2901:8
94 2902:5,7	11	**equipment** 2898:7,9	**included** 2898:2
	COMMISSIONER 2891:14,15	**Esplanade** 2891:20	**including** 2903:24
A	2894:4 2900:13,14,20,23 2901:	**estimate** 2897:21	**increased** 2896:11
	5,14,25 2902:2,4,6,12 2904:12	**even** 2901:11	**increases** 2896:7
about 2897:1 2898:13 2900:	**Commissioners** 2900:13	**ever** 2898:4	**independent** 2903:17
15,25 2901:1,18	**companies** 2897:7	**everybody's** 2899:5	**industry** 2899:23
absolutely 2898:2	**company** 2895:9,12,13,14	**exactly** 2899:4,6 2900:19	**inflate** 2899:11
account 2896:7,11	**compared** 2899:9	2901:13	**information** 2896:22 2897:1,3,
actually 2897:23	**complicated** 2897:17,17	**Examination** 2892:6,13 2894:	4,6,7 2899:22 2900:2,6
adding 2899:12,13	**concept** 2896:14	8 2902:23	**initial** 2904:1
additional 2896:13 2904:4	**concludes** 2900:11	**exceed** 2898:4	**input** 2896:12 2898:3 2899:13
address 2903:1,3,6,9	**Conference** 2891:19	**Excel** 2901:11	**inputs** 2896:16 2897:12,13,15,
adjusting 2895:24 2896:13	**connect** 2898:17	**Excuse** 2894:15	16 2899:18
administrative 2896:9	**Connecticut** 2903:4,7,10	**Exhibit** 2893:6	**inputted** 2896:4
admitted 2902:7	**considered** 2898:8	**EXHIBITS** 2893:1,5 2902:4,6,7	**Inserted** 2892:10,14 2904:10,
ADMTD 2893:2	**consultant** 2903:17	2903:24	13
after 2895:24	**Consulting** 2902:11 2903:14,	**expense** 2899:12	**instead** 2899:2
afternoon 2894:10,12	16,18	**explicitly** 2897:11	**investment** 2899:10,11,15
again 2895:23	**continues** 2894:2,7	**expressed** 2901:19	2900:17,25 2901:3
amount 2897:21 2898:2,19	**contract** 2899:21	**extremely** 2901:9	**investments** 2894:19
2899:6	**contracts** 2900:7		
answers 2904:7	**copper** 2896:18 2897:8,18	**F**	**J**
appear 2904:6	**correct** 2895:11 2896:20,24		
approximately 2894:21	2898:4,5 2904:2	**factor** 2896:7	**JACOBS** 2891:15 2900:14,20,
area 2898:12	**cost** 2891:4 2894:25 2896:1,7,	**factors** 2895:9,17 2896:13	23 2901:5,14,25
ask 2904:6	18 2899:7,12,14 2901:24 2902:	**far** 2896:25 2898:3	**JAMSHED** 2902:18 2903:2
assert 2896:1		**few** 2894:13 2897:18,20	**JR** 2891:15
assumed 2896:23			
AT&T 2902:5			
attributable 2901:18			

K

kind 2897:16
know 2895:5 2896:6,8 2899:3,4 2901:11
knowledge 2899:23

L

later 2895:24
lead 2903:19
left 2898:12
LEON 2891:15
life 2899:5
limitations 2898:18
limiting 2898:8
line 2895:22,23 2898:13,14,17 2900:5
Lines 2896:17 2898:16,18,20 2899:4
local 2894:25
logic 2895:4
looked 2900:16
looking 2901:9

M

MADAN 2902:18 2903:2,2,13,19,21,25 2904:3,5,8
made 2900:7
Madison 2903:9
main 2895:4 2903:3,6
make 2899:5 2904:4
many 2898:15
match 2896:15 2900:17
Matter 2891:3
may 2898:11,20
meaning 2898:8
means 2899:2
measure 2899:2
mechanics 2901:22
members 2903:23
MICHAEL 2892:8 2902:19 2903:5
million 2894:21 2895:2,6
minutes 2899:5
model 2896:2 2898:7 2901:6,9,10
module 2895:4
more 2899:14
move 2902:5,15
Ms 2894:10 2900:10
multiple 2897:13

N

name 2902:25 2903:2,5,8
NBI 2900:5
network 2898:15
NEWTON 2902:20 2903:8,8,17
next 2902:9
Now 2894:25 2896:12 2897:2 2898:13 2902:15
NUMBER 2893:2 2897:24 2898:18,20 2899:9 2900:4 2901:23
numbers 2895:3,24 2896:15 2901:23

O

oath 2894:7
objection 2902:6 2904:12
observation 2900:21
office 2897:15
offices 2900:8
Okay 2894:17 2897:2,20,25 2899:17 2900:20,23 2901:5 2902:14 2903:22
once 2895:18,21 2896:4 2900:18
one 2895:8 2898:10,18,18 2899:21 2901:3,3,5,6
opinion 2899:19 2901:24
order 2894:5 2896:7 2898:16

originally 2899:4
other 2898:12 2902:15
out 2895:3 2897:16 2901:6,13
outlined 2900:3
output 2901:10
over 2894:17 2900:15 2901:7
overages 2900:15
overall 2895:6
overstated 2895:1
overstatement 2895:6
own 2894:18

P

Pacific 2900:4
Page 2894:14 2896:12,17 2897:25 2898:1
Pages 2891:11 2903:23
panel 2902:21 2903:22
panel's 2904:10
particular 2896:9
paths 2896:15
per 2900:5,18,18
per-line 2901:19
per-unit 2901:14,17
percentage 2899:9
PETZINGER 2892:5 2894:6,10 2900:10,12,19,22,24 2901:8,17 2902:1
piece 2898:9
PLACE 2891:19
places 2901:2
Please 2902:12,25 2903:11
plus 2901:18
port 2899:11,14,14 2901:18
ports 2898:13,14
precisely 2897:1
Prefiled 2892:10,14 2903:23
prepared 2896:21
price 2900:5
prices 2895:22,22 2896:11,14
principal 2903:14,15
proceeding 2896:23
process 2896:19 2897:12
provide 2896:1
provided 2895:14 2899:8,16,21
PUBLIC 75:1 2900:6
publicly 2899:22 2900:1
pull 2897:14
pursuant 2891:5
put 2896:10

