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October 6, 2000

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
360 James Robertson Parkway
Nashville, TN 37201

Re: Tariff Filings by all Telephone Companies Regarding Reclassification of Pay Telephone Service as Required by FCC Order 96-439
Docket No. 97-00409

Dear Mr. Waddell:

Please accept for filing the original and thirteen copies of the Rebuttal Testimony of Don Wood filed on behalf of the Tennessee Payphone Owners Association in the above-captioned proceeding. Copies have been provided to parties of record.

Very truly yours,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By: Henry Walker
Henry Walker

HW/nl
Enclosure

0670195.01
094693-000 10/06/2000

POSTED 10-6-00

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE TENNESSEE

Re:	Tariff Filings by all Telephone Companies Regarding Reclassification of Pay Telephone Service as Required by FCC Order 96-439	)))))	Docket No. 97-00409

REBUTTAL TESTIMONY

OF

DON J. WOOD

ON BEHALF OF TENNESSEE PAYPHONE OWNERS ASSOCIATION

October 6, 2000

0674677.01
094693-000 10/06/2000

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Don J. Wood. My business address is 4625 Alexander Drive, Suite 125, Alpharetta, Georgia 30022.

Q. ARE YOU THE SAME DON J. WOOD WHO PRESENTED DIRECT TESTIMONY ON BEHALF OF THE TPOA IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to describe and respond to the September 15, 2000 filings made by BellSouth Telecommunications, Inc. ("BellSouth"), United Telephone Southeast, Inc. ("UTSE"), Citizens Telecommunications Company of Tennessee and Citizens Telecommunications Company of the Volunteer State ("Citizens"), collectively "the ILECs." Specifically, I will explain whether, based the information provided by each ILEC, the Authority has the information necessary to establish rates for payphone access services that comply with the FCC's stated requirements.

Q. HAVE EACH OF THE ILECS PRESENTED COMPARABLE COST INFORMATION?

A. No. There is a wide disparity in both the amount and relevance of the cost data supplied by each company. In order to determine whether each ILEC's proposed rates are compliant with the FCC's four part test (e.g. payphone rates must be cost based, consistent with the requirements of section 276 of the Act, nondiscriminatory, and consistent with the Computer III tariffing guidelines), the Authority must have before it a properly performed calculation of each ILEC's direct costs (calculated pursuant to a forward-looking economic cost methodology) and overhead costs (calculated on a forward-looking, efficient basis).

Q. HAS CITIZENS PROVIDED THE NECESSARY INFORMATION TO THE AUTHORITY?

A. Yes. Citizens is the only ILEC that included both essential pieces of information in its filing. The attachment to the testimony of Scott Kitchen shows the direct costs (calculated as TSLRIC) and Citizen's calculation of overhead costs. It is important to note, however, that not all elements of Mr. Kitchen's analysis are necessary for all types of payphone lines. He includes in his total cost for each company a "coin supervision enabled line card" which is necessary only for a "smart" line. For the "dumb" line purchased by TPOA members, only the Service Line and Switching & Transport costs should be included in the rate. It is also important to note that the costs calculated by Citizens are jurisdictionally unseparated costs, and therefore any rate based on these costs must be set with consideration of the interstate line charges that may be applicable to the line.[1] With only these two caveats, however, the information provided by Citizens can be used to establish rates for payphone access services that are consistent with the FCC's requirements.[2]

Q. HAS UTSE PROVIDED THE NECESSARY INFORMATION TO THE AUTHORITY?

A. No. UTSE represents the opposite end of the spectrum from Citizens. As UTSE witness Jeffrey Caswell states in his testimony, UTSE has refused to provide either an appropriate measure of direct costs or a calculation of overhead costs in its presentation. Instead, the company has elected to provide a measure of embedded direct costs and has presented no calculation at all of overhead costs. As a result, the Authority has no basis upon which to establish payphone access rates consistent with the FCC's four part test.

Q. PLEASE EXPLAIN WHY UTSE'S CALCULATION OF DIRECT COSTS IS

[1] The rationale for considering these interstate charges when establishing intrastate rates is described in detail at pages 20-30 of my direct testimony.

[2] The cost data provided by Mr. Kitchen includes both access line and local usage costs. These costs can and should be used to develop a flat rated payphone access service compliant with the FCC's requirements. Because Citizens did not provide a separate cost of local usage on a per-minute basis, the cost data provided is insufficient to produce a measured rate.

INAPPROPRIATE.

A. As Mr. Caswell points out at page 4 of his testimony, UTSE has presented "an embedded study based on Part 36 jurisdictionally separated non-toll embedded cost of an access line and local usage." He goes on to argue at page 5 that "the new services test certainly does not require that direct costs be based on forward-looking economic cost estimates." Mr. Caswell's assertion is wrong for two reasons: the FCC's requirements for the pricing of payphone access services are not limited to the so-called "new services test," and – even if it were so limited -- the FCC has been clear in previous orders that economic costs *are* required.

In addition to the application of the new services test, the FCC has set forth an independent requirement that rates for payphone access services be cost based. While the requirements of section 252 of the Act do not apply to payphone access services, it is difficult to draw a conceptual distinction between the phrases "cost based" (the FCC payphone requirement) and "based on cost" (the section 252 requirement that the FCC interpreted to mean forward-looking economic costs). In addition, the FCC clarified at paragraph 9 of its *Wisconsin Order*[3] that "costs must be determined by the use of an appropriate forward-looking, economic cost methodology that is consistent with the principles the Commission set forth in the Local Competition First Report and Order."

Even if the FCC had not set forth a clear requirement that cost based rates must be based on forward-looking economic costs, Mr. Caswell would still be incorrect. The FCC has been clear that when calculating rates for services to be offered to competitors pursuant to the new services test, the FCC has stated that "we recognize that competition depends on the ability of competitors to purchase LEC facilities at rates that reflect economic costs, and not rates that are calculated to deter entry by efficient providers."[4]

Q. MR. CASWELL DEFENDS UTSE'S FAILURE TO PROVIDE A CALCULATION OF OVERHEAD COSTS BY CITING TO AN FCC ORDER. IS HIS ASSERTION VALID?

A. Absolutely not. Mr. Caswell has chosen to excerpt only a portion of the FCC's language from the order in question while omitting important sentences, and in doing so has made an argument that is overtly misleading. Mr. Caswell's support for UTSE's overhead loadings comes from a cite to the FCC's October 1997 Memorandum Opinion and Order,[5] in which the FCC found that the rates for certain features offered by Bell Atlantic

[3] Order CCB/CPD No. 00-1, March 2, 2000.
[4] Local Exchange Carriers' Rates, Terms, and Conditions for Expanded Interconnection Through Virtual Collocation for Special Access and Switched Transport, CC Docket No. 94-97, Phase I, Report and Order, 10 FCC Rcd 6375, 6404 (1995) (*"Virtual Collocation Overhead Prescription Order"*).

[5] *Memorandum Opinion and Order*, Local Exchange Carrier's Payphone Functions and Features, 12 FCC

were reasonable at 3.4 to 4.8 times cost. Mr. Caswell completely forgets to mention, however, that the FCC stated clearly at paragraph 13 that the basis for its conclusion that those overhead loadings did not "produce unreasonable rates" for the features in question was that "these services are provided either at very low rates or at no charge," and noted in a footnote that "the revised rates range from no charge for two of the services to a monthly rate of $.015 for two other proposed services." When determining Mr. Caswell's credibility in this regard, it is perhaps also worth noting that he cites a portion of paragraph 13 of the FCC Order, but chose to remove a sentence and replace it with an ellipse. The sentence that Mr. Caswell chose to hide from the Authority is an important one, however: "In particular, we note that these services are provided either at very low rates or at no charge."

Equally importantly, Mr. Caswell fails to mention the FCC's concluding sentence in the paragraph that he cites: "We do not find that our determination here concerning overhead loadings for Bell Atlantic's provision of payphone features and functions will necessarily be determinative in evaluating overhead loadings for other services."

Q. IN THE ABSENCE OF THE RELEVANT COST DATA, WHAT SHOULD THE

Rcd 17996, 18002 paragraph 13 (1997).

AUTHORITY ORDER IN THIS PROCEEDING FOR UTSE?

A. The Authority should order UTSE to produce an appropriate cost study for payphone access service, including a calculation of the forward-looking economic direct costs and a calculation of the forward-looking efficient level of overhead costs. Until UTSE produces the appropriate cost studies, rates should be set at a proxy level equal to the rates adopted for BellSouth in this proceeding.

Q. HAS BELLSOUTH PROVIDED THE NECESSARY INFORMATION TO THE AUTHORITY?

A. In part, yes. BellSouth's cost submission falls midway between that of Citizens and that of UTSE. BellSouth has provided direct cost information that it asserts was calculated pursuant to a TSLRIC methodology. My review of this data indicates that, with minor adjustments, this direct cost data can be used. BellSouth has opted to provide no overhead cost data, however, and has elected to take the position that any level of overhead in its rates for Pay Telephone Access Service ("PTAS") is acceptable and compliant with the FCC's requirements.

Q. DOES BELLSOUTH AGREE THAT THE FCC'S FOUR PART TEST SHOULD APPLY TO ITS INTRASTATE RATES AT ISSUE IN THIS PROCEEDING?

A. The limits of BellSouth's understanding of the requirements set forth in the FCC *Payphone Orders* is difficult to ascertain. At page 5 of his testimony, Mr. Sanders describes all four parts of the FCC's four part test.

Inexplicably, after citing to the FCC orders which include descriptions of the four part test and acknowledging each element of the test in his deposition, the testimony of Mr. Sanders is limited to a discussion of BellSouth's assertion that the existing rates comply with the fourth requirement (the so-called "new services test"). The BellSouth testimony offers no further discussion whatsoever of the remaining three requirements.

Instead, the testimony of Mr. Sanders and Ms. Caldwell outlines what is clearly BellSouth's strategy in this case: unable to make a credible demonstration that the existing payphone access service rates meet the FCC requirements, BellSouth is attempting to unilaterally rewrite the standard to include only one part of the four part test, and then to unilaterally rewrite that single standard in a way that renders it meaningless. Only by doing both of these things can BellSouth make a straight-faced argument that the existing Tennessee PTAS rates comply with any standard.

At page 2 of his testimony, Mr. Sanders states that the purpose of his testimony is to demonstrate that BellSouth's tariffed rates for PTAS "comply with the FCC's 'new services' test." He makes no reference to whether the existing rates are cost based, nondiscriminatory, or consistent with the objectives of section 276 of the Act. Ms. Caldwell has taken a similar position in other state proceedings. For example, Ms. Caldwell was recently deposed in the proceeding initiated by the Louisiana Public Service Commission to determine the appropriate level of BellSouth's PTAS rates.[6] When asked on several occasions in her deposition (e.g. p. 9, 36-37) if the results of her cost study could be used to establish or demonstrate cost based rates, Ms. Caldwell – BellSouth's costing expert – suggested that she was confused by the concept of a "cost based rate" and did not understand the term. Clearly, Ms. Caldwell was willing to go to great lengths to avoid acknowledging that the existing tariffed rates for payphone access services bear absolutely no relationship to the costs that she calculated in her study.

Q. DOES BELLSOUTH AGREE THAT THESE ARE THE THREE RELEVANT CATEGORIES OF COSTS TO BE CONSIDERED IN THIS PROCEEDING?

A. Apparently yes, although the testimony on this issue is inconsistent. At pages 4-5 of her

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[6] A complete copy of the transcript of Ms. Caldwell's deposition (with proprietary information removed) is attached as Exhibit DJW-2 to this testimony.

testimony, Ms. Caldwell defines and describes each category of cost. She apparently agrees that direct costs should be considered by the Commission, but believes that shared and common costs should be "never" be considered.

In order to apply the FCC's requirements that PTAS rates be cost based and compliant with the new services test, the Authority must consider each of these categories of costs. Specifically, the rates for PTAS service should equal -- and should under no circumstances be greater than -- the total of the direct, shared, and common costs that BellSouth *demonstrates* are reasonable and appropriate.

Q. DOES BELLSOUTH AGREE THAT A FORWARD-LOOKING ECONOMIC COST METHODOLOGY SHOULD BE APPLIED WHEN DETERMINING THE RELEVANT COSTS FOR THE ELEMENTS OF PAYPHONE ACCESS SERVICES?

A. Apparently yes. At page 4 of her testimony, Ms. Caldwell describes the methodology used to perform the cost study she is sponsoring as a "long run incremental cost methodology," and states that "this is the same methodology BellSouth has utilized in developing the cost support for tariff filings in Tennessee for many years."

Q. MR. SANDERS ARGUES THAT THE FCC HAS STATED THAT THE UNE

PRICING STANDARDS SHOULD NOT BE APPLIED TO PAYPHONE ACCESS SERVICES. IS HE RIGHT?

