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Tracy Hatch
Attorney

Suite 700
101 N. Monroe St.
Tallahassee, FL 32301
904 425-6364
FAX: 904 425-6361

January 27, 1997

Mrs. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Docket No. ~~960833~~ 960833-TP, 960846-TP & 960916-TP

Dear Mrs. Bayo:

Enclosed for filing in the above referenced docket are an original and fifteen (15) copies of AT&T's Cross Motion for Reconsideration of Order No. PSC-96-1509-FOF-TP.

Copies of the foregoing are being served on all parties of record in accordance with the attached Certificate of Service.

Yours truly,

Tracy Hatch

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LES 1 _____
- LPI 5 _____
- OFC _____
- RON _____
- SEC 1 _____
- WAS _____
- OTH _____

cc: Parties of Record

DOCUMENT NUMBER-DATE

01059 JAN 27 97

FPSC-RECORDS/REPORTING

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petitions by AT&T Communications)	Docket No. 960833-TP
of the Southern States, Inc.; MCI)	Docket No. 960846-TP
Telecommunications Corporation; MCI Metro)	
Access Transmission Services, Inc. for)	Filed: January 27, 1997
arbitration of certain terms and condition))	
terms and conditions of a proposed)	
agreement with BellSouth)	
Telecommunications, Inc. concerning)	
interconnection and resale under the)	
Telecommunications Act of 1996.)	
)	

AT&T COMMUNICATIONS OF THE SOUTHERN STATES INC.'S

CROSS MOTION FOR RECONSIDERATION OF ORDER NO. PSC-96-1509-FOF-TP

AT&T Communications of the Southern States, Inc. (AT&T), pursuant to Rules 25-22.060(1)(b) and (3)(c), Florida Administrative Code, hereby files its Cross Motion for Reconsideration of Order No. PSC-96-1509-FOF-TP (the Order). Reconsideration is required to correct certain inconsistencies and errors within the Order. In support of its Cross Motion for Reconsideration, AT&T states as follows:

The Commission's Order made numerous findings regarding the issues identified in this proceeding. In particular, the Order established the prices for several unbundled network elements including loops and local switching. In addition, the Order established wholesale discounts for residential and business services. As discussed in greater detail below, there are certain errors and inconsistencies in the Commission's decisions which clearly result from points the Commission overlooked or failed to consider and must be corrected as explained below.

DOCUMENT NUMBER-DATE

01059 JAN 27 97

FPSC-RECORDS/REPORTING

I. Wholesale Discounts

The Order establishes wholesale discounts of 16.81% and 21.83%. In its analysis of the avoided cost standard the Commission determined that the cost for operator services would not be excluded from the calculation of the avoided cost discounts. It appears from the Order that this finding is based on the testimony of BellSouth's Witness Reid that AT&T and MCI will continue to secure operator services from BellSouth under resale. (Order p. 52) To the extent that AT&T or MCI provides its own operator services, this statement is simply incorrect and the Order should be corrected.

When AT&T provides its own operator services and does not use BellSouth's operator services, none of BellSouth's expenses for operator services can be attributed to the local service provided to AT&T. BellSouth will actually avoid these expenses. This actual avoidance of operator services expenses must, under the Commission's articulated standard for setting the resale discount, be factored into the calculation of avoided costs. As Witness Reid noted, the wholesale service price should correspond to the related retail service provided by BellSouth (Tr. 2364 and Order p. 48) In this case, the retail service provided by BellSouth will be local service and will not include any operator services.¹ Requiring AT&T to pay for even a portion of BellSouth's operator services expenses in those instances where no operator services are being performed by BellSouth is

¹ The Commission's decision to treat operator services expenses as not avoided is even more curious in light of the Commission's decision that direct routing of O+ and O- calls is technically feasible and should be provided to AT&T.

inconsistent with the Commission's avoided cost standard and BellSouth's own description of the relationship between the retail service and wholesale price. To correct this problem, the Commission should at least establish a separate wholesale discount to apply to those situations in which, as in AT&T's case, a carrier provides its own operator services.

The Order indicates that it is not appropriate to require an ILEC to disaggregate a retail service into more discrete retail services. The Order seems to assume that if AT&T purchases basic local service from BellSouth at a discount that, somehow, operator services are included in the package. This assumption is incorrect. In making this decision, the Commission overlooked the fact that operator services are a discrete service separate and apart from local or other services. This service has its own discrete tariffed terms and rates and recovers its costs from those rates. AT&T has not proposed any disaggregation of any retail service; neither has it attempted to purchase a "piece" of a service.

For the reasons set forth above, AT&T requests that the Commission reconsider its decision regarding wholesale discounts and establish an additional discount rate that excludes operator services expenses from the wholesale rate for those situations in which AT&T and MCI provide their own operator services.