Q

quantify 2897:19
questions 2894:13 2900:11 2904:6
quickly 2897:12

R

raise 2902:12
Raley 2900:4
read 2904:11
Rebuttal 2892:14 2900:7 2903:23 2904:10
received 2897:3,4,7
record 2904:10
recover 2894:18
Redirect 2902:2,3
reflect 2895:22
reflective 2901:15
regarding 2894:13
related 2901:2,3
relatively 2899:9
remain 2900:20
remember 2897:11
remote 2896:19,23 2897:15,16
remotes 2897:1,8,19
report 2900:5
reported 2901:6,13
request 2904:9
reserve 2896:2,3,6 2899:6,17
resources 2896:10

response 2899:16
result 2896:3
results 2894:17 2896:4,10 2901:21
review 2896:2 2897:11,12 2900:8
Ridgefield 2903:3,7
Right 2894:22 2896:5 2901:25 2902:13
runs 2896:2

S

said 2897:22
same 2895:25 2896:14 2898:14 2903:6 2904:7
say 2897:9 2901:6
saying 2894:25 2895:10
scheduled 2902:8
SCIS 2895:9,14,21,21,23 2896:4,6,6,10,16,25 2898:7
screens 2897:13
seated 2902:15
second 2896:14
seconds 2898:24 2899:1,2
see 2897:18,22 2902:16
seen 2898:4
sequence 2894:2
SERVICE 2891:1 2895:1
services 2891:5
shall 2904:12
sheet 2895:4 2901:10
simple 2897:12
since 2897:2 2899:23 2900:6,6
sir 2902:10
situation 2895:25
small 2899:9
some 2897:8,18 2898:11 2899:8 2900:14 2904:2
sorry 2898:25,25 2899:25 2900:1
sort 2901:12
Southwestern 2900:4
spare 2896:9,9
speak 2903:20
spot 2897:17,22
spread 2895:4
Sprint 2894:23 2895:1,15 2897:4 2899:21
Squares 2903:9
Staff 2894:5,11
staff's 2900:11
stand 2902:12
standing 2898:23
state 2896:21 2902:25 2903:11
stated 2895:8
Statutes 2891:6
still 2900:24
stran 2898:11
stranded 2898:12,21
Street 2903:3,6
subsequent 2904:1
substantial 2897:21
summary 2895:8 2896:3
supplemental 2900:9
switch 2894:19 2895:4 2899:7 2900:15,17
switched 2900:5
switches 2896:19,23 2899:18
switching 2899:7
sworn 2902:22

T

talking 2898:13 2900:25 2901:1,18
tedious 2897:17
tell 2897:6 2902:16 2903:22
TERRY 2891:14
testified 2902:22
Testimony 2892:10,14 2894:7,13 2895:15,25 2896:17,21 2897:3 2898:1 2899:20 2900:3,

7,9 2903:24 2904:7,10
Thank 2900:10,12 2901:25
that's 2895:11 2896:20 2898:5,21 2901:20 2902:7
think 2896:8 2897:10 2898:11 2899:3,16 2902:7,8
those 2895:22 2896:13 2897:6,13 2898:16 2900:18 2901:22
though 2904:11
time 2895:15 2896:14,21 2897:2 2898:14 2899:20
today 2895:8 2904:4
tool 2901:11
total 2894:21 2899:10,10,15 2900:16,17,25 2901:1,3
totaled 2900:18
trace 2901:10
traffic 2898:16,19
traffic-carrying 2898:21
transcript 2893:7 2894:2
translates 2895:5
true 2900:24
try 2897:19,23
trying 2898:15
turn 2897:25
twice 2895:17 2896:4
two 2898:10,17 2901:2
type 2897:1
types 2896:22

U

Uh-huh 2894:24
ultimate 2901:21 2902:1
under 2894:7
understand 2895:20 2901:12,15
understanding 2895:7 2896:5 2901:20
understood 2900:16
unit 2899:1 2900:18 2901:4
units 2900:18
up 2896:15 2897:14 2898:10,10,19 2900:18 2901:23
us 2896:1 2903:22
usage 2899:12 2901:18
use 2899:5
used 2895:21 2898:10 2899:4 2901:11,20,23
uses 2898:10
USF 2894:18 2901:2,3,19,24 2902:1

V

values 2898:3
very 2897:16,20 2901:12
VOLUME 2891:10 2893:1 2894:2,7

W

Wahlen 2892:13
wasn't 2899:10,15
Way 2891:20 2895:20 2896:15
we're 2900:25
Well 2895:18 2896:6 2899:20
what's 2896:3
whatever 2896:9
Whereupon 2902:17
whom 2903:11
Will 2894:10 2903:19,21
wire 2897:14
within 2901:11
Without 2902:6 2904:12
WITNESS 2900:12,19,22,24 2901:8,17 2902:1,8 2903:2,5,8,13,15,17,19,21,25 2904:3,5,8
witnesses 2902:9,21
work 2896:5
working 2903:18
workings 2901:10
works 2896:6
wrote 2895:15,24 2899:20

$

$1.27 2940:25
$1.50 2943:25
$1.96 2942:22
$10.57 2938:11,20
$2 2942:22 2955:23
$2.63 2944:23
$20 2958:2
$20.09 2938:19
$28 2968:1
$28.60 2941:5,9
$3 2944:4,7
$3.08 2944:7
$31 2938:11,22
$32 2958:12
$41 2941:3,9 2967:25
$51 2938:11,22
$6 2956:18
$7 2956:18
$74.50 2941:14

1

1 2936:18 2937:10 2967:6
1% 2951:9
1.53% 2944:15
1.7% 2944:16
10 2965:19 2973:19
10% 2944:8,12 2943:23
103.7 2938:23
11 2949:12 2976:1
117.5 2943:24
12 2953:16 2973:19,20
13 2938:24
13.1 2938:14
131 2944:21
14 2950:13 2951:10,11,17
2953:7
160 2944:6,11
17 2936:3,4,18 2937:10
18 2958:2,9
1960 2969:18
1966 2946:10
1998 2976:7

