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Nancy H. Sims
Director - Regulatory Relations

February 26, 1998

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

Subject: Audit Report / Audit Control #98-012-4-1
Reference Docket No. 971140-TP

Dear Mrs. Bayo:

Attached is BellSouth's response to the Florida Public Service Commission's Division of Auditing and Financial Analysis Auditor's Report issued February 19, 1998. This investigation encompassed the components of non-recurring charges for certain unbundled network elements and the identification of those non-recurring charges that are only incurred once when a loop and port are ordered as a combination in a single order. The audit control number is 98-012-4-1.

If you have any questions or need any additional information, please call me.

Sincerely,

Nancy H. Sims

- ACK _____
- AFA 1
- APP _____
- CAF _____ cc: W. D'Haeseleer
- CMU [Signature] K. Welch
- CTR _____
- EAG _____
- LEG 1
- LIN 5
- OPC _____
- RCH _____
- SEC 1
- WAS _____
- OTH _____

REC-100-2-1998
FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

02697 FEB 26 1998

FPSC-RECORDS/REPORTING

BellSouth Response to Audit Team Findings
Florida Docket No. 971140-TP
Audit Disclosure No. 1
February 23, 1998

OPINION: The DDC-1 schedules filed by BellSouth do not represent the migration of an existing BellSouth customer for the four scenarios in Issue 8. BellSouth's definition of migration is resale. It appears that the DDC-1 schedules assume that the loop and port have to be separated to be provided to the Alternative Local Exchange Company.

RESPONSE:

As noted in the direct testimony of Alphonso J. Varner in Docket No. 971140-TP, the use of the word "migration" in Issue # 8 could lead to confusion in the interpretation of issues in this docket. In the telecommunications industry, the term "migration" typically applies to a switch "as is." A switch "as is" pertains only to a resale environment. This is not a resale proceeding. Therefore, BellSouth's discounted NRCs in the DDC-1 schedules are not intended to accommodate a switch "as is", but rather are intended to apply to multiple standalone unbundled network elements that are ordered simultaneously. This is consistent with and in compliance with the Commission's Order No. PSC-97-0298-FOF-TP and Amending Order No. PSC-96-1579-FOF-TP.

In these Orders, the Commission denied BellSouth's petition for reconsideration on the pricing of UNE combinations stating, "...we were not presented with the specific issue of the pricing of recombined elements when recreating the same service offered for resale." The Commission further stated, "Thus, it is inappropriate for us to make a determination on this issue at this time." In the Nonrecurring Cost Studies section of that same Order, the Commission stated, "[W]e hereby order BellSouth to provide NRCs that do not include duplicate charges or charges for functions or activities that AT&T does not need when two or more network elements are combined in a single order." The Commission also stated that the same requirement is applicable to MCI. Given that the Commission said that it had not, and would not, address the issue of prices for UNE combinations, the language in the Nonrecurring Cost Studies section of the Order obviously intended to address duplicate cost recovery when multiple stand alone UNEs are ordered at the same time on a single order. BellSouth focused on NRCs as applied to unbundled network elements that are ordered simultaneously, which is consistent with the Commission's decision.

DOCUMENT NUMBER - DATE

02697 FEB 26 88

FPSC-RECORDS/REPORTING

BellSouth Response to Audit Team Findings
Florida Docket No. 971140-TP
Audit Disclosure No. 1
February 23, 1998

RESPONSE: (Cont.)

DDC-1 schedules assume that a loop and a port will be provisioned as individual UNEs, even if it means that an existing retail service must be separated so as to provide those individual UNEs. The Eighth Circuit Court vacated the FCC's rule 51.315(b) which prohibits an incumbent LEC from separating network elements that it may currently combine because the rule would permit ALECs access to BellSouth's UNEs on a bundled rather than unbundled basis. The Eighth Circuit Court specifically noted that the Telecommunications Act of 1996 does not permit ALECs to "...purchase an incumbent LEC's assembled platform(s) of combined network elements (or any lesser existing combination of two or more elements) in order to offer competitive telecommunications services."

BellSouth Response to Audit Team Findings
Florida Docket No. 971140-TP
Audit Disclosure No. 2
February 23, 1998

- OPINION:
- (a) If it is determined that BellSouth's information in the cost studies does not address issue 8, then these percents would not apply.
 - (b) Also, if these cost studies should have been based on the permanent rates approved by the FPSC and/or times used in Docket 960833-TP, then these percents would not apply.