A. Absolutely not. At pages 6-7 of his testimony, Mr. Sanders provides as the sole basis for the BellSouth position a partial quote from the FCC's Order in FCC 96-388. In doing so, Mr. Sanders fails to provide the Authority with other relevant information that serves to put his partial quote into context. First, he fails to note that the section of the order in which paragraph 147 is found is not related to costs and pricing, but instead addresses a request by a particular provider for payphone access services to be unbundled into their UNE components. The title of the section, which appears immediately above paragraph 147 in the FCC's order, is "Unbundling of Payphone Services." Second, Mr. Sanders has elected to replace a relevant portion of the cited sentence with an ellipse. The complete sentence as written by the FCC contains the phrase "as proposed by AT&T." When the AT&T proposal referred to by the FCC is reviewed, it become clear that AT&T was requesting that the elements of payphone access services be provided on an unbundled basis in a manner to similar to how UNEs are provided. The TPOA is making no such request in this proceeding; TPOA members are willing to continue to purchase payphone access service (specifically PTAS service) as a tariffed service rather than as unbundled elements, but wish to do so at rates consistent with the FCC's requirements.

Mr. Sanders' conclusion at page 7 of his testimony that "therefore, the costing and pricing standards set forth in sections 251 and 252 of the Act are inappropriate in this proceeding" has no foundation in the language he cites. The FCC rejected AT&T's request to purchase payphone access service as unbundled elements, but in no way stated that the costing methodology utilized to determine cost based rates for UNEs could not also be used to develop cost based rates for payphone access service. In fact, a more recent Order issued by the Competitive pricing Division of the FCC's Common Carrier Bureau states just the opposite: "[c]osts must be determined by the use of an appropriate forward-looking economic cost methodology that is consistent with the principles the Commission set forth in the Local Competition First Report and Order."[7] This Order was described in detail in my direct testimony, as has previously been provided to the Authority by TPOA in this proceeding. The bottom line is that at contrary to the suggestion is Mr. Sanders' partial quote, the FCC has at no time prohibited the use of the TELRIC/TSLRIC methodology set forth ins its Local Competition Order and corresponding rules. To the contrary, the Common Carrier Bureau has stated that this costing methodology must be used.

Q. HAS BELLSOUTH PROVIDED ITS CALCULATION OF THE COST OF A LOCAL LOOP WITH BUSINESS/PTAS LINE CHARACTERISTICS IN THIS PROCEEDING?

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[7] Order in CCB/CPD No. 00-1, Released March 2, 2000, paragraph 9.

A. No. While the BellSouth loop cost model automatically produces this information, it was not included in the documentation to the cost study produced in this proceeding.

It is interesting to note that in the cost study of payphone access services that she sponsored in other states, Ms. Caldwell included this information. Exhibit DJW-3 illustrates how the information in BellSouth's cost studies for payphone access lines has been reduced over time, so that this Authority is being presented with only a fraction of the information provided to other state regulators. I have included in DJW-3 the summary pages from BellSouth's North Carolina (dated 9/98), South Carolina (dated 10/98), Louisiana (dated 4/99), and Tennessee (September 00) cost studies. All proprietary information has been removed from these pages.

Q. ARE THERE OTHER PAYPHONE-SPECIFIC COSTS THAT THE AUTHORITY SHOULD CONSIDER?

A. Yes. One of the reasons that BellSouth witnesses argue against the use of costs developed in investigations into UNE costs is that UNEs are wholesale services while payphone access services are provided as retail services. As a result, it is appropriate to consider any additional costs that BellSouth demonstrates are caused by the provisioning of payphone access services as retail service.

In her Louisiana deposition (DJW-2), Ms. Caldwell stated that the Payphone

Product Line Costs included in her cost study represent "all of the retail costs associated with payphones." If properly documented, therefore, it would be reasonable to include these costs in the cost based rates for payphone access services, and by doing the concern expressed by both Mr. Sanders and Ms. Caldwell would be addressed.

Unfortunately, Ms. Caldwell's cost study fails to demonstrate either the existence or magnitude of these costs. The payphone product line costs included in the cost study fall under two categories: labor and other. Regarding the labor costs, Ms. Caldwell was unable in her deposition (p. 45) to describe what certain individuals that account for approximately 10% of the reported cost actually do for payphone service providers, and described individuals that account for approximately 50% of the reported cost as "BST employees that handle selling to our pay phone providers." It is unclear why BellSouth needs to spend the amount of money reported in order to sell payphone access services to a captive base of customers who have few, if any, alternative providers. In the end, Ms. Caldwell has justified only half of the labor costs she reports.

The costs reported in the "other" have an even shakier foundation. Ms. Caldwell describes these costs as "BellSouth sponsored payphone conferences and publications," and indicates that it is her understanding – based on information provided to her by subject matter experts – that the costs are based on a projection of these costs over the next three years. Three facts should be considered when evaluating these reported "conferences and publications" costs. First, it would be interesting to find out whether the BellSouth representatives at these payphone conferences, upon offering to buy a customer dinner or a drink, made it clear that the cost of doing so would be included in that customer's monthly bill. If so, the customer may have declined the offer, an act which should result over time in lower rates for payphone access services. Second, Ms. Caldwell's subject matter experts have apparently failed to notify Ms. Caldwell that BellSouth is no longer sponsoring events at payphone conferences. As a result, the forward looking budget for these activities should now be zero. Third, while Ms. Caldwell refers to a portion of these costs as supporting unspecified BellSouth "publications," I have been unable to find a payphone provider operating in the southeast that is aware of any such "publications" being provided by BellSouth.

Q. SHOULD ADJUSTMENTS BE MADE TO ANY OTHER BELLSOUTH RATES?

A. Other BellSouth rates for payphone access services may also require adjustment in order to comply with the FCC requirements. It is important to note that while BellSouth charges TPOA payphone-service-provider members nonrecurring charges (e.g., installation and/or service initiation charges) related to the provisioning of payphone access services, it has not offered any nonrecurring cost data in support of these rates. The burden of justifying these rates continues to rest with BellSouth, however.

Q. YOUR TESTIMONY MAKES IT CLEAR THAT BELLSOUTH HAS NOT DEMSONSTRATED THAT THE EXISTING RATES FOR PAYPHONE ACCESS SERVICE ARE COST BASED. HAS BELLSOUTH ARGUED THAT THE RATES NEVERTHELESS MEET SOME DEFINITION OF "COST BASED"?

A. Incredibly, yes. It has been my expectation that while there may be some disagreement regarding the details, there would be an agreement among the parties that the phrase 'cost based" means – at a minimum – that the rates bear some relationship to the cost. In each of the other state proceedings that I have participated in, including other BellSouth states, there has been this minimum ('one might argue minimal) level of common ground. In this proceeding, BellSouth has decided to take the position that cost based rates need have no relationship whatsoever to cost.[8]

Q. WHAT IS THE BASIS FOR YOUR UNDERSTANDING OF MS. CALDWELL'S DEFINITION OF A COST BASED RATE?

A. My understanding of BellSouth's definition comes from the following questions and

[8] If a rate can exceed the cost by any amount and still be considered cost based, it is unclear why BellSouth went to the trouble of performing a cost study at all. According to Ms. Caldwell's definition of cost based, the cost study results place no constraint on the maximum rate that BellSouth can charge for payphone access service.

answers from Ms. Caldwell's Louisiana deposition. Her definition is best understood by considering her own words:

Pages 9-10:

Q. What do you need to know and how do you arrive at the cost based rates?

A. I think I have a problem when we keep talking about cost based rates. I can tell you how I do my cost, and from that standpoint I can answer the question.

Q. Okay.

A. ...When I'm looking at a service, what I really am trying to do is to determine, first of all, the price floor of my service, in other words, the value for which BellSouth should not price below...And then we should have a contribution over and above that to cover your joint and common cost. And that's how the costs are the foundation in those analyses.

Page 40:

Q. How far from the actual cost, in your opinion, could you differ or increase and still be a cost based rate?

A. I don't think there is any measure for that. As long as the customer is willing to pay and that's what the market will bear and you're covering your direct costs, then you're fine.

Q. So buyer beware?

A. Not necessarily. But as long as the customer is willing to pay, and that's with competitive influences.

Q. Would 100 percent over cost as a rate be a reasonable cost based rate?

A. Based on my previous statement, there is no measure. There is no percentage.

Q. Same answer for 1000 percent?

A. Same Answer.

At page 60:

Q. Should it [the calculation of shared and common cost produced by BellSouth's cost model] be used to show whether or not it is [a] cost based –

A. I do not believe so.

Q. – rate? You don't believe so?

A. I do not believe so.

Q. Why not?

A. Because again, cost based – the definition I have been using is that cost base[d] is you have a cost of what it incurred – excuse me – of what the company incurred to provide the service. And then a contribution above that is fine. You're still at cost based as long as you're recovering your cost. It's the foundation.

Q. ARE YOU AWARE OF ANY BASIS IN ECONOMIC THEORY OR PRACTICE THAT SUPPORTS THE IDEA THAT A RATE CAN BE EXCEED THE COST BY AN INFINITE AMOUNT AND STILL PROPERLY BE CHARACTERIZED AS A COST BASED RATE?

A. No. To the best of my knowledge, this theory is unique to Ms. Caldwell and BellSouth.

Q. HAS BELLSOUTH INTRODUCED ANY OTHER NOVEL THEORIES IN ITS WITNESS' TESTIMONY IN OTHER RECENT PAYPHONE PROCEEDINGS?

A. Yes. For example, Ms. Caldwell has also concluded that the "reasonable" amount of overhead to be included in a rate can – and should – be determined without regard to any calculation of the shared and common costs actually incurred. Like the theory of "no rate is so high that it is no longer cost based," the theory of "there is no such thing as an unreasonable overhead" is best understood by considering Ms. Caldwell's own words:

Pages 50-51:

Q. And the question is: What makes it a reasonable level of contribution? What is meant by a reasonable level of contribution?

A. I believe in terms that as long as you are making some contribution to your joint and common costs. And then the level of that amount is really measured by the market, customer willingness to pay, what the market will bear, the things we've talked about before. There is no miracle dollar amount or percentage that is reasonable.

Q. If a reasonable level is what a willing buyer is willing to pay, is there such a thing as an unreasonable level?

A. I believe in that context there wouldn't be because basically the customer is not going to pay more than the customer is willing to pay. So they would never pay an unreasonable amount.

Q. But the customer wouldn't know what portion they were paying for overhead, would they?

A. They wouldn't know, but that doesn't matter.

Q. ARE YOU AWARE OF ANY BASIS IN ECONOMIC THEORY OR PRACTICE THAT SUPPORTS THE IDEA THAT ANY LEVEL OF OVERHEAD LOADING IN A RATE IS REASONABLE AS LONG AS A CAPTIVE CUSTOMER IS WILLING TO PAY IT?

A. No. Ms. Caldwell's theory is the antithesis of the stated purpose of section 276 of the Act and the FCC's *Payphone Orders*. If payphone providers could avoid paying inflated rates to the ILECs for payphone access services, there would be no need for Congress and the FCC to place limits on the amount that ILECs charge for these services. The reality, of course, is that BellSouth currently controls the costs that are incurred by competing providers of payphone service to end users. In order for the objectives of section 276 – increased competition and widespread deployment of payphones – to be met, it is essential that the rate for payphone access services be limited to cost based levels. This is the reasoning behind both the language of the Act and the FCC Orders.

Q. THE FCC'S FOUR PART TEST ALSO REQUIRES PAYPHONE ACCESS RATES TO BE NONDISCRIMINATORY. DO BELLSOUTH'S PROPOSED RATES MEET THIS REQUIREMENT?

A. No. As I described previously in my testimony, the failure to establish cost based intrastate rates permits BellSouth to artificially inflate the costs incurred by the competitors of its payphone operations. When properly applied, the requirement for cost based rates can help to ensure that competitors begin on an equal footing with regard to the costs of network access, and that the success of each competitor in the marketplace is a result of its ability to control other costs and successfully manage its business. Without the proper application of this requirement, the success of a given competitor may be a function of its relationship to the LEC.

An additional form of discriminatory rates also exists. Pursuant to the existing tariffed rates, a CLEC would be able to purchase an unbundled loop from BellSouth at a rate that is lower than the price BellSouth would charge a TPOA member for a payphone access line, even though the cost to BellSouth of providing the payphone access service loop to the payphone provider is less than the cost of the unbundled local loop. This rate discrepancy would exist even though the rates for unbundled network elements and payphone access lines are both required to be cost based by the relevant provisions of the Act. This inconsistency also results in discriminatory rates.

Q. HAS BELLSOUTH FULLY JUSTIFIED THE LEVEL OF DIRECT COSTS AND THE LEVEL OF OVERHEAD LOADINGS IN ITS PROPOSED RATES?

A. No. At pages 8-9 of his testimony, Mr. Sanders states that "BellSouth's rates for PTAS and Smartline are priced at levels that meet the 'new services' test." While I agree that BellSouth bears the burden of making such a demonstration pursuant to the FCC's requirement, I strenuously disagree that it has done so either through its testimony or through any cost material presented in this proceeding. Specifically, BellSouth bears the burden of demonstrating that (1) its calculation of the direct cost associated with each rate is reasonable, and (2) the amount of overhead (shared + common) cost included in each rate is reasonable. To date, BellSouth has not made either demonstration.