2

2 2971:18
2.69% 2944:10
20 2973:19
20% 2944:23 2949:1 2958:9
2965:20
200 2942:4 2944:22 2964:17
200-foot 2965:25
201 2939:11,15 2948:7
21 2945:9
22 2963:13
250 2942:4 2964:16
26 2957:15
2nd 2976:7

3

3 2963:3 2968:3
32 2956:6
337 2944:21
35 2963:4
3rd 2975:25

4

4 2963:12
41.3 2969:8,24
41.3% 2968:23
42.50 2958:12

5

5 2967:4,12
5.7% 2944:12
5.72% 2944:10
5.8% 2944:13
500 2941:15,24 2942:1 2964:
24
57 2973:24

6

6 2964:15
6.7 2939:24 2942:24 2943:13
2952:17
66 2942:7

7

70 2948:6
75 2942:2

9

9 2950:10 2953:16
95 2936:5 2937:3,14 2974:20,
22

A

abandon 2943:7
about 2936:7,13,19 2940:19
2942:7 2948:9 2950:8,10 2952:
17 2955:18 2961:19 2962:8
2965:19 2970:5
absolutely 2944:3 2958:8
2971:5
accept 2959:12,20
accepted 2956:23
accepting 2959:3
accomplished 2957:9
account 2941:18 2964:23
accounted 2941:1
accounting 2957:2
accounts 2959:5,11
achievable 2938:17
achieved 2948:21 2949:7,9,20
Act 2951:25
activity 2956:22
actual 2944:4,10 2945:12
2950:4
actually 2936:18 2937:2 2942:
10,10,11 2950:2,3,6 2965:2,15
2966:10
add 2972:3,8
added 2948:15
addition 2970:4
additional 2940:17
address 2975:21,22,23
adjustable 2947:18
adjusted 2948:6 2959:25
adjustment 2970:13,15
admitted 2974:22
adopt 2943:4
adopted 2940:9,14,15 2960:2
2963:4 2964:16
advocates 2971:25
aerial 2956:6 2958:12 2964:16
2965:18
affect 2939:8
after 2948:21 2949:7 2955:7
2961:18,20 2975:7,16
afternoon 2937:20 2946:5,7
Again 2941:5,20 2942:3 2944:
11 2948:22 2958:6,14 2964:19
2966:2 2967:7 2971:11 2972:
19,22
against 2953:1 2954:3,5
ago 2936:13,19
agree 2947:7
agreed 2972:9
ahead 2953:8
Allied 2975:23
allowed 2973:20
AllTell 2975:16
almost 2942:22 2944:22
along 2970:7
already 2942:14,24 2943:5
2948:20 2953:7 2970:25
alter 2940:4
alternative 2953:23
although 2947:13 2961:20
always 2955:11 2959:19
Amongst 2963:20
amount 2949:9 2950:21,22

2955:3 2959:22 2960:14 2971:
19
analyses 2951:5,12 2952:7
2959:14
analysis 2948:9,13 2949:6
2950:9,13,16,17,18,20 2951:1,
6,14
analyzed 2959:4
Anderson 2960:9
another 2944:14,18 2962:2
2970:7
answer 2947:24 2949:6 2955:
9 2956:11 2966:14,18,20 2969:
6,10,23 2970:11
answered 2966:24 2967:1
answers 2976:14
anticipate 2970:9
anybody 2962:2
anything 2972:21,22 2974:7
anywhere 2941:15,24 2943:17
2964:24
appear 2945:22 2957:19,23
appeared 2956:13,13
appears 2937:6 2941:22 2945:
6,14 2958:5 2972:1
appendices 2936:7,9,15,18
2937:1,13,14
applied 2951:1
approach 2940:5 2942:19
2943:5 2954:24
appropriate 2941:8 2943:12
2953:9 2958:16,20 2970:18
approximately 2938:14 2939:
24 2940:25 2942:24 2945:6,20
2948:6
arbitrarily 2943:22
area 2940:24 2942:6 2952:10
2966:5
areas 2939:12,13 2940:8,10,
15 2941:2
Arkansas 2975:23
arms-length 2941:18
around 2951:7 2965:24 2968:
24 2971:24
ask 2971:15 2976:12
asked 2944:2 2956:20 2961:8
2962:10 2966:24 2967:1 2972:
18 2973:1,24,25 2975:4
asking 2954:15
associated 2963:5
assume 2943:6,13 2967:25
2975:10
assumed 2940:5 2943:11
2948:10
assumption 2939:20
assumptions 2947:15 2955:
24
AT&T 2938:3,6,21 2939:12
2943:23 2944:25 2946:6 2953:
19 2959:4 2972:11 2973:13,18
2974:2,3,8
AT&T/MCI 2944:15
AT&T/MCI's 2941:1
attached 2936:8
attributable 2957:24
audit 2948:13
August 2975:25
authors 2945:3,15 2947:14
available 2946:1 2953:14
2955:3
average 2941:17 2944:6,10,17
2964:16

B

back 2960:14 2965:12
backed 2964:10
backup 2941:6 2944:3
ball 2945:7 2958:10
based 2941:7,16,21 2942:8
2956:14 2963:7,13 2964:19,21
2967:13 2968:22 2970:16
basically 2936:16 2937:22