RESPONSE:

- (a) BellSouth agrees that if it is determined that BellSouth's information in the costs studies does not address issue 8, then these percents would not apply. However, as explained in BellSouth's response to Audit Disclosure No. 1, BellSouth has provided information consistent with FPSC orders regarding unbundled network elements that are ordered simultaneously. "Migration" is a term used in a resale environment, not for unbundled network elements.
- (b) Because of differences in the 1996 costs studies and the current cost studies, it was determined that in order to develop an appropriate percent discount reflective of the savings that would be realized when unbundled network elements are ordered on the same order, new studies must be performed. As a result, the studies for ordering elements on a standalone basis and ordered on the same order are on a comparable basis, and a percent discount can then be applied to the permanent rates approved by the FPSC.

The new cost studies are used in this proceeding to develop the percent discount to reflect savings associated with ordering elements on the same order. These cost studies are not used to propose revised nonrecurring standalone rates.

At the time the original 1996 nonrecurring cost studies were conducted, methods and procedures had not been finalized and several technical issues were still being resolved. Thus, work flows from existing retail services were used as a guide for developing the costs presented in the 1996 time frame.

The studies filed in this docket are more reflective of BellSouth's experience. It was determined an interface organization, the Access Carrier Advocacy Center (ACAC), was required to ensure dates were met and transmission standards were maintained. Thus, the ACAC organization plays an integral part in the new studies being presented. Additionally, only minimal testing was assumed for the loop in the 1996 studies. The 1997 studies more accurately reflect the level of testing required to meet transmission standards outlined in arbitration agreements.

BellSouth Response to Audit Team Findings
Florida Docket No. 971140-TP
Audit Disclosure No. 3
February 23, 1998

- OPINION:
- I. We could not determine duplicate tasks from the interviews with the subject matter experts.
 - II. A change in the times used in the cost studies would change the percents on Al Varner's Exhibit AJV-2, dated January 29, 1998.

Address and facility inventory work center - If the loop and port were not separated, then the 50% of the 20% would not occur.

Outside plant engineering - If the time for engineering for existing facilities were lower or not included, then the percent on the AJV-2 would change.

Customer point of contact work center - The electronic filing in the future would reduce the manual time involved in this provisioning task.

Circuit provisioning group - If the circuit provisioning group did not need to touch the main distribution frame then the engineering function would not be needed.

RESPONSE:

- I. In an effort to be responsive to the Audit Staff's requests, BellSouth made the appropriate subject matter experts available for telephone interview on very short notice. In these interviews the subject matter experts identified the tasks included in each of the worktimes for each of the elements included in the combinations. The subject matter experts also provided written responses to the questions that the Staff had previously identified for use in the telephone interviews. As far as BellSouth can determine, the Staff had the information required to make a determination. It is BellSouth's opinion that an audit of this magnitude cannot be done effectively in the time frame that was allotted to this audit.
- II. BellSouth agrees that these percents would change. See Responses to Audit Disclosure Nos. 1 and 2.

BellSouth Response to Audit Team Findings
Florida Docket No. 971140-TP
Audit Disclosure No. 4
February 23, 1998

OPINION: The staff auditor telephoned BellSouth representatives on February 11 and 12 to inquire who would explain the information received in order to determine if the information would meet the auditor's request. On February 13, the staff auditor was contacted by BellSouth to set up a meeting with audit personnel for explanations, however, due to the company's delay, the auditor did not have time.

RESPONSE: BellSouth expedited the Staff Auditor's requests and furnished available information as quickly as possible in the time frame allowed. However, requests for an audit of this magnitude are broad in scope. Despite BellSouth's attempts to respond expeditiously, neither BellSouth nor the auditor had enough time to complete the analyses in the time frame permitted.

BellSouth Response to Audit Team Findings
Florida Docket No. 971140-TP
Audit Disclosure No. 5
February 23, 1998

OPINION: Using different states for payroll rates could result in inconsistency. However, without analyzing the reasons for using different states, we cannot determine if inconsistency exist.

RESPONSE: As identified in Exhibit 1 of this disclosure, for some Plant Work Centers, Cost Groups and the PICS Engineering Force Group, adjustments were made to the summarized record data in order to develop representative labor rates for the BellSouth region. As an example, the PICS (341X, 3A2X) Engineering work function is primarily centralized in Louisiana; however, a minor amount of dollars and hours are reflected in some of the other states. Therefore, only Louisiana data was included in the development of the regional labor rates for this function. Each and every work function would have to be similarly broken out.