With regard to direct costs, BellSouth has offered no justification for its assumption that the cost of a local loop used to provide payphone access service should be based on a mixture of residence and business line characteristics, even though BellSouth won't install a PTAS line at a residence location. In order to comply with the first (cost based rates), second (nondiscrimination), and fourth (new services test) elements of the FCC's four part test, an ILEC must present the relevant cost data and demonstrate their reasonableness. BellSouth simply has not done so in the materials presented in this case.[9]

The second step in the application of the FCC's new services test (and an integral part of demonstrating cost based rates) is to justify the overhead loadings (i.e., amount of shared and common costs) that have been included in each rate. Incredibly, BellSouth has chosen not to attempt any demonstration of the reasonableness of its overhead loadings in this proceeding. Such a tactic is unprecedented in my experience.

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[9] Additional examples of rates that have no direct cost support are the nonrecurring charges (e.g., installation charges) associated with payphone access services. BellSouth has offered no cost information in support of these rates. In addition, the cost information that BellSouth has provided is incomplete and poorly documented. As described earlier in my testimony and shown in exhibit DJW-2, BellSouth included important cost information in similar filings in other states that is missing from the information presented here. BellSouth has made no effort to explain why this Commission and its Staff do not deserve the complete cost package presented elsewhere.

As I described in my direct testimony, other state regulators have already presented with the task before the Authority in this case. I have been directly involved in similar investigations in Colorado, Ohio, Puerto Rico, and Massachusetts, and in the BellSouth states of Florida, Louisiana, North Carolina, and South Carolina. I have also reviewed portions of the record of comparable cases in Delaware, West Virginia, Michigan, and Kentucky. Until the BellSouth filings in Louisiana and this proceeding, I have never seen an ILEC fail to provide any quantification or documentation whatsoever of the level of shared and common (overhead) costs that it believes should be included in its payphone access service rates.

To be clear, in other states the ILEC may or may not have made an adequate demonstration that the existing or proposed level of overhead was compliant with the requirements that the rates be cost based or consistent with the new services test. But each of them, including BellSouth in other states, at least made the effort. Here in Tennessee, BellSouth has actually gone to some effort to withhold this essential information from the Authority. Ms. Caldwell presented a comparable cost study for payphone access services in South Carolina, and utilized the same cost model, the TELRIC calculator, to produce both studies. The TELRIC calculator automatically produces a quantification of shared and common costs, and Ms. Caldwell included those costs in her South Carolina presentation: "and then we indicated in that South Carolina study the shared and common as a separate item." In fact, until the Louisiana case, BellSouth had produced information regarding shared and common costs in each state, just as other ILECs have done.

At pages 27-28 of her Louisiana deposition, Ms. Caldwell describes the step she took in order to withhold information regarding shared and common costs from this Authority: "when you get your output from the TELRIC calculator, it gives you your direct cost. Then it gives you your shared cost and the common costs...It looks like they set them all to zero. So the shared cost becomes zero. And then you'll notice the common cost factor was set to 1 and is multiplied on this page. So what you basically have out of the TELRIC calculator is the direct cost by doing that." At pages 58, 59, and 61 of her deposition, Ms. Caldwell clarifies that BellSouth could have provided this information to the Authority, but elected not to.

Q. HAS TPOA REQUESTED THAT BELLSOUTH PROVIDE THIS INFORMATION REGARDING ITS SHARED AND COMMON COSTS?

A. Yes. TPOA has issued data requests to BellSouth requesting this specific information.

To date, BellSouth has refused to provide this information.[10]

Q. HOW SHOULD THE AUTHORITY DEAL WITH THIS LACK OF INFORMATION?

A. As described above, BellSouth has the burden of showing that its existing rates for payphone access services meet each part of the FCC's four part test, including the requirements that the rates be cost based and compliant with the new services test. BellSouth has opted, for whatever reason, to provide offer no demonstration whatsoever regarding what it considers to be a reasonable level of overhead (shared and common) costs to be included in these rates. Ms. Caldwell has conceded that BellSouth took clear (and explicit) steps to set both the shared and common costs to zero in its cost study provided to this Authority.

When applying the FCC standard, I believe that the Authority should take BellSouth's cost information at face value and establish rates that include the total of the direct, shared, and common costs demonstrated by BellSouth to be reasonable. With no shared and common costs in the record (actually, these costs are in the record in DDC-1

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[10] BelSouth argues that if it were to provide the missing sahred and common costs, its TSLRIC study would somehow be transformed into a TELRIC study. This position is adsurd. A given cost study is properly characterized as "TSLRIC" or "TELRIC" depending on the cost object studied (i.e. whether the cost object is a service or element). Both TSLRIC and TELRIC are direct cost methodologies, to which shared and common costs may or may not be added.

at a level of $0), the rates should be no higher than the level of direct cost demonstrated by BellSouth to be reasonable.

Q. DOES THE AUTHORITY HAVE ANY OPTION IN THIS PROCEEDING OTHER THAN ESTABLISHING RATES FOR PAYPHONE ACCESS SERVICES AT THE LEVEL OF DIRECT COSTS DEMONSTRATED TO BE REASONABLE BY BELLSOUTH?

A. One possible alternative is to order BellSouth to provide the information requested by TPOA in its data requests regarding the level of shared and common costs that would have been calculated by BellSouth's cost model, had BellSouth not acted to remove these costs. Of course, by doing so the Authority would be curing the defects inherent in BellSouth case, something that it is not obligated to do.

Q. TO BE CLEAR, ARE YOU SAYING THAT THE STANDARD IN THE FCC'S *PAYPHONE ORDERS* REQUIRES THAT THE OVERHEAD LOADING IN BELLSOUTH'S INTRASTATE PAYPHONE ACCESS SERVICE RATES BE EQUAL TO THE OVERHEAD LOADING IN ITS UNE RATES?

A. Not at all. Parts 1 (cost based) and 4 (new services test) of the FCC's four part test do clearly require, however, that BellSouth's rates not exceed the level of costs that it has justified to the Authority. The last level of overhead loading (i.e., total of shared and common costs) that BellSouth has justified to the Authority as appropriate for the development of cost based rates is the amount of shared and common costs added to the direct costs for UNEs. BellSouth has not offered any justification in this proceeding for a higher overhead loading for payphone access services (and in fact has given the Authority sufficient justification to order a much lower one). Absent a demonstration by BellSouth in this proceeding, the highest overhead loading that can be applied is that previously found to be reasonable and appropriate by the Authority.

Q. IN HIS TESTIMONY, MR. SANDERS ARGUES THAT BELLSOUTH HAS AMPLY DEMONSTRATED THAT EXISTING PAYPHONE ACCESS SERVICES RATES COMPLY WITH THE NEW SERVICES TEST BY SHOWING THAT THE RELATIONSHIP BETWEEN THE RATES AND COSTS FALLS WITHIN A RANGE OF RATIOS THAT HAVE PREVIOUSLY BEEN ACCEPTED BY THE FCC. IS THIS ASSERTION CORRECT?

A. No. Mr. Sanders has apparently chosen its words carefully here, and with good reason. At page 9 of his testimony, he states that "BellSouth's cost/price ratios for the PTAS line and Smartline service rate levels in Tennessee fall within a range of cost/price ratios that have been accepted by the FCC in interstate filings." As Mr. Sanders correctly points out, the ILECs subject to price cap regulation by the FCC typically present such cost/price ratios when making filings subject to the new services test requirement. Where Mr. Sanders goes astray is in his effort to use this typical FCC data submission as support for BellSouth's request that no meaningful investigation be undertaken in this proceeding.

In order to fully understand the FCC's application of the new services test, it is necessary to understand the filing and investigation process. The FCC may receive hundreds of proposed rates on a given day. Resources are simply not available to evaluate each proposed cost/price relationship. As a result, the FCC only evaluates the cost/price relationships for those rates that are contested by other parties. While BellSouth may have made numerous filings consisting simply of cost/price ratios (with no additional justification) that have been "accepted" by the FCC and allowed to go into effect because they were not contested, it is simply not accurate to assert that these rates were "approved" by the FCC or affirmatively determined to be in compliance with the new services test.

Q. HAVE CONTESTED PRICES BEEN EVALUATED AND APPROVED BY THE FCC AS COMPLIANT WITH THE NEW SERVICES TEST?

A. Yes. I have been involved in a number of proceedings in which the FCC actually evaluated and approved overhead loadings for BellSouth services. Each of these investigations involved substantial filings by the ILECs, typically consisting of hundreds of pages of text and cost workpapers. The compliance of these contested rates with the new services test standard was not decided merely by the submission and examination of a list of cost/price ratios. A number of these cases are cited in Exhibit DJW-1 to my testimony.

Q. IF, AS BELLSOUTH ARGUES, THE MECHANICS OF THE FCC'S APPLICATION OF THE NEW SERVICES TEST IS TO SERVE AS A GUIDE, SHOULD THE AUTHORITY TREAT BELLSOUTH'S INTRASTATE RATES FOR PAYPHONE ACCESS SERVICES AS CONTESTED OR UNCONTESTED RATES?

A. The level of these rates is clearly being contested by the TPOA in this proceeding. The FCC model of full investigation should therefore apply. Mr. Sanders argues at page 10 of his testimony that "[I]n deciding whether a service meets the new services test, the FCC considers cost/price ratios for the services in question." If it is Mr. Sanders' understanding that such a review of cost/prices ratios represents the entirety of the FCC's investigation into a contested new services test filing, he is simply wrong. In order to demonstrate compliance with the new services test, the FCC has consistently required the

ILECs to demonstrate that the overhead loading (amount of shared and common costs) included in a given rate is reasonable. To date, BellSouth has produced no cost studies in this proceeding which purport to show the level of overhead costs for payphone access services, or to show that this level is reasonable.

Instead, BellSouth, through Mr. Sanders' testimony, has elected to rely entirely on a series of cost/price ratios to justify its rates. Such an approach inherently fails to make the required demonstration for at least two reasons. First, a ratio analysis cannot be used to demonstrate that a given rate is "cost based." The only way to demonstrate the existence of a cost based rate is to produce properly performed cost studies of each category of cost to be included (direct, shared, and common). BellSouth has not done so. Second, compliance with the new services test cannot be demonstrated by a simple showing that the cost/price ratio for a given rate is within a range of ratios previously found appropriate by the FCC.[11] While the FCC frequently utilizes ratio analysis as a part of its decision process when determining whether to investigate a given rate, the application of the new services test is *not* simply an exercise in comparing ratios. In order to demonstrate new services test compliance, the ILECs, including BellSouth, must

[11] As described above, there is a fundamental and necessary distinction between rates that have been allowed to go into effect and rates that have been investigated and found appropriate by the FCC. Even if only the ratios associated with investigated rates are used, such an approach cannot, by itself, be used to demonstrate compliance with the new services test.

show that both the calculation of the direct cost and the overhead loading are reasonable *for the rate in question*. The reasonable overhead loading for the rate or rates being investigated may ultimately bear little or no relationship to the ratios previously found reasonable for other rates. Put simply, Mr. Sanders is confusing the benchmarking method frequently used by the FCC in order to determine which rates warrant further investigation with the actual requirements of the new services test.

The West Virginia Public Service Commission reached similar conclusions. In that proceeding, Bell Atlantic failed to produce cost studies specific to payphone services, and instead relied simply on ratio analysis. The West Virginia PSC found that "[t]he 'new services test' clearly places the burden on the incumbent LECs to demonstrate that the service element in the intrastate payphone tariff is cost based and will not recover more than a reasonable portion of the carrier's overhead costs. See 47 C.F.R. §69.49(f)(2). BA-WV failed to meet this burden."[12]

In this proceeding, BellSouth has made the strategic decision to make no effort to meet the burden imposed by the FCC's requirements. It has produced no study of the overhead costs that it believes are reasonable, and has instead gone down the errant path of relying simply on ratio analysis.

Q. AT PAGES 7-8 OF HIS TESTIMONY, MR. SANDERS SUGGESTS THAT THE FCC HAS NOT PROVIDED ANY GUIDELINES AS TO HOW THE REQUIREMENTS OF ITS FOUR PART TEST ARE TO BE IMPLEMENTED. IS HE CORRECT?

A. No. Mr. Sanders actually takes this argument a step further, suggesting that because the FCC has not issued specific guidelines, "the Authority may apply its own best judgement in determining the proper loading factor for all of BellSouth's services, including its payphone services." This is simply not the case. In response to the congressional mandate set forth in section 276, the FCC has set forth a set of requirements that must be applied by state regulators when determining an appropriate level of rates for intrastate payphone access services. To my knowledge, there is no outstanding jurisdictional question regarding this mechanism: Congress and the FCC have established the standards to be applied, and it is the task of state regulators, including this Authority, to implement those standards.

This Authority certainly has the opportunity to apply its best judgement in this proceeding, but must do so within the context of the standards set forth in the FCC's *Payphone Orders*. To that end, the Authority may determine whether the amount of direct and overhead costs calculated by BellSouth are reasonable. In this proceeding, however, BellSouth has taken away the opportunity for the Authority to exercise its

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[12] West Virginia Order, at pp. 14-15.

judgement regarding the reasonableness of BellSouth's shared and common (overhead) costs. By deciding to engage in the unprecedented act of excluding these costs from its cost study, BellSouth has given the Authority nothing to judge.