2940:20 2954:15 2957:9 2964:
23 2966:5 2967:11 2969:7
2972:6,16,17
basis 2937:3 2943:8 2952:10
2958:9 2965:22 2968:1 2970:6
BCPM 2960:17,19 2961:1,2,2,
11
became 2959:4
because 2941:25 2942:12
2945:4 2965:1,14
become 2937:14
before 2940:3 2942:24 2950:6
2955:7,10,12 2961:18,23 2963:
23 2975:7
began 2951:1
beginning 2940:8 2946:8
2950:18,20
behalf 2971:25 2975:16
believe 2936:2 2937:13 2938:
17 2939:19 2942:18 2943:6,15,
16 2945:21,23 2947:2,14,14,17
2955:24 2956:17,19 2960:18
2962:7 2971:11 2973:18 2974:
7
believed 2956:24 2959:14
2960:1
believes 2969:24
Bell 2960:22 2964:4,13 2965:5
BellSouth 2938:13 2939:24
2941:13 2942:13 2948:14
2949:7,24 2950:3 2952:8,17,19
2953:2 2954:3,6,11,15,22,24
2955:8,13,19,25 2956:20 2958:
23 2959:6,21 2960:4,4 2962:1
2963:8,14,17,19 2964:20 2966:
9,12,17,22 2967:8,10,14,17
2968:22 2970:2 2971:15 2973:
25 2974:2,3,20
BellSouth's 2960:20
BellSouth-Florida 2948:18
2953:20
benchmarks 2938:11,22
benefit 2966:8
beside 2946:23
best 2973:10
better 2975:7
between 2940:25 2941:9
2942:1,4,23 2954:23 2960:15
2970:6 2972:14
beyond 2951:15,16
big 2957:12 2959:10 2966:4
bit 2944:1 2950:5,8
blocks 2971:9
both 2949:11 2956:14 2958:19
bottom 2963:3
break 2957:5,6,7 2959:9
brief 2937:21
broken 2942:20 2959:9
BST 2942:23 2944:4
BST's 2940:9,14
buried 2941:19,25 2942:4
2956:6 2956:12 2964:17,24,25
2965:13
bury 2941:14
business 2975:20,22

C

cabinet 2972:25
cable 2943:3 2954:17 2956:13
2957:6,11,17 2959:6,15 2968:
23 2969:19 2972:24
call 2959:11 2972:6
called 2956:24 2975:16
came 2951:10 2965:4,15
2968:21,25 2970:13 2973:8
can 2943:16 2945:9 2955:9
2956:11 2960:6 2966:20 2967:
25 2972:23 2973:12
cannot 2973:16
cap 2948:19
capacity 2969:16
capital 2939:14 2971:13

18,18,21,21,25 2968:12,14,24
2969:1 2971:24 2972:2,5
rates 2941:2
rather 2937:23 2940:11 2944:
24 2947:3 2949:5 2958:18
2975:7
ratio 2944:10,16
RBOC 2962:3
RBOCs 2962:20
reach 2955:6
reaching 2955:5 2972:11
read 2936:12 2947:16 2959:5
2973:10
reader 2945:7
reading 2947:13,13 2953:24
ready 2975:12
reality 2941:23
reason 2945:14 2951:3
reasonable 2938:7,17 2939:
19,20 2942:19 2945:16 2945:
14 2947:15,21 2948:1 2949:5
2950:1 2951:4,23 2954:22
2956:18 2962:6 2969:8,9,24
reasonableness 2970:5
reasonably 2953:21
reasons 2947:19 2971:8
rebuttal 2976:6,10,13,14,18,20
received 2942:10,13 2952:21
2955:7
recent 2942:9
recollection 2964:4
recommend 2944:12,23 2949:
25
recommendation 2940:16
recommended 2944:8,16
2947:17 2948:23,25
record 2936:9,12,23 2976:18,
21
Redirect 2974:17,18
redo 2964:12
reduce 2943:24
reduced 2944:8,10,21
reducing 2943:14
reduction 2944:12,23,24,24
2949:1 2958:9
refer 2956:2 2962:22
referred 2938:24 2940:20
referring 2963:21
refers 2967:12
refining 2955:11
reflect 2938:15,17 2941:20
2947:19 2948:17 2951:25
2952:1 2953:19,21
reflected 2941:2,13 2948:17
2953:2 2954:18,20,21 2957:14
reflective 2947:25
reflects 2969:19
refresh 2961:14
regard 2941:12 2943:20 2945:
3 2948:24 2950:2 2952:21
2956:21 2960:2 2962:25
2964:10 2965:20
regarding 2963:16 2965:11
regards 2964:7
regime 2948:19
reject 2948:4
relate 2958:4 2962:17
related 2956:22 2970:3
relied 2952:18,20 2965:5
2966:12 2967:7 2969:11 2972:
11,16 2973:13 2974:1,8
rely 2964:13 2966:16,21
relying 2972:20
remarks 2945:24
replicate 2947:8
represent 2939:3 2946:6
representatives 2962:19
represents 2941:17
request 2954:11 2959:23
2962:14
requested 2954:13 2955:13
2959:8,23 2964:5 2972:16,21
require 2954:9

required 2951:24 2953:10,10
requirement 2943:2
respect 2948:8 2966:11
respond 2969:4
response 2972:19 2973:15,23
2974:16
responses 2964:4 2973:15,21
rest 2940:22
result 2938:4 2945:6,14,20
2948:11 2950:15,17,20 2951:9
2958:21 2968:16
resulting 2939:8
results 2942:19 2970:2
return 2940:10,12,17 2972:3,5
revenue 2938:21
review 2972:10 2973:19
reviewed 2973:2
Right 2950:11 2956:5,8 2968:9
2973:12
right-hand 2957:19,24
Rock 2975:23
room 2949:12
run 2961:6

S

said 2940:3 2942:24 2947:2
2957:3
same 2937:5,10,11 2938:21
2943:7 2944:11 2945:7,12,18,
20 2951:2 2957:9 2960:16
2975:24 2976:14
San 2939:17
satisfied 2965:13
satisfying 2966:4
say 2945:2,7 2948:2 2949:6
2957:21 2961:21 2965:14
2968:17 2972:17
saying 2937:1 2968:10
says 2953:16
scope 2971:23
scorched 2940:5 2943:1,4
second 2939:6 2942:6 2970:
25
Secondly 2941:11
see 2946:9 2949:20 2951:3,8
2963:24 2970:3
seeing 2970:9
seem 2967:24 2970:22
seen 2963:23 2970:25 2973:5,
6,21
segregate 2957:2
sense 2955:21
sensitive 2947:18 2950:14
2951:8 2952:24,25 2953:7,8,18
2955:16
sensitivities 2955:12
sensitivity 2950:12,23 2951:7
2965:24 2966:6
separate 2937:4,6,8
separately 2942:20
separation 2959:11
September 2976:6
series 2963:15 2971:10
served 2947:11 2963:19
service 2938:12,23 2952:10
set 2939:6 2950:19
several 2941:16 2960:8,13
2961:14 2965:11 2970:9,12
2971:21
sharing 2942:21 2943:8,12,17
2955:20
sheet 2964:22
shelf 2954:9
shorter 2949:13
should 2936:11,22 2943:15
2947:18 2960:2 2968:19 2975:
4
shouldn't 2948:2
showing 2943:16 2945:21
2950:3
shown 2949:22
shy 2961:15

