Florida Cable Telecommunications Association

Steve Wilkerson, President

VIA HAND DELIVERY

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July 31, 2000

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

RE: Docket No. 990649-TP

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen (15) copies of the Rebuttal Testimony and Exhibits of William J. Barta on behalf of the Florida Cable Telecommunications Association. Copies have been served on the parties of record pursuant to the attached certificate of service.

Please acknowledge receipt of filing of the above by stamping the duplicate copy of this letter and returning the same to me.

Thank you for your assistance in processing this filing. Please contact me with any questions.

Sincerely,

Michael A. Gross
Vice President, Regulatory Affairs &
Regulatory Counsel

MAG/mj

Enclosure

cc: All Parties of Record
William J. Barta

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that true and correct copies of the foregoing Rebuttal Testimony by William Barta on behalf of the Florida Cable Telecommunications Association, in Docket 990649-TP have been served upon the following parties by ~~U.S. Mail~~ over night this 31st day of July, 2000:

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BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

TALLAHASSEE, FLORIDA

In re: Investigation into pricing of unbundled network elements.	)))	**Docket No. 990649-TP**

TESTIMONY

AND EXHIBITS

OF

WILLIAM J. BARTA

ON BEHALF OF THE

FLORIDA CABLE TELECOMMUNICATIONS ASSOCIATION

HENDERSON RIDGE CONSULTING, INC.
CUMMING, GEORGIA
JULY 31, 2000

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

TALLAHASSEE, FLORIDA

REBUTTAL TESTIMONY OF

WILLIAM J. BARTA

DOCKET NO. 990649-TP

JULY 31, 2000

Q. Please state your name and business address.

A. My name is William Barta, and my business address is 7170 Meadow Brook Court, Cumming, Georgia 30040.

Q. Have you previously submitted testimony in this proceeding?

A. Yes. I submitted prefiled testimony on June 8, 2000 in this proceeding.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of the Florida Cable Telecommunications Association ("the FCTA").

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address the issues outlined by the Commission in its Order dated March 16, 2000. Specifically, my testimony responds to the incumbent carriers' prefiled testimony and cost filings with respect to Issue nos. 1, 2(a), 2(b), 7(e), 7(g), 7(k), 7(s), 7(t), 7(u), and 8(e).

Q. Please summarize your testimony.

A. GTE, BellSouth, and Sprint have submitted recurring and nonrecurring cost studies in response to the Commission's list of issues outlined in its March 16, 2000 Order. The companies have also advanced their proposals for geographically deaveraging UNEs. GTE and BellSouth, in particular, argue that the geographic deaveraging of UNE rates should be accompanied by rate rebalancing and the establishment of a State universal service fund.

GTE's and BellSouth's urgency to establish a state universal service fund in conjunction with the geographic deaveraging of UNEs strays from the purpose of the instant proceeding. There is no mention of rate rebalancing or the establishment of a universal service fund in the Commission's list of issues to address in this phase of the proceeding. Furthermore, GTE and BellSouth have yet to substantiate the pressure on universal service that they maintain will result in response to the implementation of deaveraged UNE rates. In this proceeding, the Commission's attention and resources should be focused on implementing fair and reasonable permanent rates for unbundled network elements. The more appropriate forum to determine the need, if any, for a universal service support mechanism is in a separate docket.

GTE's proposal to deaverage UNE rates based upon the previously approved statewide average rates of each ILEC does not capture the significant variation in the average costs of its Florida wire centers. In the same manner, BellSouth's "rate group to zone mapping" methodology blurs the distinction of cost differences among wire centers and between geographic zones. In order to send the correct pricing and investment signals to CLECs, the companies should

geographically deaverage UNE rates upon a methodology that logically groups wire centers with similar cost characteristics together.