II. Unbundled Loops and Ports

The Commission established prices based on BellSouth's cost studies submitted in this proceeding. AT&T's witness Ellison

made numerous criticisms of the BellSouth cost studies. The Order stated that "AT&T's suggested adjustments to BellSouth's cost study results are worth noting and we will consider them in setting rates." (Order p. 30) However, after describing several of the criticisms in greater detail, the rates were set based on BellSouth's cost studies with apparently no adjustments made to reflect the criticisms made by AT&T. Although the Commission stated that it would consider AT&T's adjustments, it failed to do so and thus should be reconsidered. The specific problems with BellSouth's studies are discussed in detail below.

BellSouth's nonrecurring cost study assumed heavy manual intervention in the service order process for such activities as engineering circuits and field work. Presumably this manual intervention was based on BellSouth's view that the electronic interfaces sought by AT&T were not technically feasible. In light of the Commission's decision to require BellSouth to provide real-time interactive electronic interfaces for service ordering, preordering, trouble reporting, customer usage data transfer and local account maintenance, BellSouth's costs are overstated. Because the heavy manual intervention, assumed by BellSouth, will be obviated by the electronic interfaces, the costs for service ordering must be reduced. This will more accurately reflect the environment in which BellSouth will be operating.

BellSouth's nonrecurring cost study reflects field work in every instance. However, BellSouth, in its Motion for Reconsideration of the Order filed January 15, 1997, states:

If MCI or AT&T wins this customer, and chooses to resell the service, then only the billing records are changed so that the service is billed to MCI or AT&T, instead of the end-user. No physical work is done to the customer's service. By way of comparison, without modification, the Commission's Order will allow MCI and AT&T to simply advise BellSouth that it has won the existing customer, and to request that the service be provided and billed to it at the unbundled rates for the loop and port. The same service results. (BellSouth Motion for Reconsideration p. 7) (emphasis added)

As admitted by BellSouth, when a UNE platform is purchased from BellSouth, the NRCs set forth in the study are overstated. It is apparent from the Commission's Order that this cost overstatement was not considered in setting rates. The Commission must establish separate rates to reflect installations involving customer transfers and installations requiring field work and those where no field work is necessary.

BellSouth's cost nonrecurring cost study assumes that there would be no combinations of loops and ports. In view of the Commission's determination that loops and ports may be combined, it appears that duplicate service order processing charges are included in the combined NRC for ports and loops. The Commission must correct this duplication which causes BellSouth's NRC costs to be overstated.

BellSouth's nonrecurring cost study assumes that each loop ordered by AT&T will require a design layout record (DLR). This function adds significantly to the cost of a loop. AT&T has not requested engineered circuits. BellSouth's incorrect assumption that each loop requires a DLR causes the nonrecurring loop cost to be significantly overstated. This statement is supported by

the statements of BellSouth's Witness Caldwell in a deposition² taken November 21, 1996 in the course of the Louisiana arbitration proceeding. (Louisiana Depo. Tr. pp 90-94) In that deposition, Ms. Caldwell stated that BellSouth is in the process of recalculating its NRCs and that the NRCs will be reduced "dramatically." (Louisiana Depo. Tr. p. 93) The Commission must reconsider the NRC rates that it has set in this proceeding and reset them on the basis of BellSouth's correct costs.

Similarly, BellSouth's recurring monthly cost studies assume a main distribution frame termination charge for the loop and again for the port based on an incorrect assumption that there will be no loop/port combinations. With a combined loop and port, only one main frame connection and one protector would be included. (Caldwell Louisiana Depo. Tr. p.68) In addition, when a loop is served by integrated digital loop carrier, the loop central office terminal associated with unintegrated digital loop carrier would not be included. (Caldwell Louisiana Depo. Tr. p.68) The recurring monthly rates for loops and ports must be adjusted to remove the inappropriate duplication of loop termination costs and the inappropriate inclusion of central office terminal costs in loops served by integrated digital loop carrier.

The rate for local switching set by the Commission is based on BellSouth's local switching cost study. The cost study overstates BellSouth's local switching costs, particularly with regard to the additional charge included in the local switching

² A copy of the relevant excerpts of the deposition transcript is attached as Attachment A.

rate for the first minute. Included in BellSouth's switching cost study is an "expense per message charge." This charge significantly increases the price of first minute additive. Ms. Caldwell states in her deposition in Louisiana that the per message charge is not an appropriate TSLRIC charge and that it was removed from BellSouth's Louisiana study. (Louisiana Depo. Tr. pp 40, 62-63) While this charge appears small, its impact is very large because of the total number of minutes that will be subject to the charge. The local switching rate must be corrected to more accurately reflect BellSouth's costs.

As a final comment on the validity and reliability of BellSouth's loop cost study, the Commission apparently overlooked Exhibit No. 72 in its deliberations. Exhibit 72 is a Commission Staff Audit Report that examines BellSouth's costs to provide ESSX service to confinement facilities. The Audit report states that, based on BellSouth's cost studies, the Company's total company monthly recurring cost for an ESSX loop is \$5.68. This is significantly below BellSouth's stated loop costs in this proceeding.