sic 2939:3
side 2944:9
significant 2938:4 2943:21
2944:18 2945:18 2948:21
2949:7,20 2950:22 2954:23
2959:21 2960:14
significantly 2941:22 2958:21
2961:12,16
similar 2942:19
simply 2953:9 2957:13 2958:
18 2967:16 2971:20
since 2948:13,16 2975:9
single 2939:19
sir 2968:6
sitting 2946:23
six 2960:11 2976:7
sizes 2959:15
sizing 2968:8,11,13,25
skimpy 2972:17
slightly 2961:21
SNET 2970:4
some 2936:14 2938:5,9 2942:
18 2943:9,11,14 2944:2 2945:8
2948:5 2949:8 2954:7 2955:10,
10,25 2957:6 2960:16,16,25
2962:16 2965:11 2966:3,11
2970:4,6 2973:5,6
somebody 2967:24 2972:23
somehow 2943:7
something 2966:2 2972:19
2973:7
somewhere 2942:1 2968:2
sorry 2941:12 2957:16 2972:
17 2974:4
sort 2951:3
sorted 2973:9
source 2965:6 2973:4,5
Southern 2962:9
speaks 2941:10
specific 2936:6,7 2972:19
specifically 2939:22 2952:14
2961:8 2965:3 2967:12
specifics 2961:24
splice 2942:13,16 2956:4
2957:1,9,11
splicing 2957:22,25 2958:4
spoken 2940:19
sponsored 2938:3
stacked 2970:2
Staff 2974:13,14
stage 2959:2
standard 2951:21,21 2953:3,
4,23 2954:3 2955:7 2956:10
2958:13,15
standards 2951:24
start 2961:17
started 2960:20 2961:15 2971:
18
state 2938:13 2939:24 2942:
12 2945:4 2952:5,6,10,14,16,
22 2955:4 2963:19 2975:20
states 2952:22 2970:2,6
statistical 2965:22
step 2948:16
straightforward 2959:25
2972:2
structure 2940:4 2942:21
2947:3
studies 2964:10,12,13 2965:5
study 2942:8 2957:6 2965:24
2966:6
stuff 2971:1
SUAIs 2953:22
subject-matter 2964:14 2965:
4
substantial 2955:3 2967:10
2971:19
substantially 2945:13
such 2960:19
summarization 2947:22
summarize 2937:17 2940:21
summary 2937:21 2940:22
2947:2 2971:12

supplemental 2936:20
supplied 2967:7
supported 2963:24
sure 2937:5 2954:18,19,20
2955:9 2956:11 2958:1 2961:1
2968:20
surrogate 2952:7
sustained 2966:25
switching 2944:9 2954:17
sworn 2975:10,17
system 2957:2

T

table 2945:9 2957:14
take 2948:15 2949:23 2952:8
2954:10 2962:12 2967:25
taken 2937:24 2941:18 2949:1
2975:4
takes 2952:5
taking 2945:15 2971:9
talk 2950:8 2960:4
talked 2948:9 2962:1 2966:11
2970:4,12
talking 2951:13 2961:19 2962:
8
Tallahassee 2939:17
technology 2940:1 2952:1
telecommunication 2952:9
telecommunications 2946:
16,20 2952:6,16
telephone 2939:23,25 2949:16
2962:9
telephones 2971:9
tell 2973:12
tells 2968:19
TELRIC 2960:23
tendency 2951:11
term 2943:17
terminal 2942:14,16 2956:4
2957:1,8,11,22,24 2958:4
2959:7,17,19
terms 2955:16 2961:24
territory 2938:14 2939:22
2941:13,17 2947:11,20 2951:
22 2952:2,3,9,13 2953:3,20
testified 2975:17
testimony 2936:8,21,24 2937:
18,22 2940:18,23 2942:25
2945:9 2946:8 2947:16 2950:6,
10 2952:15 2953:16,24 2954:8
2957:15 2975:25 2976:4,6,10,
13,15,18,20
testing 2942:18
Thank 2936:6 2937:15 2945:
25 2946:2 2974:9,23
that's 2936:22 2940:3 2942:18
2946:11 2947:1,5 2948:11
2950:20 2952:16 2957:20
2958:19 2959:1 2963:6 2964:
18,21 2967:16,17,17 2969:20
2971:7 2973:10,14 2974:10
themselves 2937:1 2951:9
2965:7
therefore 2942:15 2954:10
2957:3 2959:12,18
thing 2957:10 2968:20
things 2951:2 2962:13 2963:
20
think 2936:17 2937:9 2949:12
2950:9 2951:13 2953:6 2958:6
2960:23 2961:6,13 2966:18
2967:22 2970:24 2971:22
2972:24,24 2973:7,10,14 2975:
6
third 2943:14 2965:20,20,20
those 2936:9,24 2937:7 2939:
7 2940:9 2941:21 2942:17
2943:1 2948:24,25 2950:23
2951:7,11,18,20 2953:12,14,22
2954:18,20 2956:9,23,25,25
2957:2,4 2964:2,7,12,12 2965:
5,16 2970:5 2973:1,21 2976:14

though 2936:12
thought 2949:6 2951:7 2972:8
thousand 2949:12
three 2939:12,13,14 2943:8,8
thrust 2972:3
time 2946:13,16 2949:14
2951:2 2959:18 2960:21 2961:
18 2962:10,10 2963:4,13
2964:11,11,12 2965:23 2976:
18
times 2968:20
title 2962:23
today 2969:15,20 2976:13
today's 2970:19
together 2941:3 2951:5,6
2954:9,10,21 2970:3 2972:23
told 2972:7
tons 2959:23,23
took 2947:5 2948:16 2951:4,
19 2952:9 2954:18 2955:14,15
2956:24 2959:13,25 2964:8,23
2970:1
top 2964:15
total 2956:14,16
totally 2955:24
travel 2963:13 2964:11
treated 2943:13
tried 2949:2 2950:23
trivial 2949:19
true 2958:25 2959:1
try 2937:21
turned 2956:17
TV 2943:3
twenty 2957:14
two 2939:1 2940:7,15 2941:2
2942:16 2947:19,20 2954:15
2956:9,15,16 2957:10 2958:16
2971:12,15
type 2948:12
types 2939:1