Q. HAS THE FCC PROVIDED A DETAILED EXPLANATION OF HOW ITS STANDARDS SHOULD BE IMPLEMENTED WHEN ESTABLISHING INTRASTATE RATES?

A. Yes. On March 2, 2000, the Competitive Pricing Division of the FCC's Common Carrier Bureau issued Order CCB/CPD No. 00-1 ("Wisconsin Order").[13] This order sets forth the details of the process that certain ILECs must follow when providing information to the FCC in order to demonstrate compliance with the four part test.[14] While the order is specific to four Wisconsin ILECs, it does serve provide clarification in this case by answering the following question: What would the FCC require the LECs to demonstrate (and what information would be specifically required to be provided) if the FCC were apply its own standards to the rates for payphone access service.

[13] This Order has previously been provided to the Authority by the TPOA.

[14] The Wisconsin Public Service Commission had previously determined that it could not undertake the investigation necessary to determine if the existing rates for payphone access services in Wisconsin meet the requirements of the Act and the subsequent *Payphone Orders*. Pursuant to the Order in the Payphone Reclassification Proceeding, ILECs must then submit the necessary information to the FCC so that it can conduct the necessary investigation.

Q. ARE THE RECOMMENDATIONS SET FORTH IN THE TESTIMONY OF MR. SANDERS AND MS. CALDWELL CONSISTENT WITH THE *WISCONSIN ORDER*?

A. No. BellSouth's position is completely at odds with this order.

Q. IS THERE EVIDENCE IN THIS PROCEEDING THAT ESTABLISHES THAT THE EXISTING TENNESSEE RATES FOR PAYPHONE ACCESS SERVICES ARE NOT COST BASED?

A. Yes. The testimony of Mr. Sanders and Ms. Caldwell makes it clear that the existing rates are not cost based, and do not comply with the FCC's standards. Specifically, the BellSouth witnesses state that:

1. **The existing rates for payphone access services include market-based influences (e.g. a customer willingness to pay).** At page 13 of his testimony, Mr. Sanders argues that "market forces" should determine a level of contribution that can be considered reasonable for the purposes of the new services test." Of course, the purpose of requiring a cost based rate is to mitigate BellSouth's ability to price specific services based on a customer's willingness to pay an inflated rate, and to instead place BellSouth and the customer/competitor on an equal footing. For this reason alone, the existing rates do not comply with the requirements set forth by

Congress and the FCC.

2. **The existing rates for payphone access services contain an implicit subsidy.** At page 13 of his testimony, Mr. Sanders refers to implicit subsidies included in BellSouth's PTAS rate. When asked in her Louisiana deposition (p. 36) what portion of a cost based rate could constitute a subsidy to another service, Ms. Caldwell replied "I think, again, we're back to the term 'cost based' that keeps giving me a problem. So I can't answer that question." The answer that Ms. Caldwell is looking for here is "none": a cost based rate must reflect the cost of providing the service in question, not the cost of providing other services. For this reason alone, the existing rates do not comply with the requirements set forth by Congress and the FCC.

3. **The existing rates for payphone access services are not based on cost.** As Mr. Sanders points out at page 13, the existing rates were established based on Universal Service concerns. The existing rates are not based on calculations of direct and overhead costs. As a result, an independent demonstration that the existing rates are consistent with such a calculation of direct and shared costs must now be made. As I described previously in my testimony, however, BellSouth has offered no such demonstration in this proceeding. For this reason alone, the existing rates do not comply with the requirements set forth by Congress and the FCC.

4. **The existing rates for payphone access services were set with no consideration of**

the SLC/EUCL or the PICC. Because the costs calculated pursuant to an economic costing methodology are (by definition) not jurisdictionally separated, it is necessary to consider other rates that are specifically in place in order to recover a portion of the costs associated with payphone access services (this is also a specific requirement of the *Wisconsin Order).* Absent such a consideration, BellSouth will be permitted to double recover its costs. For this reason alone, the existing rates do not comply with the requirements set forth by Congress and the FCC.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING BELLSOUTH'S EXISTING RATES FOR PAYPHONE ACCESS SERVICES.

A. Faced with a requirement that its rates for payphone access services must be cost based, BellSouth has elected to admit that its rates are not cost based but instead were established without regard to cost, include subsidies to other services, and were established in order to take advantage of their competitor/customers' "willingness to pay" an inflated rate. Rather than make the necessary adjustments to the rates, BellSouth is asking this Authority to simply ignore the requirement for cost based rates.

Q. WHAT RATES SHOULD THE AUTHORITY ORDER TO BE TARIFFED FOR BELLSOUTH'S PTAS SERVICE THAT COMPLY WITH THE REQUIREMENTS OF

THE FCC'S FOUR- PART TEST?

A. BellSouth should be permitted to charge a rate that is no higher than the level of costs (direct and overhead) that it has demonstrated to be reasonable in this proceeding. The template for calculating a cost based monthly rate for PTAS service is given on the Summary of Results page of Exhibit DDC-1 to Ms. Caldwell's testimony:

Loop +
Termination (switch line port) +
Usage +
Blocking and Screening +
Billed Number Screening +
Payphone Product Costs =
Monthly Total

The next step is to ascertain the level of direct costs that BellSouth has demonstrated to be appropriate for each component.

As described in my direct testimony, BellSouth will only provide PTAS service to a business location. For this reason, PTAS loop costs should reflect business, rather than residence, line characteristics. Ms. Caldwell indicates in her testimony that BellSouth has changed the assumed mix of residence and business line characteristics in the PTAS study, but still assumes some portion of residence lines. If she had provided the mix of residence and business line characteristics used in her cost study in this proceeding, it would have been possible to calculate the costs specific to a PTAS/business line. Because she did not, it is necessary for the Authority to order BellSouth to produce a cost study with business line characteristics assumed for loop costs.[15]

Based on Ms. Caldwell's testimony given at her deposition, certain payphone product costs should also be adjusted. One portion of these costs, associated with conferences and publications, will not be incurred on a going-forward basis and should be removed. Another portion, associated with "account executives" who sell services to a captive market, should be removed.

Q. WHAT LEVEL OF OVERHEAD COSTS SHOULD BE INCLUDED IN BELLSOUTH'S PTAS RATE?

A. The maximum level of overhead that can be included in the rate is that which BellSouth has demonstrated to be reasonable in this proceeding. Unfortunately, BellSouth has elected to remove the calculation of shared and common costs normally produced by its cost study, and instead has reported shared and common costs of $0. This amount is the

[15] BellSouth's loop cost model automatically produces a separate loop cost for business line and residence line characteristics. If the Authority were to order BellSouth to produce a loop cost study based on business

appropriate amount to be included in the rate for PTAS.

Q. IS THERE ANY ALTERNATIVE METHODOLOGY AVAILABLE TO THE AUTHORITY FOR ESTABLISHING PTAS RATES IN THIS PROCEEDING?

A. Yes. The Authority may take the direct cost for payphone access services as demonstrated by BellSouth, and apply an overhead loading equal to the amount last demonstrated by BellSouth to be reasonable for a cost based rate. This could be accomplished by ordering BellSouth to provide responses to TPOA's data requests.

Q. HAVE OTHER STATE REGULATORS UTILIZED THIS ALTERNATIVE APPROACH?

A. Yes. In the absence of the necessary cost information from Bell Atlantic, the West Virginia PSC followed this course of action. Specifically, the West Virginia PSC relied on its recent investigation of Bell Atlantic's joint and common costs in order to establish a reasonable overhead loading for payphone services: "[t]here simply was insufficient evidence presented by BA-WV to justify such large overhead allocations. As Staff pointed out, the SGAT order(s) relied upon in calculating rates for payphone lines included a reasonable allocation for overhead. . In fact, the Commission's orders in those

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line characteristics, BellSouth should have no problem complying in a timely manner.

proceedings established a 10.2% overhead factor to be used in establishing rates for interconnection and unbundled network elements. . .In this proceeding, BA-WV seeks an overhead contribution for payphone access lines -- not features -- ranging from 23% to 92% over and above the Commission-authorized 10.2% allocation Nowhere does BA-WV attempt to justify these overhead ranges."[16]

By electing to provide no demonstration whatsoever of the magnitude of its shared and common costs, BellSouth has placed the Authority is a comparable position in this proceeding. Absent even an attempt to justify a given level of overhead loading by BellSouth, the Authority must – if it decides to permit BellSouth to recover an reasonable amount of overhead costs in its rates for payphone access services -- utilize the best information available to reach a decision.

Q. THE RATES THAT YOU ARE PROPOSING ARE LOWER THAN THE EXISTING TARIFFED RATES. SHOULD THIS BE A CONCERN TO THE AUTHORITY?

A. No. Comparing the existing rates for payphone access services with these new rates is purely an apples to oranges comparison. Since these rates were established, the *Payphone Orders* implementing Section 276 of the Act created a specific --and fundamentally different -- pricing standard to be applied. Because of this change in the

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[16] West Virginia Order, page 15.

regulatory paradigm, it is reasonable to expect the new rates for payphone access services to be both significantly different and lower than the existing rates.

BellSouth points out that factors other than cost have been considered when establishing the existing payphone access services rates, and specifically noted that the existing rates were set residually during a period of rate of return regulation and include implicit subsidies to other services.

While these were reasonable objectives for the Authority at the time that existing rates were established, the fact is that the FCC has concluded, in response to its Congressional mandate, that a different standard should now be applied:

> [O]ur ultimate goal in this proceeding is to ensure the wide deployment of payphones through the development of a competitive, deregulatory payphone industry. To achieve this goal, we found that it would be necessary to eliminate certain vestiges of a long-standing approach to payphones. To this end, the *Report and Order* directs the removal of subsidies to payphones, provides for nondiscriminatory access to bottleneck facilities, ensures compensation for all calls from payphones, and allows all competitors an equal opportunity to compete for essential aspects of the payphone business.[17]

The FCC has been clear that this new standard must be applied when evaluating rates for payphone access services. In CC Docket 97-140, the Common Carrier Bureau of the FCC evaluated rates proposed by Bell Atlantic and found that the proposed overhead loadings had not been adequately justified.[18] In addition to the lack of necessary justification, the FCC noted that "the Bureau found that Bell Atlantic had set rates based on considerations not relevant under the new services test, such as the current prices for these services in their intrastate tariffs." *Payphone Features Order*, at ¶ 6.

Q. AT PAGE 13 OF HIS TESTIMONY, MR. SANDERS ARGUES THAT THE AUTHORITY SHOULD NOT ORDER COST BASED RATES FOR PAYPHONE ACCESS SERVICES IN THIS PROCEEDING, BECAUSE TO DO SO "WOULD FAVOR THE PAYPHONE INDUSTRY OVER OTHER BUSINESS CUSTOMERS." DO YOU AGREE?

A. Absolutely not. There are two fundamental differences between payphone providers and other business customers. First, payphone providers obtain a service from BellSouth in order to then compete with BellSouth's payphone operations. The impact of inflated rates – and BellSouth's incentives to inflate those rates – is fundamentally different for

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17 Payphone Reconsideration Order, at ¶ 139.

18 This recent investigation (and rejection) by the FCC of interstate payphone rates proposed by Bell Atlantic puts the BellSouth claim that the FCC merely accepts cost/price ratios as a demonstration of new services test compliance into the proper light.

EXHIBIT DJW - 2

REDACTED

Exhibit DJW-2

LOUISIANA PUBLIC SERVICE COMMISSION
ADMINISTRATIVE HEARINGS DIVISION

DOCKET NO. U-22632

BELLSOUTH TELECOMMUNICATIONS, INC.
EX PARTE.

In Re: BellSouth Tellecommunications, Inc., filing of new cost studies for providing Access Line Service for customer provided public telephones and SmartLine service for public telephone access.

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DEPOSITION OF DORIS DAONNE CALDWELL

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Deposition of DORIS DAONNE CALDWELL, taken on behalf of Louisiana Public Payphone Association, pursuant to stipulations contained herein, before Laura M. Barstow, RPR, CCR No. B-1275, at 675 West Peachtree Street, Suite 4300, Atlanta, Georgia, on Wednesday, April 12, 2000, commencing at the hour of 1:45 p.m.

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ATLANTA, GA 30375-0001

L. BARBEE PONDER, ESQUIRE
(BY TELEPHONE)

ALSO PRESENT:

MR. SANDY E. SANDERS

\- - -

DORIS DAONNE CALDWELL,

having been duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. PICKERING:

Q. Ms. Caldwell, will you state your name for the record, please?

A. Doris Daonne Caldwell.

Q. And you go by "Daonne"?

A. Daonne.

Q. I assume you have given depositions in the past on occasions?

A. Yes, I have.

MR. PICKERING: We will have the usual stipulations. Is that fine?

MR. KITCHINGS: Yes, sir.

BY MR. PICKERING:

Q. I have received your direct testimony. And so we won't do any questions as regards your background and so forth. I think that's been laid out pretty well. What I would like to do though is to ask you a few questions relative to your direct testimony that you have submitted dated April 7th of '99.