GTE asserts that its Nonrecurring Cost Studies are forward-looking. A closer review, however, indicates that many of the nonrecurring charges to be assessed CLECs are premised on less efficient, manual ordering and provisioning practices. For instance, as part of the ordering function, GTE projects that it will take nearly 8 hours to establish a single CLEC account. The provisioning practices are also dependent upon manual procedures; GTE states that the Facility Assignment Center will require manual assignment for most of the UNEs offered by the Company. These may be the embedded ordering and provisioning practices of GTE but they are not representative of a forward-looking cost study.

Issue 1: What factors should the Commission consider in establishing rates and charges for UNEs (including deaveraged UNEs and UNE combinations)?

Q. What factors do you believe the Commission should consider in establishing permanent rates for unbundled network elements and UNE combinations?

A. The primary consideration of the Commission in its efforts to establish permanent rates for unbundled network elements and UNE combinations is to base the rates upon fully supported cost studies that closely follow the appropriate costing methodology. If appropriate cost-based rates are developed, then the attendant concerns of regulators, the incumbent local exchange carriers, and other parties should be satisfied. Appropriate cost-based rates will promote

fair and responsible competitive entry under the requirements of the Telecommunications Act of 1996 and will protect the incumbent local exchange carriers as the providers of the facilities necessary to provision the unbundled network elements and UNE combinations.

Q. In developing rates for an incumbent local exchange carrier's unbundled network elements, what costing methodology best furthers the pro-competitive objectives of this Commission?

A. A forward-looking economic cost study is the most appropriate methodology to adopt when the study's objective is to replicate the conditions of a competitive market. If unbundled network elements are priced at the incumbent carrier's forward-looking economic costs, then competing telecommunications service providers should have the opportunity to capture the same types of economies of scale and scope that the incumbent local exchange carrier benefits from. As a result, the telecommunications carriers requesting unbundled network elements should be able to produce more efficiently and compete more effectively – all to the ultimate benefit of the consumer of telecommunications services. In addition, prices based upon a forward–looking costing methodology reduce the ability of the incumbent local exchange carrier to engage in anti-competitive pricing behavior.

Q. Do the incumbent local exchange carriers under the jurisdiction of the FPSC support the implementation of UNE and UNE combination rates based upon a forward-looking cost methodology?

A. BellSouth and GTE are opposed to the establishment of UNE rates based upon forward-looking, economic costs while Sprint appears willing to base its rates upon such pricing standards.

Q. What aspects of forward-looking, economic cost principles do BellSouth and GTE disagree with?

A. The witnesses on behalf of BellSouth and GTE state that a forward-looking, economic cost methodology will not provide for the full recovery of the carriers' costs in the provision of UNEs. Mr. Dennis B. Trimble, on behalf of GTE, states that "GTE has long maintained that UNE prices must, in the aggregate, reflect an ILEC's actual costs" (Direct Testimony, page 4, lines 16 and 17).

Mr. Alphonso J. Varner, on behalf of BellSouth, states "[O]ptimizing competitive development would require prices to be set, at a minimum, to cover the actual costs incurred by the Incumbent Local Exchange Carrier ('ILEC')" (Direct Testimony, page 5, lines 8 through 10). In addition, Mr. Varner apparently believes that a forward-looking, economic cost methodology prevents BellSouth from recovering its shared and common costs:

> "A consequence of pricing that insufficiently recovers shared cost is that it inappropriately encourages the ILEC to invest in technology that involves low shared cost (which reduces economies of scope) and high incremental costs, even if that is not the lowest cost technology" (Direct Testimony, page 10, lines 19 through 22).

and

"Since ALECs benefit from the use of facilities that generate the costs in question, those ALECs should contribute to the recovery of the shared and common costs that result from economically efficient provisioning of those facilities" (Direct Testimony, page 12, lines 5 through 8).

Finally, it is Mr. Varner's perception that a forward-looking, economic cost methodology does not provide BellSouth the opportunity to earn a reasonable profit as permitted by the 1996 Act:

"Q. Does pricing at economic cost provide for a reasonable profit as permitted by the Act?