U

UAIs 2953:17
unclear 2937:1
under 2973:6
understand 2950:12 2970:11
2973:10 2975:6
understanding 2971:20,21
understood 2972:6
union 2941:3 2967:16,20
universal 2938:12,23
unreasonable 2943:6,15
2955:24 2967:24
until 2968:24
untouched 2940:5
up 2945:13,15 2949:19 2951:
10 2964:9,10,24 2965:15 2967:
23 2968:1,13,25 2970:3 2971:9
upon 2942:8 2966:12 2969:11
2972:11,16 2973:13 2974:1,8
us 2941:22 2950:6 2953:14
2954:7,16 2956:20 2959:5,6,24
2961:4 2962:16 2964:8 2965:
11 2966:3 2967:17 2969:10
2972:21,22 2973:2
use 2947:12 2948:2 2957:3
2970:18
used 2938:4,8 2941:4 2942:2,
3,11 2947:19 2949:15 2950:6,
7,9 2951:11 2955:1,23 2960:3
2970:10
user 2947:18 2952:24
user-adjustable 2939:7,11
2950:14 2952:25 2953:17
user-changeable 2944:20
2945:1
uses 2944:15
USF 2972:15
Using 2938:11,21 2945:17
2949:14 2953:12 2954:6
utilities 2943:3,7,9 2955:4
utility 2943:4 2959:24

utilization 2968:12,14,24
2969:1 2970:23
utilized 2974:2,3

V

valid 2939:16
validate 2962:16
validated 2945:4,24
validation 2945:3,8,21,22
validity 2965:9
value 2945:19 2949:25,25
2955:6 2958:4 2960:1
values 2940:14 2945:12,15
2947:18,25 2948:4 2951:19
2953:1,4,19,22,23 2954:2
2955:12 2956:9,13 2957:23
2958:4 2962:17 2964:2 2965:3,
9 2966:11,17 2967:13 2969:12
variables 2948:2
various 2951:5 2954:16
vast 2939:3 2950:21
vendor 2956:22
verified 2966:3
verify 2965:8,21
version 2945:17,17 2971:18
versions 2945:5,5
versus 2969:16
very 2943:6 2944:18 2952:14,
18,20 2957:5 2959:17,18 2971:
17 2973:3 2975:4
view 2953:12

W

WAHLEN 2975:1,3,6,12,19
2976:17
wait 2955:22
waiting 2975:2
want 2939:18 2943:20 2945:2
2968:18
wanted 2961:5 2968:16,21
wasn't 2953:4 2965:21 2966:2
2973:9
way 2957:4,7 2958:8 2959:9
2965:21 2973:1
we'll 2968:18
we're 2972:20
week 2936:13,19 2975:10
Well 2936:25 2947:15 2957:23
2958:14,22 2964:1,6 2969:13
2971:8 2972:5
whatever 2973:2,17
Whereupon 2975:14
wherever 2949:2 2965:16
whether 2948:11 2951:20,21
2952:12 2953:3,18 2954:2,14
2962:5
whoever 2962:15
will 2936:4 2937:14,19 2942:
12 2943:13 2969:5 2976:20
wish 2937:7
within 2952:4,6 2956:23 2960:
10
without 2958:24 2974:21
2976:19
Witness 2937:19 2946:7,11,
14,17,21 2947:1,5,12,23 2948:
6,15 2949:11 2950:1,11,15,19
2951:16,24 2952:4,14,20 2953:
6 2954:1,5 2955:9 2956:3,5,8,
11 2957:16,18,20 2958:1,14
2959:1 2960:7,12 2961:12,20
2962:4,7,21,24 2963:2,6,9,11,
15,20,23 2964:1,3,18,21 2965:
4,10 2966:14,18 2967:3,5,9,15,
22 2968:5,7,9,15 2969:2,13,21,
23 2970:1,16,24 2971:3,5,7,17
2972:13 2973:5,14 2974:3,5,7
2975:1,5,7,11,13,16
witnesses 2940:14,16 2945:25
2972:1,8
words 2945:2 2957:10 2968:
12

work 2949:13 2951:14,16
2961:6,23 2971:19
worked 2959:13 2960:1,11,25
2961:1 2962:9 2964:9
working 2960:17,18,19
works 2970:8
worth 2942:7,21 2955:23
2966:6
wouldn't 2955:19 2972:3,8
wrong 2947:17

Y

year 2956:23 2961:15
years 2948:22 2949:8,10
2970:9
yet 2940:17 2944:14,18 2948:
23
York 2939:17 2968:1
yourself 2962:19

Z

zero 2941:15,24 2942:1,17
2957:9 2959:19

S

$1,122,399 3002:13
$68.37 3001:15

*

* 3003:17,17,17,17

1

1 2995:8 2997:3 2998:7 3000:4
1-13 3001:9,11,12
122 3002:24
19 2994:3
1997 2998:19 3002:8,15
1999 3002:8,14

2

2 3002:5,10,22
2,122,399 3002:19
2-1 3002:11
20 3002:1
2001 2995:8 2997:3
27 3003:14