Exhibit No. 72 is particularly significant in that BellSouth's witness Milner (Tr. 2730) stated during cross examination that there was no significant technical difference between a single-line residential loop and an ESSX loop. The dramatic differences between the two studies regarding the same facility -- the loop -- indicate that BellSouth's TSLRIC loop cost study in this proceeding badly overstates its loop costs and cannot be relied upon to establish permanent rates. To conclude

otherwise would indicate that BellSouth has entered into a competitive contract service arrangement at rates substantially below its actual costs.

Nowhere in either the Staff recommendation or the Commission's deliberations or in the Commission's Order is there any mention of such a significant piece of information. AT&T can only conclude that that this information was overlooked by both the Staff in its recommendation and the Commission's deliberations. Accordingly, AT&T requests that the Commission reconsider its decision to set final rates in this proceeding based on BellSouth's loop cost studies, declare that any rates set are interim, and require BellSouth to refile correct TSLRIC cost studies that can be subject to full review to set final rates.

III. Conclusion

Based on the foregoing, the Commission should adjust the prices of Unbundled Network Elements as described above using corrected BellSouth loop costs and local switching data provided in the proceeding by AT&T. The Commission should limit port and loop nonrecurring charges to wholesale rates for equivalent services pending completion and review of new cost studies, which it should require BellSouth to provide. Nonrecurring rates to transfer existing customers should be limited to \$5.00. The Commission should set permanent rates when it is satisfied correct studies have been provided. Accordingly, AT&T requests that its Cross Motion for Reconsideration be granted and that AT&T's positions on the issues discussed above be adopted.

Respectfully submitted this 27th day of January, 1997.

A handwritten signature in cursive script, appearing to read "Tracy Hatch", written over a horizontal line.

Tracy Hatch, Esq.

AT&T

101 North Monroe Street

Tallahassee, Florida 32301

ATTORNEY FOR AT&T COMMUNICATIONS
OF THE SOUTHERN STATES, INC.

1 CERTAIN PORTIONS OF THIS
2 DEPOSITION MAY BE PROPRIETARY

3
4

BEFORE THE

5 LOUISIANA PUBLIC SERVICE COMMISSION

6 LOUISIANA PUBLIC SERVICE COMMISSION,
7 EX PARTE:

8 In Re: Review and Consideration of
9 BellSouth Telecommunications, Inc.'s
10 TSLRIC and LRIC Cost Studies Submitted Pursuant to Sections 901(C) and 1001(E)
11 of the Regulations for Competition In the Local Telecommunications Market Docket No.
12 As Adopted By General Order Dated U-22022
13 March 15, 1996, in Order to Determine the Cost of Interconnection Services
and Unbundled Network Components to
Establish Reasonable, Non-Discriminatory,
Cost-Based Tariffed Rates.

14 consolidated with

15 LOUISIANA PUBLIC SERVICE COMMISSION,
16 EX PARTE:

17 In Re: Review and Consideration of
18 BellSouth Telecommunications, Inc.'s
19 Tariff Filing of April 1, 1996, Filed Pursuant to Sections 901 and 1101 in Docket No.
20 the Regulations for Competition in the U-22093
Local Telecommunications Market, which
Introduces Interconnection and Unbundled
Services.

Volume II

21

22 Deposition of DAONNE CALDWELL taken in
23 the above-entitled cause, pursuant to the
24 following stipulation, before Jan DiCicco,
25 Certified Court Reporter, taken at the offices of

1 Louisiana Public Service Commission, One American
2 Place, 16th Floor, Baton Rouge, Louisiana on the
3 21st day of November, 1996.

4 APPEARANCES:

5 Attorneys for AT&T:

6 KELLEY & GUERRY, L.L.C.
7 BY: DAVID L. GUERRY, ESQ.
8 8641 United Plaza Boulevard
Suite 200
Baton Rouge, Louisiana 70821

9 Attorneys for Bellsouth Telecommunications, Inc.:

10 BELLSOUTH TELECOMMUNICATIONS, INC.
11 BY: T. MICHAEL TWOMEY, ESQ.
AND VICKY MCHENRY, ATTY.
12 365 Canal Street
Legal Department, Suite 1870
13 New Orleans, Louisiana 70130

14 Attorneys for Louisiana Public Service Commission:

15 LOUISIANA PUBLIC SERVICE COMMISSION
16 BY: GAYLE T. KELLNER, ATTY.
One American Place
Suite 1630
17 Baton Rouge, Louisiana 70821

18 Attorneys for MCI:

19 KEAN, MILLER, HAWTHORNE, D'ARMOND,
McCOWAN & JARMAN, L.L.P.
20 BY: KATHERINE W. KING, ATTY.
One American Place
21 22nd Floor
Baton Rouge, Louisiana 70821