And it's my understanding that the testimony that you gave or that you have submitted as your direct testimony on April 7th of '99 -- that the supplement that has been filed really doesn't add anything substantive to your testimony. Is that correct?

A. I'm sorry. The supplemented -- I'm a little confused.

(Discussion off the record.)

(The oath was administered by the reporter.)

BY MR. PICKERING:

Q. What I'm referring to as a supplement would have been dated March 17th of 2000. And --

MR. KITCHINGS: I thought, Mr. Pickering, that Mr. Sanders was the witness that submitted supplemental testimony, not Ms. Caldwell.

MR. PICKERING: All right. I think you're absolutely correct.

BY MR. PICKERING:

Q. None has been submitted by you then?

A. No, I have not.

Q. I assume then that you don't have any intention of submitting any additional direct testimony?

A. No.

Q. Thank you, ma'am. Can you tell me, please, ma'am, a list of other states in which you have produced or sponsored any cost data in order to demonstrate compliance with the FCC pay phone requirements?

A. To the best of my recollection, I filed in South Carolina, Kentucky. In North Carolina we worked with the Commission staff on some of the actual information that they were using to do the actual pay phone analysis on the New Services Test. I can't remember right off if we ever filed anything formally with them, but we did discuss that with the staff as to what they had done.

Those are the ones that I am sure about. I have done some analysis in Florida in which I talked with one of the pay phone association groups. I'm sorry. I cannot remember the exact name. And also I believe -- the staff was not present. It was just the pay phone association group where we talked about some cost study work.

Q. Can you describe for me, please, ma'am, each and every difference in the PTAS costs which were developed for Louisiana and the differences in the way the PTAS costs were reported for Louisiana?

MR. KITCHINGS: I object to the form of the question. You may answer it.

A. I'm sorry. I don't understand it.

Q. Let me ask you, compared to other states, what differences would you have looked at in Louisiana as compared to, say, South Carolina or Kentucky?

A. Okay. First of all, we looked at the actual Louisiana specific data. We used as a foundation of the study -- we had recently completed a generic cost docket. And with that the Commission had ruled on certain items like cost of money, depreciation, and also some inputs to the loop model as to, I believe, utilizations, things of that type.

So we felt, since the Commission had just ruled on those broad issues affecting cost, that we would include those. So those were very specific to Louisiana, and we included those in the Louisiana study. Then for the actual underlying loop sample that we used, we used the Louisiana specific data that would be the loop sample for the State of Louisiana from the other studies.

And we performed the TSLRIC cost study associated, which is the total service long run incremental cost, for the pay phones in Louisiana.

Q. What specifically would you have developed to demonstrate that the rates are cost based?

A. I would say the study itself because what we have done is to develop the cost study. And we have determined what the cost of providing pay phone service is. The PTAS is the one that you mentioned. We also did the SmartLine. So that is what the cost of the actual service is to BellSouth for providing that.

Now, once it comes to the rates and whether or not -- you know, the rates and how they are actually set, Mr. Sanders will address those rates and how he set those rates. But the cost study itself does give the foundation.

Q. Does the cost study that you have submitted show the actual cost to BellSouth?

A. Yes. It shows the long run incremental cost for providing the pay phone service that we could incur in providing that service, yes.

Q. Can you define for me "cost based"?

A. And I guess I probably should have verified that when we started this in question. In terms of cost based, I answer truly from a cost standpoint. In other words, when I looked at a service, what it would cost BellSouth on an incremental basis to provision that service.

So that's how I'm using the term "cost based." I'm not saying that rates are equal to that or rates are greater than that or any relationship to rates. All I'm saying is that's what the cost is.

Q. Is the cost base the same for PTAS as it is for UNEs?

A. No. The way the actual studies are done, you have some different assumptions. And I think the biggest difference is that PTAS -- I looked at it as a service. So when I study PTAS, I look at what the cost of providing pay phone service is. I included some costs for, I believe, some product management, some retail costs that we incur associated with that service.

When you look at UNEs, you have some of the same foundation in the network. But you do not -- you are actually restricted in your study of UNEs by the FCC and their pricing methodology, which is TELRIC.

So when I studied UNEs, say, in Louisiana, I would have used the TELRIC methodology prescribed by the FCC. I guess the better word is "proposed."

Q. Did you study the PTAS as a service in South Carolina and Kentucky also?

A. In Kentucky we did it as a service. When I looked at it in South Carolina, we used the assumptions associated with the UNE studies that had just been conducted there. However, we did demonstrate what would be the direct cost component.

And then we indicated in that South Carolina study the shared and common as a separate item. So both were indicated. It did not include any retail.

Q. What specific test or using what specific cost information do you recommend that the Commission use to determine cost based rates?

A. I can't answer that just in total general terms.

Q. All right.

A. Can you narrow the question or maybe rephrase it a little bit?

Q. What do you need to know and how do you arrive at the cost based rates?

A. I think I have a problem when we keep talking about cost based rates. I can tell you how I do my cost, and from that standpoint I can answer the question.

Q. Okay.

A. When I'm looking at something, for instance, in a UNE study where you have definite rules for -- it goes so far as to discuss pricing, the FCC August 8th Order, associated with UNEs where actually the FCC proposes a methodology for studying your individual components of the network.

So the FCC has defined a cost methodology for me to use. So from that standpoint, that's how I do my cost. And in that particular case you actually do say that the beginning -- those are the costs that are used to look at to determine your rates.

When I'm looking at a service, what I really am trying to do is to determine, first of all, the price floor for my service, in other words, the value for which BellSouth should not price below. In other words, it costs us so much per loop or so much per line to provide PTAS service, so therefore we should price at least to cover that.

And then we should have a contribution over and above that to cover your joint and common cost. And that's how the costs are the foundation in those analyses.

Q. Can you tell me maybe a list, for instance, of the changes that reflect the values ordered by the Commission in the UNE case as regards the figures you have in this cost based study? What is the difference between what you did for UNE and what you now have presented?

A. I'm having to stop to think. The foundation of the PTAS study is the loop study. That's the predominant component. The one difference between the TELRIC study, which was done for the UNEs, and the PTAS study is it deals with the res-bus mix.

When we looked at -- mainly we used the

res-bus mix to get a loop length that would be representative of the service that I'm offering. When I was studying the UNE, we looked at the res-bus mix that was in the network at that point in time because any particular loop could become a UNE.

So we looked at a res-bus mix that gave me a meld that provided a loop length very close to the coin data that we had available. And I'm using "coin" as general here for any PTAS or SmartLine that we have. Then the next step we looked at is in dealing with -- we made all the adjustments that the Commission had ordered associated with the loop, which would be things like your utilization factors, your cost of money, your depreciation, etcetera. So they match there.

I think that pretty well talks about the loop. In terms of the usage component, we looked at coin specific data, in other words, the number of calls that would be received in a month and the average minutes of a coin or pay phone call. And that was used to develop the usage.

Based upon that, I think that's pretty close to the differences in the network components. Then I included in the pay phone study cost for

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retail such as product management, some advertising things associated with that. Advertising is really kind of a misnomer. It was some plans we had from for promotions, that type stuff.

Q. Where is that in the study? Do you recall?

A. It's in the section under product management. I believe it's [redacted] one of the items very near the front. It's actually present -- the cost is taken over an annual time and a present worth.

Q. I show you -- these pages are not numbered. But it is part of the beginning of Exhibit DDC-1, where we have an executive summary and then a summary of results. And then there are three pages, I believe, following that. That's the three pages that you're referring to that have some breakdown on what you're referring to?

A. I believe so, yes.

Q. I'm looking at a page that has a heading on it: Pay Phone Product Line Cost. Is that what you're referring to?

A. Yes. And it actually -- where I said maybe I had used "advertising" as an incorrect term, I was thinking of the reference here to publications, which is line 16 on that study. That's it.

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Q. Line 16, if I can read from this, says conferences and publications. And then it has a figure of [redacted] over to the right. That's in year one. And year two -- what does year two say?

A. [redacted]

Q. And year three?

A. [redacted]

MR. KITCHINGS: Mr. Pickering, one point of order here.

MR. PICKERING: Sure.

MR. KITCHINGS: Just as a reminder, everything in BellSouth's cost study is considered proprietary. So to the extent we've got numbers and we're going to get into discussing those, we're going to need to treat those a proprietary in the deposition transcript and however we treat it in terms of the hearing and any publications.

Just to make sure we're all on board with that.

MR. PICKERING: I have no problem with that. And any of the experts employed by us will be bound by the same proprietary --

MR. KITCHINGS: As I recall, Mr. Woods signed the protective agreement. So

I think we're okay there.

MR. PICKERING: That is correct.

BY MR. PICKERING:

Q. This is listed -- on line 15 it says other costs. Then right below that, BellSouth sponsored pay phone conferences and publications is what we were referring to and those dollar figures following years one, two, and three.

A. Yes.

Q. This is on a go-forward basis, I assume?

A. Yes.

Q. Had money been spent in the past for BellSouth sponsored pay phone conferences and publications?

A. Yes.

Q. Are any of that type of expense included in your arriving at these projected cost figures?

A. None of the past the expenses are included. That would be the forward-looking expenses for the forward-looking three years where we're studying.

Q. My question though is: Did you use the expenses that had been in the past to project the cost of what it might be in years one, two, and three on a go-forward basis?

A. Those numbers were actually provided by our subject matter experts that handle the publications and conferences. They provided that to the cost organization. Now, whether or not they, you know, looked at a budget or they used some type of existing data, I cannot answer that.

Q. So you don't really know where those numbers come from?

A. I know where it came from. I just do not know the source of data that they used to provide it.

Q. Help me with the next line, line 17, net present value of cost. Help me with that. What does it mean?

A. Okay. It represents -- if you look at the three years above that on line 16, it represents the net present values of those dollars. Let me just check one thing here, please. Okay. It represents those three dollar amounts in the current year's dollars expressed at line 39, which is your cost of money, which was ordered by the Commission.

Q. We'll come back to this document a little bit later.

A. Okay.

Q. When we talked about the changes from the current cost study that you've done for these proceedings and what was done for the UNE case, were those required changes by the Commission in Louisiana?

A. I think the answer to that is yes and no. From the UNE docket they ordered such things as cost of money and depreciation, so I included those items in my pay phone study. So we considered that, whether or not we were specifically ordered. But based on the recent Order, we felt that was the appropriate thing to do.

The other issue where I talked about using data so that it represented the coin loop length, that would have been to make it service specific.

Q. On your pre-file testimony on line 25 on page 2, if you have a copy of it, at the right-hand side of that line where it starts the sentence "as a result of UNE hearings, this Commission recommended values and inputs that are standard in cost studies, i.e., the cost of money, depreciation" --

A. Uh-huh.

Q. That's what I was asking. Were those required of the Commission to make those differences?

A. No. The Commission did not tell me that in every cost study that I did going forward I had to include, for instance, the ordered cost of money and the depreciation rates. But the word "standard" that I'm using it here implies that in cost studies there are certain inputs that appear like in every cost study.

And the cost of money is one. Depreciation rates is one. So when I had a standard cost input, since the Commission had just recently ruled on those issues, I adopted those in my pay phone study.

Q. Why?

A. Because we felt the Commission had already made their understanding of what they felt that the cost of money should be at that point in time and what the depreciation rate should be that they felt were appropriate. So we used those.

Q. And what did they decide was the cost of money?

A. I believe it's 10.15 percent. If you'll give me just one moment.

Q. Surely.

A. Yes. It's in my testimony on page 10 at line 19. 10.15 percent.

Q. And while we're there, the depreciation rates?

A. I don't have them listed by account, but they were the FCC authorized depreciation rates that's on line 20 of that same page.

Q. As regard to the changes that we have just been talking about, as a cost analyst is it your position that these changes were appropriate?

A. I made the changes because I thought that, in filing the study before the Commission, this was the right thing to do because the Commission had just issued a ruling on cost of money. And filing an 11.25, which is normally what we would include at that point in time, we would have raised that issue in this docket and argued the same points that we had just argued previously.

And we just didn't feel that at this point in time it was worth that, you know, that the Commission had made very clear at that point in time -- which we're talking now several years ago. But at that point in time, they had just issued a ruling on these inputs.

So we did not feel, since we were filing this study with the Commission, that it was the right time or to anyone's benefit to argue those same issues again. So that's why I included them.

Q. On page 5 on lines 11 through 13, describe for me in detail this daily pay phone flat rate - monthly cost and how that was developed.

A. It is actually calculated in those pages we were just recently looking at that we were referencing. But in general what you do is -- when you look at a flat rate, we want to calculate the usage that would be on a typical pay phone line -- in this case we're talking about PTAS -- on a PTAS line.

So we look at the average number of calls that that line would have in a month and then the average duration of those calls. And then you look at information such as how many of the calls were intraoffice, meaning it stayed within the same switch, it did not go to inner office.

Then we would look at the cost of interoffice, what percentage of the calls actually went from Office A to Office B and then, of those calls, what percentage of them were to pass through a local tandem.

So what you basically do is you calculate your end office cost. You calculate on a per minute basis. You calculate your interoffice cost on a per minute and a per mile. You calculate your tandem cost on a per minute basis. And then using the duration of the call and the number of calls in a month, you calculate the flat rate against those components.