3

30 3002:1
36 2995:16,22 2998:23 2999:1
364.025 2995:3 2996:18
38 2998:18 2999:12

4

4 2998:22
4)(C 2996:19
41.97 3001:18
46 2999:5
4785 2994:25
48 3000:14,20 3001:6,11,12

5

5 3000:4
533 2998:18

6

613 2999:5

8

83% 2999:13

9

91 3002:4,6,11
96 2994:11
97 3000:6,15

A

about 2999:13 3001:14
access 2999:8,9
accurately 2995:10
addition 2997:23
adjustment 3003:4,13
afternoon 2994:16 2996:11,13
Again 2994:16 2997:21 2998:
14 3000:25
allocate 2995:17
allocated 2995:19
allocation 2995:16 2997:7
allocations 2995:22
AllTell 2997:12 2998:16 2999:
19 3000:24 3002:14
AllTell's 2999:13
AllTell-Florida 2994:19 3002:8
3003:1
along 3003:1
amount 3001:16 3002:13,14
3003:5
another 3001:10
answer 3002:3
anticipated 3002:7,14
appears 2995:2 2999:17
applied 2995:22 3003:4
areas 2995:11

B

ask 3000:2
assign 2997:22
assigned 2995:23 2997:25
associated 2997:24
assumption 3001:24
attached 2998:6
Attachment 2998:12
available 2996:3
average 3002:1
averages 3003:12

B

back 2999:23 3001:24
backup 3001:2,3
based 2997:5 3002:8,14 3003:
6
basic 2996:21 2997:5
basically 2997:21 2998:1
BCPM 2997:18 2999:18 3000:
23 3001:21
behalf 2996:11 2997:12
behind 3003:9
belief 2994:6
believe 2995:3 2996:18
best 2994:6 3001:20
between 2997:17
Bill 2994:25
bottom 2998:17 3002:11
break 2999:22
brought 3002:20

C

calculate 2997:3
can 3000:15,21,22 3002:16
case 2995:12
caught 3002:20
certain 2995:1
CLARK 2998:6
column 2998:23 2999:2
columns 2999:2
comes 2998:22
Commission 2995:9 2996:12,
24 2997:3
Commissioner 2994:8,10
2996:5,6,8 3000:1,5
Communications 2994:20
2995:9
companies 2995:5 2996:18
2997:2,9 3003:2,5,10,12
Company 2994:20 2995:21
2996:23 2999:10,11
company's 2997:4 3003:6
compared 2997:17 3001:22
3002:2
compares 3001:18
comparing 2998:4
concludes 2996:1
conclusion 2995:14
considered 2995:12 2999:14
consistent 2995:6,24 2997:13
consistently 2999:19
consisting 2994:3
continues 3003:14
Continuing 178:1 2994:12
3000:7
contribution 3001:1
copy 2996:14 3000:8
corporate 3003:6,10
correct 2994:6 2997:10,11,14,
15 2998:9,16,24,25 2999:12,20
3002:22
cost 2994:24,24 2995:4,7,15,
18,20,23,24 2996:1,21,25
2997:4,13,17,18,23 2998:1,2,8,
15 2999:8,14,18,19,22 3000:23
3001:1,4,17,18,21,22,23 3002:
2,7,15 3003:6
costs 2995:4,7,10 2997:7,22,
24 2999:9 3002:3,8
COX 2996:10,11 3000:1,7
criticizing 2995:11
cross 2996:3,9

D

Curry 2994:2,13,16 2996:11,
14 2997:8 3000:9,22

D

DC-1 2994:3 2998:7,12,13
DC-2 3000:4
Deason 2994:8,10 2996:5,8
3000:1,5
Dennis 2994:16
density 2995:11
deposition 3000:3,4,10,12
determine 2995:4,7
determined 2995:9
determining 2994:24 2995:25
2996:21
developed 2995:13
dial 2995:20
didn't 2999:22
different 2997:6
direct 2994:3 2998:7
discrepancy 3001:14
distributed 2997:7
does 2998:5,21 2999:1 3001:
20,21
doesn't 2999:4
down 2999:22
drivers 2998:2

E

either 2995:11
embedded 2994:24 2995:3,7,
15,24 2997:7,12,17 2998:2,8,
15 2999:20 3001:19,23,25
end-office 2998:1
equal 2999:2
equates 2997:25
equipment 2995:20
error 3002:16
examination 2996:4,9
exceeded 3003:12
exchange 2995:22 2996:22
2997:4 2998:23
exhibit 2994:2,5,9,11 2998:6,
22 3000:2,6,8,15,15 3001:6
3002:5,10
Exhibits 3000:4,12,15
exist 2997:16
existing 2995:16
expenses 3003:6,10

F

factor 2995:21,21 2997:25
familiar 3003:3
FCC 3003:12
FCC's 2995:13
federal 2995:6,9 2997:1 3002:
7,14 3003:3,4,10
felt 3003:12
figure 2998:22 2999:13 3001:
15 3002:22,23
filed 2997:12,17,18
filing 3002:25,25
find 2998:10 3000:21
first 2996:19
Florida 2994:18,20 3003:2
following 2997:6
forgotten 3000:2
formula 3003:7
forward-looking 3002:2
Frontier 2994:20
fully 2997:6

G

gave 2996:15
general 2997:16
give 2999:22
Good 2994:16 2996:11,13
3001:20
got 3000:17 3001:9,10
government 2997:2
GTC 2994:21
guess 3002:5

H

Hatfield 2998:4,5
help 3000:21
here 2994:17 2999:21 3001:9
high 3002:7
higher 2999:19 3001:22
House 2994:25
hundred 2995:5 2996:24

I

I'd 2999:21
identified 2994:9,10 3000:4,5
implemented 2997:1
include 2994:18 2999:8
included 3001:3 3003:6
includes 3001:4
incorporated 2994:21
information 2994:5,6 2999:22
inputs 2999:18
installed 3001:25
investment 2995:18,19

J

January 2995:8 2997:2

K

know 3003:9

L

labeled 2994:3 2998:23
last 3002:1
Late-filed 3000:3,12 3002:5,10
latest 3002:25
lawyer 2995:2
least 2995:8 3001:2
LEC 2995:15,24
LECs 2994:17,18,25 2995:1,2,
7
legislation 2996:14
less 2996:23 3002:1
Let 2998:10
limiting 3003:9
Line 2998:23 2999:18,19,23
3000:23 3001:1,4,15,17,18,22
lines 2995:5 2996:24
listed 3003:2
Local 2995:18 2996:21,22
2997:3,5,24,25
look 2999:17,21,24 3000:11
looked 3002:20
looking 3000:17 3001:10
low 2995:10