22 Attorneys for American Communications Services,
23 Inc.:

24 LAW OFFICE OF ALICIA REGGIE FREYSINGER
25 BY: ALICIA REGGIE FREYSINGER, ATTY.
1515 Poydras Street
Suite 1150
New Orleans, Louisiana 70112

1 APPEARANCES (CONT'D.)

2 ALSO PRESENT:

3 WAYNE ELLISON
 4 LISA CORDER
 5 KIMBERLY H. DISMUKES
 6 KENNETH McNEELY
 7 MICHELLE IPPOLITO (BY TELEPHONE)

8 REPORTED BY:

9 JAN DICICCO
 10 CERTIFIED COURT REPORTER

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I N D E X

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EXAMINATION BY:

PAGE

Mr. Guerry

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Mr. Twomey

78

Ms. Kellner

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1 S T I P U L A T I O N

2 It is stipulated and agreed by and
3 between all parties that this deposition is hereby
4 being taken pursuant to the Louisiana Code of
5 Civil Procedure.

6 All formalities, with the exception of
7 the reading and the signing of the deposition by
8 the witness, are waived.

9 All objections, except those as to the
10 form of the question and the responsiveness of the
11 answer, are reserved until the deposition is used
12 or sought to be used in evidence.

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14

15 BY MR. GUERRY:

16 Q. Good morning, Miss Caldwell. I am David
17 Guerry representing AT&T. Welcome back to the
18 continuation of your deposition.

19 A. Good morning.

20 Q. I will try to be quick. And I'll try to
21 make my questions a little bit more specific for
22 you than they were yesterday. Let's start with
23 the two wire loop study.

24 MR. TWOMEY:

25 Off the record.

1 trunk ports in the originating office and the
2 terminating office?

3 A. The trunk ports that connects to the
4 interoffice for the switch is in the end office
5 switching component.

6 Q. So no cost of the originating office,
7 related to the originating office?

8 A. Excuse me. End office meaning
9 originating and terminating office.

10 Q. Thank you. Now I understand. What is
11 the expense per message charge? For example, is
12 that an NCAT input?

13 A. Yes. The expense per message cost that
14 is found on work paper 100 hundred, that is an
15 input from our billing and collection group. It
16 includes cost associated with gathering -- excuse
17 me -- not the AMA tapes, which is the recording,
18 but the generating of the bill, the processing of
19 the bill, et cetera for local usage.

20 Q. Do you know how that's calculated?

21 A. Just in general, not in detail as to how
22 it's calculated.

23 Q. Is that going to be included in the
24 TELRIC studies?

25 A. No.

1 terminals was a thousand and eighty-two. The only
2 information we didn't have readily available was
3 alarms, and there are a very small number of
4 circuits.

5 Q. Would it be less than toll terminals?

6 A. Yes.

7 Q. Okay.

8 A. We were talking about the FCC order, and
9 the site reference, it's paragraph 682 when it
10 talks about the fill factors. The question on the
11 signalling system seven, I didn't have time to
12 complete that one, but hopefully by the end of the
13 day.

14 Q. Miss Caldwell, David Guerry, here for
15 AT&T continuing. Do you recall our discussion of
16 switch fabric costs?

17 A. Yes. And that's the question I'm still
18 investigating.

19 Q. I have a followup question on the
20 expense per message charge. I believe you
21 indicated to me that that was not going to be
22 included in your TELRIC study, is that correct?

23 A. That is correct.

24 Q. Do you consider this to be a legitimate
25 TSLRIC expense?

1 A. In light of the TELRIC studies, no.

2 Q. Has BST performed a study to determine
3 equivalent costs per loop for a port used to
4 terminate integrated loop carrier or total cost of
5 port? The total only, what's the capacity of the
6 port?

7 A. We've not completed a study for the
8 integrated digital loop carrier which would be
9 appropriately a DS1 type port. And let me add the
10 word, an integrated DS1 type port.

11 Q. Is that study in progress?

12 A. Not at this time. We discussed it after
13 the last deposition, but we, because the same
14 question was brought up. And it has not, we
15 haven't started yet. We're finishing our other
16 studies first.

17 Q. Going to right to use fees, when are
18 those paid, when the switch is installed, when
19 it's removed, over time of usage?

20 A. You have basically two types of right to
21 use fees for a switch. You have the operating
22 system right to use fee, and that falls within
23 usually two categories. Sometimes, depending on
24 the vendor, we may pay it up front. Many times it
25 is a recurring, meaning we will pay it over so

1 is a little over fifteen dollars, that item is
2 coded to the cable account if it's an aerial or
3 buried.