B. It certainly does not. Proponents of this theory equate economic profit with cost of capital, which is not an appropriate comparison. Cost of capital is a cost of doing business. It is well accepted that an economic profit cannot be realized until all costs, including the cost of capital, have been recovered" (Direct Testimony, page 18, line 21 through page 19, line 2).

Q. Why is it improper to include the actual costs of the ILEC in the development of UNE rates?

A. The embedded costs of BellSouth and GTE represent their historical or embedded costs and not forward-looking, economic costs. By definition, embedded costs reflect historical purchase prices, network configurations, and

operating procedures. To the extent that these cost areas reflect any past inefficiencies, prices based upon embedded costs will lead to inappropriate cost recovery and would not be recovered in a competitive market. On the other hand, prices based upon forward-looking, economic costs give the appropriate signals to producers and consumers and ensure efficient entry and utilization of the telecommunications infrastructure.

Q. Is Mr. Varner's concern that the forward-looking, economic cost methodology prevents the recovery of BellSouth's shared and common costs valid?

A. No. The incumbent carriers can recover a reasonable share of their forward-looking joint and common costs under the forward-looking, economic cost methodology. Most parties, including CLECs, acknowledge that the incumbent local exchange carriers are entitled to recover an appropriate portion of their forward-looking joint (i.e. shared) and common costs. Perhaps Mr. Varner is reaching the misguided conclusion that any challenge to the level of joint and common costs included in the Company's cost studies is equivalent to a denial of recovery through the costing methodology.

Q. Should the incumbent carriers be allowed to include "an economic profit," in their proposed UNE rates that is over and above the fair and reasonable cost of capital as advocated by Mr. Varner?

A. No. Mr. Varner treats BellSouth's recovery of its fair and reasonable cost of capital "as a cost of doing business" (Direct Testimony, page 19, line 1). As a result of earning its cost of capital, BellSouth will ensure it continues to attract

capital at reasonable terms, thereby allowing the company to maintain an efficient capital structure and a sound dividend policy. The company should have the financial flexibility to innovate and expand yet still meet its operating expenses provided its financial results are sufficient to recover its cost of capital.

On the other hand, profits in excess of the fair and reasonable cost of capital should not be construed as "economic." Mr. Varner's assertion that this is a well-accepted definition of "economic profit" is rather broad unless, of course, the audience is the ILEC community. A more reasonable view with respect to profits that exceed a company's cost of capital holds that such profits are considered supra-normal and temporary. Absent artificial barriers to entry (e.g. monopoly status of the market provider) in the marketplace, the firm will only realize the supra-normal profits in the short-term because other capable firms will be attracted to the prospect of earning supra-normal profits. As more firms enter and compete in the marketplace, prices will be driven back towards the level where only the fair and reasonable cost of capital is being recovered.

Q. What are the consequences of establishing forward-looking, economic cost-based rates for unbundled network elements according to Mr. Varner?

A. Mr. Varner's dire outlook for the local exchange marketplace is premised on his belief that the rates based upon economic costs do not permit full cost recovery and that inadequate UNE rates will result from its application. According to Mr. Varner, the inadequate UNE prices will reduce the ILECs' incentives to invest in new technology and will promote inefficient market entry as CLECs will choose to consume the ILECs' facilities instead of making their own investments (Direct

Testimony, page 10, line 4 through page 11, line 5). Mr. Varner concludes that forward-looking, economic cost-based rates for unbundled network elements will result in "the marginalization of the ILEC."

> "Another troublesome outcome of setting prices too low would be the marginalization of the ILEC. Setting UNE and interconnection services prices at unreasonably low levels will hinder BellSouth's ability to compete because the ALECs will have an artificial pricing advantage over BellSouth. The ALEC will, therefore, be in a better position to 'cherry pick' the more profitable, mainly business customers, and the ILEC will lose the low cost, high margin urban customers to competition" (Direct Testimony, page 12, line 20 through page 13, line 1).