M

made 3003:13
mandates 2995:6
mark 3000:2
Maybe 3000:21
mechanism 2997:1
method 2999:20
methodology 2996:15,24,25
2997:9,13,17,18 2998:4 3001:
19,23
million 2998:18 2999:5,13
3002:22,24
minutes 2995:21
model 2994:24 2996:25 2997:
6,18 2998:4 2999:18 3000:23
3001:21
models 2995:10,12,25 2997:
21
modified 2995:17
moment 3000:21
much 3002:1
must 3001:25

N

name 2994:16
never 3002:19
new 3002:2

next 3002:25
non-traffic 2995:17 2997:22
Northeast 2994:19
noticed 3001:8
Now 2997:8 2998:6,22 3000:
15,18 3001:2,15
number 2994:9 2999:1,9
3000:22 3001:10,11 3002:5,10,
21
numbers 3000:18 3001:7

O

Okay 2996:8 2998:3,6,11,19
2999:5,25 3000:14,19,20 3001:
6,13,20 3002:4,13,18,22 3003:
3
one 2995:5 2996:6,23 2997:5
3000:21 3001:9,9,11,12
only 2996:6 3002:3
operation 2995:23
options 2997:6
other 2995:22 2997:18 2999:2
3003:1
out 2994:25 3002:25
over 3002:1

P

Page 2998:7,22 3000:14,16,20
3001:6,15 3002:4,6,6,9,10,25
pages 2994:3
paragraph 2996:20 2997:1
Part 2995:16,22 3002:5
particularly 3000:11
parties 2997:19,19
per 2999:18,19,23 3000:23
3001:1,4,15,17,18,22
permits 2995:3
pertains 2996:18
plant 2995:17,19 3001:25
please 2994:13
plus 3001:11
policy 2995:6
predict 2995:10
prepare 2994:2
prescribed 2995:1
price 3001:25
proceeding 2996:15 2997:9,
20
produced 2999:18
providing 2996:21 2997:4
proxy 2995:10,25 2996:25
2997:6,18,21 3001:21
purpose 2994:23
pursuant 2996:25

Q

question 2998:14 3000:17
3002:4,6
questions 2996:5,7
quicker 3000:22

R

read 2996:19
reading 2997:13
reasoning 3003:9
receiving 3003:10
record 2995:13
reduction 3003:5
refers 2998:7
replacement 3002:2
report 3002:13
reported 3000:23,25
representing 2994:17
request 2994:8
required 2996:25
requirement 2998:20 2999:14
requirements 2997:14
responsible 2997:8
result 3001:21 3003:5
revenue 2996:20 2999:13
Right 2999:7 3001:2,16,17
rise 2996:15

row 2999:1
rules 2995:1,16,16
running 2999:18 3000:23
rural 2994:17,18,25 2995:1,6,
11,15

S

safe 2995:12
same 2998:3,5 3000:18 3001:
14 3002:5
say 2995:13 2999:12
says 3002:6,11
Section 2995:3 2996:17
see 3002:12,16,16,24
seems 3001:7
seen 3002:21
selected 2996:25
sensitive 2995:17 2997:22
sentence 2996:19
Sequence 3003:14
series 2996:23
service 2994:25 2995:4,8,18,
20,23 2996:1,22 2997:5,23
2998:8,16,20 2999:8,15 3001:1
set 2994:25
sets 3001:7
several 3003:1
shall 2996:24 2997:3
should 3002:19,24
shown 2999:1
significantly 3001:22
similarities 2997:16 2998:3
sizes 3003:13
small 2994:17,18,25 2995:1,2,
4,15,21,24 2996:18,22 2997:2,
3,9
some 3003:4,10
sooner 2997:2
Sorry 3001:14 3002:19
South 2994:21
special 2999:8
specific 3003:7
sponsor 2994:23
sponsored 2997:19
Staff 2996:6,8,12 3000:1
stands 2998:19
starts 2995:16
statute 2997:14
studies 2999:23 3001:2,3,4
study 2998:2,8,8,16 2999:12
sum 2999:2
summarize 2994:13
summary 2996:1 2998:17
2999:21 3001:2,4
support 3002:7
supports 2995:13
switch 2998:1
switching 2995:19 2997:24
Systems 2994:22

T

take 2997:22
TDS 2994:21
Telecom-Quincy 2994:21
telecommunication 2997:4
Telecommunications 2994:
19,22 2996:22,23 2997:5
Telephone 2994:20 3003:1
terms 2997:16
testimony 2994:3,14,23 2998:
7 2999:20
Thank 2996:2
That's 2997:11,15 2998:1,25
2999:7,10,11 3002:3
themselves 2999:24 3001:5
think 2995:12 3000:14 3001:6
those 3003:13
thousand 2995:5 2996:24
2998:18 2999:6
time 3000:1
Today 2994:17
toll 2995:21

top 3002:6
Total 2999:2,5,7,10,11,13,17
3000:25
traffic-sensitive 2995:19
2997:24
transcript 3000:3 3003:14
true 2994:5 2998:3
turn 2996:17 2998:6 3000:16
two 3001:7 3002:24

U

uncapped 3001:15,17
under 2995:5 2998:23 2999:1
3001:19
understanding 3001:21
universal 2994:24 2995:4,7,
18,20,23 2996:1 2997:23 2998:
8,15,19 2999:7,14 3000:25
3003:4
until 2995:8 2997:1 3002:20
up 3002:20
usage 2997:25
use 2995:3,7 2996:25
used 2995:25
USF 3002:14,25 3003:4,6,10
using 2995:20

V

Vista-United 2994:19
Volume 3003:14

W

WAHLEN 178:1 2994:8,12
2996:3
waiting 2995:21
want 3000:11
week 2995:13
Well 2997:21 3000:25 3001:7,
24
whether 3000:17
will 2994:15 2996:11 3000:5
Without 2995:11
witness 2996:3
wrong 3002:21

Y

years 3002:1