4 Q. Are you familiar with the positions of
5 your company regarding the combining of network
6 elements?

7 A. Yes.

8 Q. How is that position, that company
9 position reflected in the cost studies?

10 A. In particular, the cost studies that,
11 the greatest impact or greatest impact is seen is
12 when you look at the port and the loop.
13 BellSouth's position, and it's a pricing position,
14 is that once you combine a port and a loop, that
15 is a IFR, and it should -- that is a retail item.
16 Therefore, it should be purchased through the
17 resale offering of the IFR. The cost study,
18 therefore, studied, did not included a combined
19 port and loop.

20 It only looked at a stand alone port and
21 a stand alone loop. Meaning that the loop I have
22 studied would be connected to a CLECs switch,
23 co-located space or to some other facility to get
24 to their switch, not a BellSouth switch. And
25 similarly, the port would be connected to a loop

1 that the CLEC purchases from someone other than
2 BellSouth.

3 Q. You understand that AT&T's position is
4 contrary to that?

5 A. Yes, I do.

6 Q. Could I get you to assume for the
7 purpose of the next couple of questions that
8 AT&T's position has been adopted, and I have a
9 couple of questions on how that effects things.
10 Assume with me, then, that AT&T's position on
11 combining network elements has been allowed. How
12 would this ability impact your studies?

13 A. In particular, the port and loop studies
14 would be studied as a combined offering. So,
15 therefore, if you put the port and the loop
16 together, you would only include one main frame
17 connection, one connector protector. And you
18 would allow integration of a digital loop carrier
19 into the switch so the central office terminal
20 would not be included.

21 We would still have to analyze whether
22 or not we would have some universal because there
23 are reasons to have universal SLC. So there could
24 be a small percentage. That is the biggest
25 difference.

1 Oh. And one other point, though, that
2 that would be for a port and loop combined. We
3 would still have to have either, if we only had
4 like one rate, we would have to have awaiting for
5 when it, they were not combined. Because if you
6 were not going to the BellSouth switch, I cannot
7 integrate that digital loop carrier because I have
8 to bring it to voice grade and carry it to your
9 co-located space. So it would depend on what
10 we're ordered to do. Would you combine it and
11 offer that as one offering with a separate
12 unbundled loop, or would it be averaged together?

13 Q. AT&T's position also is that local
14 switches, your local switches can be purchased as
15 stand alone elements. If that position is
16 allowed, how would that effect your usage cost
17 studies?

18 MR. TWOMEY:

19 Object to the form of the question. I'm
20 not sure I need to, but you were asking her to
21 assume for purposes of this question that both the
22 assumption of the last question and this
23 assumption is true?

24 MR. GUERRY:

25 Yes.

1 MR. TWOMEY:

2 Or just -- yes. Okay. You understand
3 the question?

4 THE WITNESS:

5 Yes. Let me think for just a moment on
6 that. Because one of the things, and Mr. Scheye
7 can probably address this much better than I can,
8 but in terms of the local usage, there's an issue
9 other than just separating the local switching,
10 and that is the ability, once you entered the
11 switch, at this point in time, there is, and I
12 don't want to get into technical terms, but just
13 let me use the term --

14 BY MR. GUERRY:

15 Q. You mean we haven't already?

16 A. Words I'm not familiar with. That is a
17 selective routing issue. So that issue aside, and
18 I just want to clarify, I'm not saying this is
19 possible, because that is well discussed in
20 BellSouth's testimony, that we have studies that
21 have unbundled, we're producing them in the TELRIC
22 studies that show the cost from an end office
23 component only and then the common transport and
24 tandem switching.

25 So from a cost standpoint, we have

1 already taken the step to break that out. Whether
2 or not it is technically feasible to truly offer
3 it that way, the network witness will have to
4 address that. I believe in the AT&T arbitration,
5 that's going to be Mr. Millner. Mr. Scheye is
6 also very familiar with the issue.

7 Q. What types of costs are included in
8 computer systems in TIRKS portion of your loop
9 cost?

10 A. In the TSLRIC study when it talks about
11 the TIRKS system, that is predominantly the
12 systems that would handle your design circuits and
13 anything associated with those. And by design
14 circuits, I mean a circuit that is handled by our
15 circuit provisioning center that has specific
16 transmission requirements. The systems
17 predominantly are TIRKS and the subtending or
18 feeding systems that feed information into the
19 TIRKS data base. It's a massive system with many
20 submodules.

21 Q. How are the installation, engineering
22 and contract labor factors used to calculate cable
23 investment developed?

24 A. The information is developed from the
25 financial systems of the company, which is

1 capital recovery organization. We updated the,
2 all of the annual cost factors using more current
3 data in the three years projected budgeted data.
4 And I believe I mentioned today that also in
5 calculating the loading factors, such as land,
6 buildings, the maintenance factor also, it is only
7 going to be calculated on budgeted data.

8 We did not look at the historical as we
9 had in the past, to make it more forward looking.
10 The fill factors were changed to using the actual
11 rather than the objective. And in the loop world,
12 just to stress that we, the difference in the drop
13 wire calculation, we've indicated that change. I
14 think that's it.