Q. Do you agree with Mr. Varner's assessment that forward-looking, economic cost-based rates for unbundled network elements will foster "cherry picking" by CLECs of the company's most attractive customers?

A. No, reasonable, forward-looking rates for unbundled network elements should make it possible for CLECs to reach a wider range of consumers because the economies of scale and scope that were referred to earlier will be available on competitive terms. With reasonable, economic cost-based rates, CLECs will be in a better position to profitably serve the average consumer, not just the high revenue-high margin subscriber.

Ironically, the very threats to market stability that Mr. Varner discusses in his testimony are more likely to manifest themselves under the costing approach advocated by him. When the cost studies prepared by BellSouth result in such high rates for unbundled network elements that it becomes unprofitable to serve any consumers but those with the highest margins, then CLECs will have no recourse but to seek out those high margin customers. Mr. Varner's may label this market strategy "cherry picking" but it is nothing more than a competitive reality.

Q. What remedies does Mr. Varner propose to cure the market deficiencies he perceives will surface in the event forward-looking, economic cost-based rates for unbundled network elements are established?

A. First, Mr. Varner recommends that BellSouth be permitted full recovery of its actual costs and that the Company be able to design rates based upon other considerations, such as market forces. Furthermore, Mr. Varner states that the rates for unbundled network elements should include a level of profit over and above its fair and reasonable cost of capital.

Mr. Varner also claims that "geographically deaveraged pricing places an additional burden on universal service" (Direct Testimony, page 7, lines 21 and 22). In response to this pressure on universal service (which the Company has yet to substantiate), Mr. Varner maintains that geographic deaveraging of UNE rates must be concurrent with "the implementation of an appropriate universal service support mechanism and/or the implementation of adequate rate rebalancing" (Direct Testimony, page 7, lines 22 through 25). Indeed, Mr.

Varner emphasizes his desire for universal service support: "the most important issue is to immediately address the implementation of an appropriate state universal service fund" (Direct Testimony, page 9, lines 7 through 9).

Q. Do you believe that Mr. Varner's "remedies" represent sound, regulatory policy?

A. No. The pitfalls associated with Mr. Varner's recommended costing scheme have already been pointed out. Full recovery of actual costs, built-in "economic profits," and market-based pricing will only serve to retard the development of efficient, local exchange competition.

Mr. Varner's urgency to establish a State universal service fund strays from the purpose of the instant proceeding. This proceeding is intended to establish permanent rates for unbundled network elements, deaveraged UNEs, and UNE combinations. The more appropriate forum to determine the need, if any, for an interim universal service support mechanism is in a separate docket. In fact, the Commission has already considered the need for an interim universal service fund in a prior docket. At this point, the Commission's attention and resources are more appropriately focused on implementing fair and reasonable permanent rates for unbundled network elements. There is no reason to further delay the widespread availability of UNEs or unduly complicate this undertaking with other issues that may be relevant but can be better addressed in a separate proceeding.

Q. So far the discussion of prices for unbundled network elements has been centered on rates that are perceived to be too low. Is Mr. Varner equally concerned with rates that are set for unbundled network elements that are set too high?

A. Mr. Varner acknowledges that "[P]rices that are set either too high or too low will not, in the long run, benefit the consumer" (Direct Testimony, page 5, lines 2 and 3). But Mr. Varner is far less concerned with prices that are set too high than those that are set too low. In Mr. Varner's view, excessive rates for unbundled network elements do not pose any of the market disruptions that stem from reasonable, economic cost-based UNE rates: "[O]f course, setting prices too high will give ALECs the maximum incentive to construct their own facilities and, in the long run, infrastructure competition will develop sooner" (Direct Testimony, page 14, lines 15 through 17).

Q. Do you agree with Mr. Varner that the only downside to setting UNE rates too high is that CLECs will invest in their own infrastructure sooner than they would have absent appropriate cost-based rates?