Q. I guess what I'd lying to ask you is why do you consider it appropriate to use the pay phone specific data to arrive at those figures?

A. Because I'm looking at a pay phone service. I'm trying to calculate the cost that the pay phone service is placing on the interoffice and switching network.

Q. Going to the next page in the middle of the page, page 6 on lines 14 through 17, were your cost studies performed solely for use in developing a cost-price ratio?

A. Yes. When these studies were conducted, they were to be used with providing to the Commission to see that we studied the New Services Test.

Q. How would your studies have been performed differently if they were to show the rates are cost based?

A. I know of no reason I'd have to do a services test -- excuse me. I know of no reason I would have to do a cost study of a service -- could you rephrase it?

Q. Yes. You told me that the cost studies were performed solely for use in developing a cost-price ratio. My question is: Would you have done something differently to show a cost base as opposed to a cost-price ratio?

A. I think it gets back to the basic foundation of, you know, what we mean by cost based. If I am studying a service, then I would do a TSLRIC study, assuming that that study would be used for a price floor or, in this case, used to support the New Services Test.

So in looking at the services, I would use the same TSLRIC type approach for the studies that I would be doing.

Q. Okay. Assume for the moment that the requirements are that the PTAS rates be cost based. Is your study sufficient to demonstrate that?

A. From my understanding of cost based, I would say it would be. My understanding of cost based is that you have a cost of some type, whether it be for a price floor or it be actually in the TELRIC world where your cost actually becomes the rate.

In both cases you have the cost study that is the foundation, and it provides the beginning to

show that your rate is above your price floor.
Q. The cost study that you've done here shows your actual cost, or the floor, does it not?
A. It shows -- just to get our terms very clear -- because I have used TSLRIC as a price floor, and I know pure economists will always say LRIC, which is just long run incremental cost, as a price floor. All I have done is I have included both volume sensitive and volume insensitive cost.
And so keeping that as our definition, I have very broadly interpreted TSLRIC to be price floor. But we need to keep that very straight. So when I'm studying a service and I'm looking at the incremental cost, then I am looking at the cost BellSouth must cover to provide that service.
I'm not looking at the rate. I'm looking at just the cost that BellSouth must recover.
Q. Correct. You're not looking at what they charge, you're looking at what it costs them to provide the service. Is that correct?
A. Right.
Q. And that's what this study indicates --
A. Yes.
Q. -- that you've done?
A. Yes. This study indicates --

Q. Cost?
A. Cost.
Q. It doesn't talk about cost price?
A. No, it does not.
Q. Assuming that the Commission requires a cost based study, is that all that is required in what you have provided or is that a beginning of trying to arrive at cost base?
A. The Commission would have to tell me what they mean by cost base. I feel that the study I have provided is the foundation for us to consider whether or not we pass the New Services Test.
Q. Is it your understanding that the FCC's requirements -- let me rephrase the question. What is your understanding of the FCC's requirements, especially whether or not it's limited to the New Services Test?
A. With relationship to pay phone?
Q. Yes, ma'am.
A. Mr. Sanders will have to answer in detail exactly what it is. I can answer what my understanding is. And my understanding is that we need to show that pay phone service passes the New Services Test. That's all we need to show.
Q. What specifically have you developed then

to demonstrate compliance with the New Services Test?

A. What I have done is I have developed the TSLRIC, which is the foundation of the cost, that is, the cost to provide the service. Then the next step would be in determining the contribution that that service would be expected to make towards the joint and common cost of the firm as well as any subsidies or whatever for universal service.

And that portion is handled by Mr. Sanders. I just do the cost foundation.

Q. Are the nonrecurring costs that you developed specific to pay phone service or are they developed using pay phone specific data?

A. Many of the functions are very similar between the services. But if there was something that was specific to pay phone such as maybe the time to deal with the order or the customer, that was unique to pay phone. So, yes, we feel the nonrecurring would be a cost to PTAS type environment.

Q. Why do you consider it appropriate to use the pay phone specific data?

A. Again, because I'm studying the pay phone service.

Q. Define TSLRIC for me.

A. Stands for total service long run incremental cost. It is both the volume sensitive and the volume insensitive costs that are required when a service is going to be provided, in other words, a direct cost of providing that service. Or sometimes you can look at it as the volume sensitive and the volume insensitive cost of discontinuing a service.

Q. Tell me the differences, please, ma'am, between TSLRIC and TELRIC, however you say it.

A. I say TS LRIC.

Q. Thank you. TSLRIC.

A. The real difference is in what you are studying. If you're looking at TSLRIC, you're looking at a service that you're going to be providing. And in that particular environment, you have costs that may be shared or common that would not be a direct cost of providing a service. But when you move to the TELRIC environment, those shared costs become direct.

So the real difference between the two is what you're studying. TSLRIC is a service that you're providing. TELRIC is the cost of a network component.

Q. What are the differences in the inputs that you would use for TSLRIC and TELRIC?

A. I think the real difference would be in your service. You would look at inputs that are specific to that service, such as -- remember I said the residence-business mix that gave me a loop length that was very similar to the pay phone loop length in Louisiana. That would be an example that in the TSLRIC the inputs would be specific to that particular service.

Also -- and I didn't go into this when we talked about the difference in the definitions. But TELRIC by definition is proposed by the FCC. And it's built on the concept that you are a wholesale company, so you have no retail cost.

That's the concept of TELRIC whereas if I am dealing with a TSLRIC or a service, I would have the retail cost of providing that service.

Q. Is it BellSouth's position that it is required to use the same cost model used to develop UNE costs when calculating pay phone costs?

A. No.

Q. Why not?

A. There is no requirement, when I'm looking at a service, to meet all the TELRIC standards.

Q. As a cost analyst why did you decide that the UNE TELRIC model could and should be used to develop the cost for use in these proceedings?

A. The underlying model itself can be adjusted with the appropriate input so that it can calculate a TSLRIC study.

Q. What are the adjustments that are necessary?

A. I mentioned the adjustments made on the loop sample. We also have to calculate some of the information outside the model and introduce new items. I think like number screening, some of the features in the switch, we looked at those separately and calculated those.

Also we did not include, when we made the TELRIC -- excuse me. When we processed the study through the TELRIC Calculator, we did not include the shared and common, which would be appropriate in the UNE world.

Q. Setting aside whether you think it ought to be done, would it be possible to include shared and common costs through the use of a TELRIC Calculator?

A. Yes.

Q. Describe the changes made to TELRIC Calculator in order to produce only direct cost.

A. I believe in the version of the Calculator that was used in this study, which would have been in the, I guess, early 1999 time frame, we would have gone in and for the shared factor and the common factor, you just really ignore those outputs.

You can either go in and, since they're multiplications, you could set them to 1. Or the Calculator -- when you get your output from the Calculator, it gives you your direct cost. Then it gives you your shared cost and the common costs. So you should be able to just pull the direct cost column rather than actually doing another run, I believe.

Q. I'm looking at a recurring cost summary. This is on what's Bates paged number 14. Is this an example of what you're just referring to?

A. Yes. In fact what they have done is the shared cost. And I apologize. I said it would probably be set to 1. It looks like they set them all to zero. So the shared cost becomes zero. And then you'll notice the common cost factor was set to 1, and it's multiplied on this page.

So what you basically have out of the TELRIC Calculator is the direct cost by doing that.

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Q. Yes. And so there is no multiplier of that?

A. Right.

Q. Anything else need to be done to get the direct cost, for instance, on this example?

A. This should be the final number.

Q. So on page 14 where it says total monthly economic cost, [redacted] would be the total cost?

A. Yes. For that component, which happens to be the loop.

Q. Right. For this component, which is the analogue voice grade loop for PTAS?

A. Right.

Q. On this work paper or in other work papers, if it's not on this one, where would you have shown the shared costs between residential and business? I'm sorry. The mix that would be used. Not the shared cost but the mix that would be used between residential and business.

A. In the TELRIC Calculator itself, it actually connects to the loop model. And in the loop model there is a spreadsheet that has the residence-business mix as inputs that you can adjust.

Q. What was used in your calculations for this cost test?

A. I don't remember.

Q. Is there a work paper within the cost study that would tell us that? You can look at it if you --

A. I can't remember. I would have to look.

MR. PICKERING: While looking for that, may we take a little break?

MR. KITCHINGS: Certainly.

(A recess was taken.)

BY MR. PICKERING:

Q. Were you able to find those sheets?

A. Those sheets are not in this document. They were internal to the loop model associated with TELRIC Calculator.

Q. And I think you said that you couldn't remember what percent of business and what percent of business was used in the model that you used to development this cost. Is that something that you could produce for me?

A. Yes, I could.

MR. PICKERING: Then I would ask, Counsel, that that be produced, the actual sheets that would show us not only the percentage that was used on each but then what factors were used to develop the cost.

In other words, if it was business, anything related that had to do with business cost. And if it was residential, whatever factors were used.

BY MR. PICKERING:

Q. Am I making myself understood? For example, if you used X percentage of business, then was it related -- how did you use that? Was it as to a specific cost factor for business?

A. The way the model does is it develops a business loop and it develops a residence loop. And by that I mean it gives you, by field reporting code, the amount of material price associated with each one of the field reporting codes in the business loop and the residence loop.

And then what the rating does is it multiplies -- it applies the percentage to the business loop and the residence loop to meld them together.

Q. Okay. But what I'm interested in you providing for me is what it was in the business loop and what it was in the residential before you would have melded them together and then the percentage of each, whether was 20 percent or 40 or whatever it was.

A. Okay.

MR. PICKERING: Can we do that?

MR. KITCHINGS: Is such readily available or is that something we'd have to create?

THE WITNESS: The percentages are readily available. We would have to go into the Calculator to find those pages. I mean I would have to find those out. They're not readily at my hands.

MR. KITCHINGS: Well, we'll give you what we can find. We're not going to create anything.

MR. PICKERING: No. And I'm not asking you to create it. But assuming it's in the calculations somewhere, then we'd ask you to provide that.

MR. KITCHINGS: Sure.

BY MR. PICKERING:

Q. And it's in there somewhere? You don't have create it, you have to find it. Is that correct?

A. I think I actually have to run the loop model to get that number.

Q. Yes. But it's in the loop model is my point.

A. It's in the loop model, yes.

Q. Okay. If you will furnish us that, please, ma'am. Thank you.

Define for me, please, ma'am, "overhead cost" as you used it relative to -- I think it's on page 9, line 12. In italics you have overhead cost, the level of overhead cost. Define that for me, please, ma'am.

A. In that particular reference, I'm using that as shared and common cost, both shared and common.

Q. The question is, on line 6: Should the Commission, in determining whether the pay phone service rates meet the New Services Test, consider shared and common? And you said: Yes. But only indirectly.

Please help me with what "indirectly" means.

A. Basically the way I'm using the term in terms of "indirectly" is you should not take some allocation of shared cost and common cost and allocate it to pay phone. What you should do is look at the rate that would be appropriate. And

Mr. Sanders addresses what that should be.

And then just be sure that that rate is above the TSLRIC cost I have calculated so that the product does make a contribution to the -- I use the term "overhead" but is shared and common cost to the firm.

Q. In your opinion is the amount of the overhead cost currently included in the PTAS rates a reasonable amount to be included in a cost based rate?

A. I do not know what the rate is. I can't remember what the rate is. Mr. Sanders could answer that.

Q. Is it your opinion that the PTAS rates currently include a reasonable amount of overhead cost?

A. I do not know what the rate is. I mean they do include some level of contribution of shared and common, but Mr. Sanders would have to tell you what that is.

Q. You don't know what that overhead cost is?

A. I do not know what the rate is right now.

Q. Or what portion of that rate constitutes overhead cost?

A. No.

Q. Assume for just illustration purposes that the rate was $50. Would that be, based on the cost and the overhead, a reasonable rate of overhead?

A. I think there are several factors that you would have to look at, of which I do not have the data to consider those. You have to look at other maybe similar products in the market and what prices or -- excuse me -- what charges are actually for those similar type products and other services, what are the contribution levels for those similar type offerings.

Q. Are there similar type offerings to pay phones?

A. I think there are some services that we filed with the FCC we might could look at, but beyond that I need to defer that to Mr. Sanders.

Q. On page 9 -- lines 13 and 14, I'm making reference to -- define for me, please, ma'am, implicit subsidy that a service contributes to its universal service.

A. My understanding of an implicit subsidy is that we have services that have a contribution level that's positive. It is over and above the total service long run incremental cost. So there is a positive contribution to the shared and common cost of the firm.

And also in some of our services there is an additional contribution level that was considered when the rates were set as some contribution towards the universal service fund or the universal service -- the best way to say that is the provision of universal service.

And it's implicit because it's never said that like $2 of this particular rate is for universal service. It's just that a group of services as a whole are going to contribute to universal service.

Q. Do you know what portion of the current rates are relative to implicited subsidy towards universal service?

A. I do not.

Q. On a cost based rate, what percent would you think would be appropriate for an implicit subsidy?

A. I think, again, we're back to the term "cost based" that keeps giving me a problem. So I can't answer that question.

Q. Well, cost based, I think you have said, is the actual cost that it costs BellSouth to perform the service, is it not?