15 Q. Okay. Do you intend or does BST intend
16 that these October studies supersede completely
17 the June studies?

18 A. For the ones in which we filed, they
19 would be the most current, yes, and would be the
20 ones to use.

21 Q. Okay. Let's go back to your testimony.
22 Let's turn to page 3, lines 9 through 14.

23 A. Yes.

24 Q. Okay. On that page, you state that
25 CLECs have raised concerns over the level of

1 nonrecurring activities and the resulting cost
2 studies, that in the resulting cost studies, when
3 you refer to testing and engineering, and also
4 other unbundled network elements, you talk about
5 it all in that part. And that as a result of
6 this, the nonrecurring cost study provisioning
7 inputs and other nonrecurring inputs are being
8 reviewed. Is it my understanding that your
9 current LRIC and TSLRIC studies do not include
10 these nonrecurring costs?

11 A. That is correct.

12 Q. Okay. With the exception of the
13 unauthorized charge.

14 A. That is correct.

15 Q. Okay. What specific concerns are the
16 CLECs raising with regards to these nonrecurring
17 charges?

18 A. In particular, it started with looking
19 at the unbundled loop. When we first dealt with,
20 and this again is information that was given to me
21 from the negotiation teams, that in dealing with
22 the individuals, it was felt that they would
23 require something called a DLR, which is a data or
24 design layout record.

25 And when you do that, then that adds

1 cost to your circuit because we do not have
2 circuit layouts of all of our loops in our
3 records. We do not know all the information about
4 them. So we have to go out and develop all that
5 information. And then we would test it and handle
6 it pretty much as if it's a special access
7 circuit.

8 After the first round of hearings in
9 North Carolina and Florida, I mean, it became
10 really obvious that these people did not, the
11 CLECs, did not want that type of service. They
12 wanted a loop just as it is today, and they would
13 do the testing and they would not require the
14 DLR.

15 Q. Okay.

16 A. And with that change, then, the work
17 times we had were not appropriate. It has been
18 moved back to the product teams or the product
19 managers working with these individuals to find
20 out what they really want and so we can get the
21 times correct.

22 Q. Okay. So actually, what are you doing
23 now to review this and what effect will it have on
24 the cost studies?

25 A. There is a group that has been set up, I

1 think I mentioned yesterday, under Scott
2 Schaeffer's organization. They're product
3 managers that deal with the individual or
4 customers. And they are working to develop the
5 procedures and the required for the CLECs.

6 The cost, in particular the loop, will
7 dramatically decrease. And by that I mean, you do
8 not need to design the circuit. You do not need
9 to provide the DLR. And with those requirements,
10 that was the most significant part of the cost, so
11 it will be reduced and look more in line with what
12 we would have in 1FR, 1FB world today.

13 Q. Okay. When do you anticipate making
14 changes to your cost studies?

15 A. I do not have a firm date on that. We,
16 the actual team has been meeting now for two to
17 three weeks, and they were given I believe
18 forty-five days timeframe of limit that they had
19 to deliver all the procedures to us. That may
20 vary some, give or take a week or so the way
21 things go. Especially with the holidays. So with
22 that, we, as soon as we get those, we will
23 calculate the numbers as quickly as possible.

24 Q. When did the forty-five days begin? Do
25 you have any idea?

1 A. Maybe two weeks ago. A little hazy
2 exactly on the numbers.

3 Q. Okay. Once you have the, I guess the
4 procedures by the product management team or
5 group, whatever you want to call them, do you have
6 any estimate on how long it would be before you
7 could get your cost studies updated, revised and
8 submitted to the various commissions? Or in
9 particular, I'm interested for Louisiana. How
10 quick can we get it?

11 A. In terms of the amount of time to
12 develop the numbers, you're talking probably a
13 couple weeks. The only thing I cannot address
14 here is at what stage we will be in negotiation
15 and where Louisiana will be in terms of what you
16 will be working on at that point in time.

17 So everything is prioritized as to what
18 state is the most pressing and, these days, the
19 most pressing that day. And with that, that will
20 be the determining factor from the
21 prioritization. We will turn them around from
22 cost organization as quickly as possible and get
23 them filed.

24 MS. KELLNER:

25 Mike.

Ex. 72

Attachment 2

MEMORANDUM

February 16, 1996

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*

RE: DOCKET NO. 950813-TL -- SOUTHERN BELL TELEPHONE COMPANY
 ESSX AUDIT REPORT
 AUDIT CONTROL NO. 95-184-1-2

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit working papers are available for review on request. There are confidential working papers associated with this audit.