A. No. Mr. Varner's cavalier dismissal of above-cost UNE rates ignores the fact that CLECs are financially unable to develop a ubiquitous telecommunications infrastructure from scratch. As Mr. Varner well knows, the costs of investing in duplicative facilities are prohibitive. The undertaking to construct duplicative loops and switching facilities is massive, time-consuming, and in many instances, uneconomical given the need to reach individual subscribers over wide areas. BellSouth had the luxury of growing its network to meet demand over a period of more than a hundred years as a monopoly utility with ample funding

available from its ratepayers. Those privileges cannot and will not be extended to CLECs.

Issue 2: **(a) What is the appropriate methodology to deaverage UNEs and what is the appropriate rate structure for deaveraged UNEs?**

(b) For which of the following UNEs should the Commission set deaveraged rates?

(1) loops (all);

(2) local switching;

(3) interoffice transport (dedicated and shared);

(4) other (including combinations).

Q. On what basis should unbundled network elements be deaveraged (Issue 2(a))?

A. The FCC requires that incumbent local exchange carriers deaverage rates for those unbundled network elements that exhibit significant geographical cost differences. The FCC specifies that UNE rates deaveraged across three geographic zones is presumptively sufficient. The deaveraging of unbundled network elements and UNE combinations should be based upon a rationale assignment where the underlying costs of providing the UNE are consistent within the geographic zone. For instance, the average cost of a loop can be determined on a wire center basis. Wire centers with similar cost characteristics should be grouped together in order to develop more accurate cost-based rates for each geographic zone.

Q. How do the ILECs propose to deaverage unbundled network elements across three geographic zones?

A. BellSouth advocates that the wire centers within its existing rate groups be classified into one of three zone designations.

GTE proposes a cafeteria plan for the Commission's consideration: (1) establish a single rate for each of the three non-rural incumbent local exchange carriers in an attempt to comply with the FCC's three geographic zone requirement; (2) establish three new zones for the entire state after examining the cost filings of all the ILECs; or (3) establish geographic zones based upon wire center cost differences.

Sprint recommends that geographic zones be constructed such that "the average rate in each zone is no more than 20% higher or 20% less than the forward-looking cost of providing that element" (Direct Testimony of Mr. James W. Sichter, page 16, line 4 through line 6).

Q. Do you agree with BellSouth's proposal to deaverage unbundled network elements into three geographic zones?

A. No. BellSouth's rate group to zone mapping approach results in geographic zones that include wire centers with wide-ranging average monthly loop costs. The extent of the low cost/high cost wire center combination within each proposed geographic zone is material and blurs the distinction of cost differences among wire centers and between geographic zones. There should be a more

homogenous classification of wire centers to geographic zones based upon the cost characteristics of the individual wire centers.

Q. Do you believe that GTE's proposals to deaverage unbundled network elements will result in cost-based rates?

A. No, except for possibly the third menu item. GTE's first proposal is an oversimplistic attempt to satisfy the FCC's deaveraging requirements. Under the proposal, "deaveraged rates" would mirror each non-rural ILECs' statewide average costs. Such a high level of aggregation of costs does little to capture the significant cost variations in the provision of unbundled network elements that exist within the carriers' service territories. Thus, competing carriers will continue to be charged statewide average rates for unbundled loops when the costs of providing those loops may be far below the carriers' statewide average.

In contrast to its first proposal, GTE's second plan for deaveraging unbundled network elements burdens the effort with unnecessary complexity. GTE requests that the Commission examine all ILEC cost submissions in the state, presumably those of the rural as well as the non-rural carriers, in its determination of the appropriate geographic zones. It is unclear whether the GTE proposal would assign the unbundled network elements of different carriers to the same geographic zone or whether company-specific geographic zones would prevail. But it does seem certain that such an exercise would introduce further delay into the implementation of geographic deaveraged rates for unbundled network elements.