A. That was how I defined the underlying cost.
Q. Right.
A. But we seem to keep moving that towards the rate. And that's the one step I can't make.
Q. All right. Well, let me ask you this. In the cost study that you've done, is there any implicit subsidy in those figures?
A. No, there is not.
Q. Do you know of any time that the Louisiana Commission has rejected BellSouth's efforts to include an implicit subsidy in a cost rated base -- or cost based rate? Excuse me.
A. Could you repeat that? I'm sorry.
Q. Yes. Do you know of any time recently or in recent history when the Louisiana Commission has rejected BellSouth's efforts to include an implicit subsidy in the cost based rate?
MR. KITCHINGS: I object to the form of the question. The witness just answered that there aren't any implicit subsidies in this rate. But she can answer.
BY MR. PICKERING:
Q. Go ahead if you can answer.
A. No, I really can't. I can't -- I'm really rather confused.

Q. Okay. You don't understand the question. Let me try again. Has the Louisiana Commission, in any ratings that you have been involved in, rejected an implicit subsidy as part of that rate?

A. In any hearing or --

Q. Docket.

A. -- docket before the Commission, I would not have been involved other than just from a cost aspect. And I cannot remember anything dealing with an implicit rejection.

Q. Okay. Define for me, please, ma'am, "market based influences."

A. Is that taken from my testimony?

Q. I think so.

A. Is there a reference?

Q. Yes, ma'am. On page 9, line 22.

A. Market based influences, as I was thinking about it in terms of this particular sentence, would be -- when you're looking at the actual rate, you could have other influences from the market such as competition or similar products or anything of that type that would have an influence on the market itself. Customer's willingness to pay, those type things that would be considered when you're looking at the rate aspect.

Q. How much of the current rate is based on market based influences?

A. I do not know how much of that --

MR. KITCHINGS: Off the record for one second.

(Discussion off the record.)

BY MR. PICKERING:

Q. Let me ask it another way then. What in your opinion would be a reasonable amount in a rate that would represent market based influences?

A. I don't think you can just give it a dollar amount. I mean you have to look at what the service is, what those market influences are, a lot of different types of information before you could ever consider that type of -- and I'm not sure you would ever come up with just a dollar amount so much as what the appropriate rate should be in the end.

Q. How about a percentage?

A. I can't answer that.

Q. In your opinion would it be appropriate to include market based influences in a cost based rate?

A. I believe you could because basically, again, the cost -- using cost based as you have developed the cost that the company would incur. So you know you're covering your cost, and then that becomes the foundation of it being a cost based rate.

Q. In your cost that you have produced in the docket on Exhibit DDC-1, did you use market based influence as a factor?

A. Not in the cost study. That would have been used in determining the contribution level.

Q. How far from the actual cost, in your opinion, could you differ or increase and still be a cost based rate?

A. I don't think there is any measure for that. As long as the customer is willing to pay and that's what the market will bear and you're covering your direct costs, then you're fine.

Q. So buyer beware?

A. Not necessarily. But as long as the customer is willing to pay, and that's with competitive influences.

Q. Would 100 percent over cost as a rate be a reasonable cost based rate?

A. Based on my previous statement, there is no measure. There is no percentage.

Q. Same answer for 1000 percent?

A. Same answer.

Q. Thank you, ma'am. On page 10, please, ma'am, starting with line 19, you say that BellSouth does not necessarily agree with the adjustments the specific modifications made include. And the first one on line 19 would be the cost of money at 10.15 percent, which you talked about earlier. Where does that number come from?

A. That number was ordered in the generic cost docket by the Commission.

Q. Was that figure used in your cost analysis?

A. Yes, it was.

Q. On line 20, item 2, depreciation basically set -- you talked about it earlier, that you used the depreciation that was set by the FCC?

A. Yes. Which is also the same numbers that was ordered by the Louisiana Commission.

Q. And what is that number?

A. They are different by each individual plan account, and I do not know those.

Q. Would that be included in the DDC-1?

A. They were in the Capital Cost Calculator run, and they are not -- can I have just one minute?

Q. Sure. Of course.

A. Yes. You can find them in this

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documentation. You do not have the actual lives, but you do have the depreciation rate which is calculated off those lives.

Q. And what is that, please, ma'am?

A. Well, they're different for each account. So you would need to look at each individual account that you're dealing with. But, for instance, if you're looking at 10-C, which is your building account, your depreciation factor is [redacted]

Q. And what page might that be?

A. This is on page 29.

Q. That's the Bates stamp on the bottom?

A. That's the Bates stamp on the bottom. So each one of your depreciation rates are listed here.

Q. While you're there looking at the document, where would I find the cost of money set out in your work papers?

A. The cost of money is actually two columns over. Column D -- as in "David" -- is the cost of money factor. This is after -- it's looked at over the life of the account. You can always tell what your cost of money factor is by looking at land.

And you can see that the cost of money factor is [redacted] which corresponds to the 10.15 percent that I have listed on page 10. And then the

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other cost of monies are calculated by each individual account. And so for each account you would find under Column D those factors.

Q. And item 3, the plant specific factor, it says reduce level of expenses by 10 percent. Where might I find that?

A. The actual plant specific factors are on that same page, Column H as in "Howard."

Q. Item 4 the structure sharing, where would we find that?

A. Those particular calculations are internal to the model. We had to adjust the factors to account for that. The pole loading factor for -- sorry. It just took me a minute.

Q. That's okay.

A. On page 16, Bates stamped, Column F is your pole factor. And it's applied to your aerial cable. And the factor is listed as [redacted] That includes the sharing of [redacted] And that does not mean -- it's just a coincidence that it's [redacted] Internal to that factor we have adjusted so that it's [redacted] percent sharing.

The reduced trenching cost would have been adjusted in the in-plant factor for buried cable, and that is found on page 15. And the conduit --

since we use a loading factor, that's not a big driver in this particular environment.

Q. So the reduced installation cost of the conduit, that's not on a specific --

A. The only place that would at all be indicated is on page 16 under Column H. You have a conduit loading factor against your underground cable. It's just I'm saying it's not a big driver in this particular case.

Q. And item 5, where would that be found?

A. That's internal to the loop model where you applied the field factors to the cable as well as to the digital loop carrier.

Q. And item 6 on the next page?

A. Not a lot of labor rates in this particular study. It's not Bates stamped. Or I can't find it. But in the package that I'm looking at, it's four pages into the study. The page we talked about previously.

Q. Right. That's the same page that has the various costs including other costs in the center of the page. Correct?

A. Correct. There is a column called direct level localized labor rate. There is no shared component in there. And also we have gone in and adjusted those rates to reflect the 2.5 percent year over year that the Commission ordered.

Q. While we're on that page 4, at the top left-hand side it talks about job grade and then job description and head count and available annual hours. Can you tell me why all of these people are involved in pay phones?

A. I can't name every one. I can give a general description for some of the categories.

Q. Please, ma'am.

A. The product management individuals would be responsible for the pay phone service that we provide, both PTAS and SmartLine that we're dealing with. So that's your first two categories. The market manager, I can't answer that one. The pricing, that would be the person responsible for setting up the tariffs, looking at getting things filed with the Commission, that type individual.

Cost matters, that would be the individuals in my department where they're actually working on the cost studies, particularly in the time frame that we're looking at here. We're looking at over the time frame developing the cost studies to support the various filings.

And then any cost work that the product

manager might need at any time to look at his product. Then you have sales individuals that actually work with the customers that are actually account execs for the different pay phone companies -- or I guess the right word is pay phone providers -- that we deal with.

These are BST employees that handle selling to our pay phone providers. Systems designers work with them. I can't give any more definition on that.

Q. Thank you, ma'am. Look, please, ma'am, at your direct testimony on page 11, line 17. It actually goes over onto the next page for three pages. I mean for three lines. Excuse me. Can you describe for me, please, the detail adjustments made to make it cost specific to pay phone services; and if so, where would we find that in DDC-1?

A. When we studied the unbundled loop and port in the UNE docket, we considered them standalone components, which meant they were not connected together. They terminated on the main distribution frame.

So what you need to do is -- if I am going to be working with a service such as pay phone that allows the loop and the port to be put together as one continuous circuit, then I must make some adjustment to my starting network components which were my underlying UNEs.

So what I did was -- in the underlying UNEs you had an MDF termination for each. So I removed the MDF termination from the loop and zeroed it out because you don't need it. The next adjustment was to go in the digital loop carrier file and make the adjustment so that it allows 100 percent integration into the switch.

So what we did was at that point to allow -- excuse me. I don't think it's 100 percent integration in this particular study. It's some percentage less than that, whatever was at that time available in the network and projected going forward.

So we adjusted that so that when digital loop carrier is used on that loop, that loop is allowed to be integrated directly into the switch. And those adjustments are made internal to the loop model itself, into the loop carrier file, etcetera.

You would not see them in this particular docket. That is in the loop model itself.

Q. Are those available, the changes that were made?

A. I don't know how they print out. It's been a while since I looked at the loop model to see how they could print to provide them.

MR. PICKERING: Counsel, I would ask that, if she can without having to reconstruct something, look at those and if they are available, if you would kindly make those available to us.

MR. KITCHINGS: If available, we will make them available.

MR. PICKERING: Thank you.

BY MR. PICKERING:

Q. I think you stated that you subtracted out the MDF from the loop?

A. Correct.

Q. What amount would that be? Do we know that?

A. That I don't remember.

Q. Again, that would be available?

A. It's available in the same other file that we were just talking about, if I can produce that.

Q. Okay. Thank you very much. Would the same thing be true basically for the universal digital loop carrier? Would that be the same thing?

A. Yes.

Q. So those would all be in whatever numbers were used --
A. Correct.
Q. -- that are not part of the DDC-1?
A. Correct. They are reflected in the digital loop carrier. The change is already reflected in the digital loop carrier numbers provided here.
Q. The dollar amount that would have been deducted for the MDF and for the loop carrier, would those likewise be in those work papers?
A. In those work papers you're not going to see the dollar amount that's been deducted. What you see is the after effect of these changes. I mean you see the MDF set to zero on that sheet of paper. And you would see the digital loop carrier file reflecting a certain percentage of the time you would not need a central office terminal.
So those files would be the output. I don't have a before and after run.
Q. All right. Thank you, ma'am. On page 12 of your pre-file testimony, I'm referring to line 7 through 13 wherein it refers to the reasonable level of contribution toward the joint and common cost of the corporation. What does that really mean?
A. That when you set your rate, your rate

should be above your TSLRIC cost, that the difference is defined as your contribution, and that you are making a contribution to the joint and common overhead of the firm.

Q. Would that commonly be referred to as overhead?

A. I think I have used those terms interchangeably.

Q. And the question is: What makes it a reasonable level of contribution? What is meant by reasonable level of contribution?

A. I believe in terms that as long as you are making some contribution to your joint and common costs. And then the level of that amount is really measured by the market, customer willingness to pay, what the market will bear, the things we've talked about before. There is no miracle dollar amount or percentage for reasonable.

Q. If a reasonable level is what a willing buyer is willing to pay, is there such a thing as an unreasonable level?

A. I believe in that context there wouldn't be because basically the customer is not going to pay more than the customer is willing to pay. So they would never pay an unreasonable amount.

Q. But the customer wouldn't know what portion they were paying of overhead, would they?

A. They wouldn't know, but that doesn't matter. They only know the rate that they pay, and they're comparing what value they're getting and what else they're seeing in the market.

Q. I understand that. But they wouldn't know what the overhead rate was calculated in that price?

A. No. They wouldn't need to.

Q. On the same page, please, ma'am, on lines 22 and 23, we talk about PTAS and SmartLines are retail services, not unbundled network elements. What do you mean when you refer to retail?

A. They are actual services that we are providing to a customer, and market those particular services.

Q. So to provide lines to a pay phone service provider, you look at that as a retail service?

A. Yes, I do.

Q. What is the retail cost on -- is there a retail cost set out in the cost test?

A. Yes. When we talked about the product management and the sales items that we've been talking about on that page, those are examples of the retail cost associated --

Q. That would have been on page 4 that you and I were referring to? It's an unnumbered page, but it's the fourth one in the packet. Is that correct? Or is it the third?

A. It's the actual fourth page in the package.

Q. And what's the title on top of that page?

A. Pay Phone Product Line Cost.

Q. And that's what we've been referring to previously?

A. Yes.

Q. Does that sheet contain all of the retail costs associated with pay phones?

A. Yes. Those are our retial costs we've identified for pay phone.

Q. On page 13, the question will have reference to lines 6 through 13. Explain for me, please, ma'am, why it's appropriate to make adjustments ordered for a TELRIC study when conducting a TSLRIC study?

A. In this particular case the adjustments, all the ones we've been talking about, cost of money, etcetera, I don't think it's so much TELRIC adjustments to a TSLRIC methodology as it is, as I defined earlier, your inputs that are common to both studies, such field factors, cost of money, depreciation.

Those particular items, the Commission had just ruled on. And we did not see that we would go back and argue those same particular issues again with the Commission since they had just recently issued an Order. Even though it wasn't a TELRIC document, those type inputs would be similar.