Please forward a complete copy of this report to:

Southern Bell Telephone Company
 A. M. Lombardo
 150 South Monroe Street, Suite 400
 Tallahassee, FL 32301-1556

DNV/sp
 Attachment

- cc: Chairman Clark
- Commissioner Deason
- Commissioner Johnson
- Commissioner Kiesling
- Commissioner Garcia
- Mary Andrews Bane, Deputy Executive Director/Technical Legal Services
- Division of Auditing and Financial Analysis (Devlin/Causseaux/
File Folder)
- Division of Communications (Lombardi/Simmons)
- Tallahassee District Office (Grayson)

- Research and Regulatory Review (Harvey)
- Office of Public Counsel

A TRUE COPY
 ATTEST *Kay*
 Chief, Bureau of Records

DOCUMENT NUMBER-DATE
 01916 FEB 19 96
 REPORTING

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

FIELD WORK COMPLETED

FEBRUARY 15, 1996

SOUTHERN BELL TELEPHONE COMPANY

ESSX AUDIT


DOCKET NUMBER - 950813-TL

AUDIT CONTROL NUMBER 95-184-1-2


MICHAEL BUCKLEY
AUDIT MANAGER

AUDIT STAFF
CHRISTOPHER HOLMAN

MINORITY OPINION
YES _____ NO X


JOHN M. GRAYSON
REGULATORY ANALYST SUPERVISOR
TALLAHASSEE DISTRICT OFFICE

DOCUMENT NUMBER-DATE

01916 FEB 1996

FPSC-REGULATORY/REPORTING

INDEX

	<u>PAGE</u>
I. EXECUTIVE SUMMARY	
AUDIT PURPOSE	3
SCOPE LIMITATION	3
DISCLAIM PUBLIC USE	3
OPINION	3
II. AUDIT SCOPE	
SCOPE OF WORK PERFORMED	4
III. AUDIT DISCLOSURES	
1. Fully Distributed Costing System	5
2. ESSX Rates	7
3. Bids for ESSX Service	8
4. Interbuilding Cabling	9

I. EXECUTIVE SUMMARY

AUDIT PURPOSE: We have applied the procedures described in Section II of this report to audit the ESSX system of Southern Bell Telephone Company (SBT), AFAD Control No. 95-184-1-2.

SCOPE LIMITATION: An audit exit conference was not held. This report is based on confidential information which is separately filed with the Commission Clerk.

DISCLAIM PUBLIC USE: This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied on for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted audit standards and produce audited financial statements for public use.

INVESTIGATION OVERVIEW: This investigation was initiated to determine if the fully distributed cost of interbuilding cabling for ESSX services booked to regulated expense accounts, are fully recovered through regulated revenue recognition. It was determined that SBT does not use fully distributed costing but uses a marginal costing system. Since SBT uses ESSX there is no interbuilding cabling, all calls must go through the central office. The ESSX rates are developed through special studies.

II. AUDIT SCOPE

SCOPE OF WORK PERFORMED

ESSX: Obtained Public Service Commission Orders dealing with ESSX; Discussed ESSX system and awarding contracts with Department of Management Services personnel; Requested Southern Bell personnel explain in detail the costs and revenues for four correctional institutions in Florida; Obtained copies of billings to the four correctional institutions; Compared pricing to tariffs; Determined if Southern Bell's pricing of ESSX service was consistent from one bid to another.

III. AUDIT DISCLOSURES

AUDIT DISCLOSURE NO. 1

SUBJECT: Fully Distributed Costing System

STATEMENT OF FACT: According to Southern Bell employees, Southern Bell does not capture fully distributed costs of providing ESSX type service. Southern Bell does not maintain records on a Fully Distributed Cost basis for the provisioning of services. Additionally, outside plant records involving the provisioning of services to any new building or building complex do not discreetly identify the investment involved by the service that utilizes the investment. Fully distributed costs would not capture all costs of providing this service because it is based on historical costs. ESSX service is provided on a 60 month basis, and the costs for providing this service is estimated on a going forward basis. This enables the Company to project costs for the 60 months that they are providing this service. The costs that Southern Bell uses were developed specifically for Correctional Institutions in the State of Florida. The costs were uniform for the prisons that were reviewed, namely: Brevard Correctional Institution, Dade Correctional Institution, Everglades Correctional Institution, and Washington Correctional Institution. Revenue from SBT billings were compared to billings from the correctional institutions and the amounts in all cases reconciled. The costs were compared to the revenue amounts, and only one cost component did not recover nonrecurring costs. Recurring revenue did however recover this cost component. Marginal costs were recalculated and the results compared to Southern Bell's calculation as shown in the following table:

COST COMPONENT	ESSX COST/LINE	INTRASTATE COST/LINE	INTRASTATE COST/LINE
	SBT	SBT	AUDITORS
LOOP	\$5.68	\$4.26*	\$4.26
INTERCOM	3.07	3.07	3.07
FEATURES	.79	.79	.79
MARKETING	.10	.10	.02
TOTAL	\$9.64	\$8.22	\$8.14

* Where 25% of the Loop cost goes to interstate.