GTE's third alternative is to base geographic deaveraging upon wire center cost differences. The proposal has merit but the exact methodology has yet to be fully presented by the Company. Thus, it is premature to embrace the wire center cost difference approach at this time.

Q. Do you find Sprint's proposal to deaverage unbundled network elements reasonable?

A. No. As a matter of consistency, the deaveraging methodology should be the same for all of the ILECs and based upon three geographic zones. A three geographic zone rate plan is also consistent with the methodology that the Federal Communications Commission has declared to be presumptively sufficient. The use of more than three geographic zones for Sprint's unbundled network elements introduces unnecessary planning, marketing, and administrative burdens upon CLECs. The competitive carriers will have to commit more resources to developing network and marketing plans to serve specific geographic areas. If the Commission approves the Company's methodology, it should limit its approval to Sprint and not impose the methodology upon GTE or BellSouth.

Q. What is your recommendation with respect to assigning UNEs to geographic zones?

A. I recommend that the methodology adopted as part of the stipulation reached among the parties in support of interim UNE rates in Florida be used for permanent pricing purposes. In the stipulation methodology, the deaveraging of the unbundled loop is based upon the ratio of an individual wire center's average

monthly loop cost to the statewide average monthly loop cost. All wire centers with costs of 0% to 100% of the statewide average loop cost are assigned to Zone 1. All wire centers with average loop costs ranging from 101% to 200% of the statewide average are classified to Zone 2. Finally, all wire centers with average loop costs in excess of 200% of the statewide average cost are placed in Zone 3.

Q. What is the appropriate rate structure for deaveraged UNEs (Issue 2(a))?

A. The rates for unbundled network elements and UNE combinations should be structured to recover the ILECs costs in the manner in which they are incurred. In general, recurring costs should be recovered through monthly recurring rates while reasonable, nonrecurring charges should be assessed to recover nonrecurring costs.

By adhering to these general principles of rate design, the appropriate pricing signals will be sent to requesting carriers and assist in their decision to lease or construct their own network facilities. The development of competition should also be encouraged by allowing the competing carriers to incur costs in a manner similar to those incurred by the ILECs.

Q. For which unbundled network elements and UNE combinations should deaveraged rates be established (Issue 2(b))?

A. The rates for an unbundled network element should be deaveraged where significant cost variations are present. For instance, the cost attributes of a loop reflect geographic differences. In highly concentrated urban areas, loop lengths

tend to be shorter than in the more sparsely populated rural areas. Since loop length is considered to be a major cost driver in the provision of a loop, it is reasonable for the Commission to geographically deaverage the rates for an unbundled loop.

On the other hand, one would not expect switching costs to differ materially between similarly configured switches whether they are deployed in an urban market or a rural wire center. Other UNEs, such as interoffice transport, already have rate structures (i.e. on a per mile basis) that account for geographic cost variations.

The deaveraging of rates for UNE combinations should be based upon the cost characteristics of the underlying network components. Thus, the rate for a UNE combination that depends upon a loop (e.g. unbundled loop and transport) should reflect the deaveraged rate for an unbundled loop.

Issue 7: **What are the appropriate assumptions and inputs for the following items to be used in the forward-looking recurring UNE cost studies?**

(a) network design (including customer location assumptions);

(b) depreciation;

(c) cost of capital;

(d) tax rates;

(e) structure sharing;

(f) structure costs;

(g) fill factors;

(h) manholes;

(i) fiber cable;

(j) copper cable;

(k) drops;

(l) network interface device;

(m) digital loop carrier costs;

(n) terminal costs;

(o) switching costs and associated variables;

(p) traffic data;

(q) signaling system costs;

(r) transport system costs and associated variables;

(s) loadings;

(t) expenses;

(u) common costs;

(v) other.

Q. What assumptions and input values have you reviewed that determine the network configuration designed by each of the cost proxy models (Issue 7(a))?