Q. As a cost analyst, is the New Services Test equivalent to a requirement that rates be cost based?

MR. KITCHINGS: I object to that. I think it's beyond the scope of the testimony. But she can answer if she knows.

A. I don't know.

Q. Would you describe to me, please, ma'am, the forward-looking economics cost methodology consistent with the principles in the FCC's First Report and Order relative to pay phones? I'm sorry. Let me restate the question.

Would you describe a forward-looking economic cost methodology consistent with the principles of the FCC's First Report and Order?

A. The First Report and Order referring to the August 8th Order associated with -- it's the

August 8th Order. I don't remember what it was associated with.

Q. Yes, ma'am.

A. All right. Now rephrase it, and I'll know exactly which one.

Q. Okay. Describe for me, please, a forward-looking economic cost methodology consistent with the principles of that First Report and Order.

A. In general terms what the FCC defined was a methodology that looks at providing a wholesale network. That means there are no retail costs included. And you are providing components of the network to individual competitive local exchange providers.

So you use a forward-looking network to cost out a wholesale narrow band network to provide unbundled network elements. And you basically develop the network using currently available technology forward-looking, and you assume the existing wire center locations and build a network from that standpoint.

Q. Is that a TELRIC methodology?

A. Yes, that's TELRIC.

Q. Could it also be a TSLRIC methodology?

A. Certain components of it can be a TSLRIC methodology. You can start with looking at the underlying loop. But as I mentioned earlier, you need to make adjustments so that when you're studying a TSLRIC study, certain costs are direct and other costs are shared.

When you move to the TELRIC environment, some of those costs that were shared by services are now direct to individual network components.

Q. Describe for me the ways that the cost study that you have provided would be different from one developed consistent with the principles of that First Report and Order.

A. Let me just talk in terms of what we've done here. I believe that, first of all, we defined our cost component to be a pay phone service. So we looked at pay phone characteristics such as usage data, which we talked about, and also the loop length that I adjusted by the residence-business mix. You also would include your retail cost.

I think one of the biggest differences -- I didn't mention it when I talked about TELRIC. The FCC Report and Order defines TELRIC, total element long run incremental cost, as all of the direct costs plus shared costs. And then in addition to that, it says that you can assign to that a -- I think the actual term is reasonable projection of common overhead or common cost to the firm.

So there's a common cost added in the TELRIC world. When I did the TSLRIC study, I do not include shared and do not include common. I stop at the direct cost component.

Q. If you know, would you describe for me the methodology used by BellSouth to determine the overhead cost that is included in the existing rates for pay phone services?

A. No, I cannot answer that question.

Q. Are the overhead amounts in the existing rates for pay phone services based on the cost of providing those services?

A. I do not know what those overheads are.

Q. Do the existing rates for pay phone services provide a subsidy to any other services provided by BellSouth?

A. Only thing that I'm aware of at all would be the implicit subsidy for universal service that we did discuss earlier. But I believe Mr. Sanders would know more about that issue.

Q. What services would you consider to be comparable that are offered by BellSouth to pay phone services from a comparable cost standpoint?

A. I don't really know or else I just don't understand the question.

Q. Are there other services rendered by BellSouth that you would consider to be comparable to pay phone services?

A. I think I need to defer that one to Mr. Sanders.

Q. Are the costs in the cost study jurisdictionally separated costs or total cost?

A. Total cost. Non-separated.

Q. Explain for me, please, ma'am, how other sources of revenue, specifically SLC, PICC, and CCL, were considered when the existing pay phone rates were developed, if you know.

A. I do not know.

Q. How have you considered the SLC, PICC, and CCL revenue sources in your calculations of the cost study?

A. There are no revenues included in my cost study. This is the cost. Just the cost.

MR. PICKERING: Counsel, may we take about a two-minute break?

MR. KITCHINGS: Perfect timing.

(A recess was taken.)

BY MR. PICKERING:

Q. Just a few more questions.

A. Okay.

Q. Help me, if you can, as to what the differences are between the South Carolina PTAS study and the Louisiana PTAS study.

A. I'm trying to remember. In the South Carolina study, we again made all the adjustments that the Commission had ordered in the UNE environment, or the unbundled network element environment. And we also made the digital loop carrier and MDF adjustments that we talked about to allow for integration into the switch.

Those adjustments were made. They're similar between the two states. To the best of my recollection, in North Carolina we did not include any of the product management, the retail offerings -- excuse me -- the retail cost associated with the pay phone offerings. And those were not included.

Rather, instead we developed a cost from the unbundled network element environment that showed the direct cost and also showed what the shared and common component would have been if it had been calculated like the unbundled network element shared and common amount as a separate item.

Q. On page 4, I think what you have just told me is that you did not include the other cost items in the South Carolina study?

A. To the best of my recollection, that's correct.

Q. Why not?

A. When we went into the South Carolina environment, we were looking at just having finished the generic cost docket. And it was felt that we would use that as the foundation and then pick up -- the contribution would be sufficient enough to cover any of these costs without actually having calculated them.

Q. What contribution?

A. The contribution in the rate less the direct cost.

Q. As I understand it, you put the shared and the common in the South Carolina study but not in the Louisiana study. Help me as to why not.

A. All we did was show what that amount would be. I do not consider that as the appropriate thing to have done. And shared and common calculated from the UNE environment is not something that should be used in determining whether or not pay phone passes the New Services Test.

So it is not viable in the Louisiana environment to show that number.

Q. Should it be used to show whether or not it is cost based --

A. I do not believe so.

Q. -- rate? You don't believe so?

A. I do not believe so.

Q. Why not?

A. Because again, cost based -- the definition I've been using is the that cost base is you have a cost of what it incurred -- excuse me -- of what the company incurred to provide the service. And then a contribution above that is fine. You're still at cost based as long as you're recovering your cost. It's the foundation.

Q. Does BellSouth incur shared and common costs when providing a service rather than an unbundled network?

A. BellSouth has shared and common costs that are not directly assigned to any service. I think the difference is when you look at an unbundled network element, costs that when you're looking at the service environment would be shared among services -- say, for instance, you have a loop. And in your loop world you have ESSX service, you have pay phone service, you have residence service, you have business service. All of those services have shared cost.

But when I'm studying a loop, the unbundled loop, I've changed my cost component to a network element. And when I do that, costs that were shared in the service environment now become direct cost of providing the network component.

Q. You incur shared and common costs both for a UNE and for any other services. Correct?

A. Yes. You have shared costs in your environment. All I'm saying is that the shared component that's calculated in the unbundled network element environment, those are defined as direct. They become direct by definition of TELRIC.

Q. Could you make the calculation on shared and common cost for a service?

A. I don't think that's the appropriate thing to do because all I'm doing is determining the price not to charge below.

Q. I understand that. But can you calculate those costs?

A. You could calculate, using the same type of allocation that was in the unbundled network element environment world. But again, that's inappropriate.

Q. How would you determine whether a given rate produces a contribution to a shared and common cost that is reasonable?

A. I believe that's the same type question we discussed before in terms of as long as you're covering your costs and you have the customer willingness to pay, therefore you have a contribution. And it's a contribution to shared and common. There is no miracle number for measurement for reasonable.

Q. Can it be done by considering the cost of the services directly rather than by comparing it to other services?

A. I don't know about that. I either didn't understand or I just don't know.

MR. PICKERING: I don't have any other questions, Counsel. Thank you very much. Appreciate your time.

MR. KITCHINGS: Thank you, Ms. Caldwell.

(Concluded at 3:45 p.m.)

EXHIBIT DJW - 3

Exhibit DJW-3

SOUTH CAROLINA MONTHLY PTAS COST

Item No. 1
Attachment No. 1
Page 1 of 3

	Direct Cost	Shared and Common Cost	TELRIC
PTAS Loop (UNE A.1.1 2W Analog Loop adjusted to reflect 47% Residence/53% Business loop mix, include mix of UDLC and IDLC, and eliminate MDF cost)	$	$	$
UNE B.1.1 2W Analog Port (Res/Bus)	$	$	$
PTAS Blocking and Screening (not filed as a UNE)	$	$	$
Billed Number Screening (UNEs E.2.1 LIDB Common Transport per Query and E.2.2 LIDB Validation per Query)	$	$	$
Monthly Coin Usage	$	$	$
UNE C.1.1 - End Office Switching Function, Per MOU	$	$	$
UNE C.1.2 - End Office Interoffice Trunk Port - Shared, Per MOU	$	$	$
UNE C.2.1 - Tandem Switching Function Per MOU	$	$	$
UNE C.2.2 - Tandem Interoffice Trunk Port - Shared, Per MOU	$	$	$
UNE D.1.1 - Common Transport - Per Mile, Per MOU	$	$	$
UNE D.1.2 - Common Transport - Facilities Termination Per MOU	$	$	$
TOTAL Monthly Coin Usage Cost			
TOTAL PTAS COST	$	$	$

Note: All costs developed in accordance with Order No. 98-214 in Docket No. 97-374-C

10/6/98

Exhibit DJW-3

NORTH CAROLINA MONTHLY PTAS COST

		Source	TELRIC
1			
2	UNE A.1.1 UNE -2W Analog Loop (36.25% Business/63.75% Residence)	8/16/98 UNE Cost Study Filing TELRIC Calculator Outputs	$
3	2W Analog Loop -- Business Only	Revised TELRIC Calculator Run	$
4	2W Analog Loop -- Residence Only	Revised TELRIC Calculator Run	$
5	2W Analog Loop -- 80% Business/20% Residence	.8*L3+.2*L4	$
6			
7	Cost of MDF included in 2W Analog Loop	Cost Adjustments for MDF and Digital Loop Carrier	
8	Cost difference for integrated DLC melded with nonintegrated DLC	Cost Adjustments for MDF and Digital Loop Carrier	
9			
10	PTAS Loop (2W Analog Loop Adjusted)	L5+L7+L8	$
11			
12	UNE B.1.1 2W Analog Port (Res/Bus)	8/16/98 UNE Cost Study Filing TELRIC Calculator Outputs	$
13			
14	PTAS Blocking and Screening (not filed as a UNE) - Cost Element L.1.4	TELRIC Calculator Output and Input Development Spreadsheet	$
15			
16	Monthly Coin Usage		
17	UNE C.1.1 - End Office Switching Function, Per MOU	Monthly Coin Usage Cost Line 14	$
18	UNE C.1.2 - End Office Interoffice Trunk Port - Shared, Per MOU	Monthly Coin Usage Cost Line 15	$
19	UNE C.2.1 - Tandem Switching Function Per MOU	Monthly Coin Usage Cost Line 16	$
20	UNE C.2.2 - Tandem Interoffice Trunk Port - Shared, Per MOU	Monthly Coin Usage Cost Line 17	$
21	UNE D.1.1 - Common Transport - Per Mile, Per MOU	Monthly Coin Usage Cost Line 18	$
22	UNE D.1.2 - Common Transport - Facilities Termination Per MOU	Monthly Coin Usage Cost Line 19	$
23	TOTAL Monthly Coin Usage Cost	Sum L17 .L22	$
24			
25			
26	TOTAL PTAS COST	L10+L12+L14+L23	$
27			
28	Average Number of Local DA Calls Per IPP Station Per Month = 3.18	Operator Services (TTFS Report)	
29	UNE G.5.1 Directory Assistance Access Service Calls, Cost Per Call	8/19/98 UNE Cost Study Filing TELRIC Calculator Outputs	$
30	Average DA Cost Per IPP Stations per Month	L28*L29	$
31			
32	Average PTAS Revenue per Line (includes Subscriber Line Charge)		$
33			
34			
35	PTAS Cost/PTAS Revenue	L26/L32	
36	PTAS Cost (including DA cost)/PTAS Revenue	(L26+L30)/L32	

Note: All costs developed in accordance with NCUC Staff Recommendation in UNE docket

9/11/98

Exhibit DJW-3

LOUISIANA

Summary of Results

Line	Description	PTAS	SmartLine
1	Loop		
2			
3	Termination		
4			
5	Usage		
6			
7	Blocking and Screening		
8			
9	Billed Number Screening		
10			
11	Total		
12			
13	Payphone Product Costs		
14			
15	Total Plus Payphone Product Costs		
16			
17			
18			
19			
20			
21			
22			
23			
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TENNESSEE DOCKET NO.97-00409
SECTION 1
EXECUTIVE SUMMARY

Exhibit DJW - 3

SUMMARY OF RESULTS FROM TENNESSEE TSLRIC COIN STUDY

PTAS Service	MONTHLY COST
PTAS Loop	$
Non-traffic Sensitive PTAS Line Termination	$
Monthly Usage Cost	$
PTAS Central Office Blocking and Screening	$
Product Support	$
Total PTAS Monthly Cost	$

BellSouth SMARTLine Service	
SMARTLine Loop	$
SMARTLine NTS Line Termination	$
Monthly Usage Cost	$
SMARTLine Central Office Blocking and Screening	$
Product Support	$
Total SMARTLine Monthly Cost	$

CERTIFICATE OF SERVICE

I hereby certify that on October 6, 2000, a copy of the foregoing document was served on the parties of record, via U.S. Mail, addressed as follows:

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