Each cost component has a supporting cost study that support these amounts.

The one cost component that was not recovered in nonrecurring rates was Item 108, Recap number 263-EBS Line Additive. The revenue and costs per line are shown in the following table:

Item	Nonrecurring Revenue	Recurring Revenue	Nonrecurring Costs	Recurring Cost
108	\$13.25	\$1.15	\$19.05	\$0.48

The difference per line of \$5.80 (\$19.05 less \$13.25) is the nonrecurring loss. The difference between cost and revenue for the recurring monthly amount is \$.67 (\$1.15 less \$0.48). The nonrecurring amount of \$5.80 is recovered in 9 months of service (\$5.80 divided by \$0.67).

The Company stated in response to an audit request, that the outside plant cost data involved in the conversion of Brevard Correctional Institute from a PBX to an ESSX system is as follows:

1. Reinforce existing cable and add new cable plant	\$9,734.00
2. Maintenance work on existing cable	500.00
3. Plant retirements	<u>1,022.00</u>
TOTAL	\$11,256.00

OPINION: In the case of marketing, as the costs were less than the amount that the Company was showing, the audit calculation allows for a greater recovery than that shown by the Company.

In the case of the fully distributed cost figures, the audit staff could not determine that the total of \$11,256.00 represented all costs for the Brevard Correctional Institute.

COMPANY COMMENT: The Company may respond at a later date.

AUDIT DISCLOSURE NO. 2

SUBJECT: ESSX Rates

STATEMENT OF FACT: Staff reviewed the rates with personnel from the Florida Department of Management Services (DMS). This included the rates that were on file from PBX type services provided by Rolm, and the ESSX service provided by Southern Bell Telephone. Rates that were developed by Southern Bell for the Florida Correctional Institutions were unique to the prisons, and specific tariff rates were not listed for most items. The ESSX system as a whole did not have specific tariff rates, but were based on Special Assemblies. However, special studies were developed for Florida prisons, and they all had uniform rates. The audit staff requested bills for all four prisons mentioned in Disclosure 1. Copies of actual monthly bills were read for the four prisons which were provided by Southern Bell. DMS stated that they only bill for Brevard and Everglades Correctional Institutions. Monthly bills were also provided for the same time period by DMS for the two prisons. The other two prisons, Washington and Dade were contacted and provided us with their bills for the same time period. The amounts on the bills were reconciled to each other.

COMPANY COMMENT: The Company may respond at a later date.

AUDIT DISCLOSURE NO. 3

SUBJECT: Bids for ESSX service

STATEMENT OF FACT: Southern Bell Telephone uses one pricing schedule to provide ESSX service for all Florida Correctional Institutions, therefore the rates are uniform. There is no bid process for any of the prisons. Prisons are not subject to the competitive bid requirements of Rule 60A-1.002(2), F.A.C. The contract with SBT is secured by means of a Special Service Arrangement provided to the Division of Communications. Contracts for the prisons were read for the four Correction facilities. The contract specified the same rates for all prisons which were determined on average costs.

COMPANY COMMENT: The Company may respond at a later date.

AUDIT DISCLOSURE NO. 4

SUBJECT: Interbuilding Cabling

STATEMENT OF FACT: As the ESSX system is configured, all calls from one telephone line to another, including intercom calls go from the originating station instrument to the Central Office and then to the terminating station. The audit staff found no evidence of any interbuilding cabling in any company record concerning the provisioning of ESSX service at any of the four institutions. The Company responded in a letter to the Auditor that network cable may run physically from building to building, but the cable is used as a pass-thorough connection from a distant demarcation point to the central office. The network cable in this case does not provide a direct "tie cable" functionality. An ESSX service call from one building to another on the same campus setting must traverse the SBT distribution network at the central office, establish a switched connection to the second ESSX service line, and traverse the SBT distribution network back to the second building.

OPINION: It appears that there is no interbuilding cabling in an ESSX system

COMPANY COMMENT: The Company may respond at a later date.

CERTIFICATE OF SERVICE

DOCKET NOS. 960833-TP, 960846-TP and 960916-TP

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by U. S. Mail or hand-delivery to the following parties of record this 27th day of January, 1997:

BellSouth Telecommunications
C/o Nancy H. Sims
150 S. Monroe Street, Suite 400
Tallahassee, FL 32301

Martha Brown, Esq.
Monica Barone, Esq.
Division of Legal Services
Florida Public Service Comm.
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Richard D. Melson, Esq.
Hopping Green Sams & Smith
123 S. Calhoun Street
Tallahassee, FL 32301

Floyd R. Self, Esq.
Messer, Caparello et al
215 S. Monroe Street
Tallahassee, FL 32301

Nancy B. White, Esq.
BellSouth Telecommunications
675 West Peachtree St., Room 4300
Atlanta, GA 30375


Tracy Hatch