A. Although I have reviewed the documentation submitted in support of each of the cost proxy models' design of outside plant facilities, my recommendation is limited to the copper/fiber crossover point. Other parties to the proceeding, however, are likely to raise valid concerns challenging additional assumptions and input values that are fundamental to the network configuration design of the ILECs' cost proxy models. A more efficient and cost-effective network

configuration may very well be realized from their recommendations. Presumably, the model enhancements resulting from these recommendations will produce lower overall UNE rates.

Q. What does the copper/fiber crossover point refer to in the ILECs' cost proxy model?

A. The copper/fiber crossover point is a user-adjustable input value in each of the ILECs' cost proxy models. The copper/fiber crossover point refers to the threshold where fiber facilities are used in lieu of copper facilities. Each of the ILECs' cost proxy models adopt a default input value of 12,000 feet for the copper/fiber crossover threshold.

Q. What is the appropriate copper/fiber crossover point to use as an input value in the cost proxy models' design of the network?

A. The copper/fiber crossover point should be adjusted to 18,000 feet. A model platform that uses 18,000 foot copper loop lengths will support appropriate quality levels of services in most cases. The 12,000 foot constraint may ensure the provision of all services, including video services, but it burdens the majority of UNE rates with additional and unnecessary costs.

Q. What is meant by the sharing of support structures (Issue 7(e))?

A. Structure sharing refers to the practice of sharing investments in poles, trenches, and conduits with other utilities and/or carriers.

Q. What level of structure sharing is assumed in each of the ILECs' cost proxy models?

A. It is difficult to separately identify the extent of structure sharing assumed in the BellSouth cost proxy model. As explained by the Company's witness:

> "BellSouth utilizes loading factors to identify the amount of pole and conduit investment required to support the associated aerial and underground cable. During the development of these factors, anticipated net rents (expenses paid to other parties for attaching to their structures less revenues received from others for attaching to BellSouth's structures) from sharing arrangements are considered. Thus, implicitly structure sharing is reflected in the calculation. . . Sharing of trenching is reflected in the in-plant factor associated with buried cable. Since this factor is developed by analyzing the relationship between total installed investments and material prices, any savings gleaned from sharing of placement costs has been considered" (Direct Testimony of D. Daonne Caldwell, page 42, line 24 through page 43, line 12).

According to the input values of the ICM, GTE assumes the level of structure sharing to be one additional utility and/or carrier on poles and no other parties and/or carriers sharing trenches or conduits.

In the Sprint TELRIC studies: "The structure sharing inputs are expressed in terms of the percent of costs assigned to telephone, which equates to the percentage of the structure cost that is borne by the ILEC. The reciprocal of this

input factor represents the portion of the structure cost that is borne by companies other than the ILEC, such as power and/or cable companies. The model inputs are segregated between feeder and distribution sub-loop components, by aerial, buried and underground plant mix and by each of the nine customer density zones" (Direct Testimony of Kent R. Dickerson, page 12, line 15 through line 24). In his Direct Testimony, Mr. Dickerson explains that the structure sharing inputs for underground and buried feeder and distribution cable were set at 85% and 80% for the majority of customers served by Sprint. The structure sharing input for poles was set at 27% for all density zones.

Q. What level of structure sharing is appropriate for the ILECs to assume in the cost proxy models?

A. I recommend that the structure sharing model values for BellSouth and GTE be modified to include at least two additional parties sharing pole facilities. The percentage of structure sharing among utilities and other users should increase in the future as more parties require space on a limited number of facilities and right-of-ways. My recommended structure sharing level recognizes that although there will be more carriers seeking the economic benefits of structure sharing, the opportunities for such sharing may be constrained for a number of reasons, including engineering limitations.

Q. What is a fill factor (Issue 7(g))?

A. A fill factor represents the percentage of the network facility that is being used. The network facilities of telecommunications common carriers are engineered with an appropriate amount of spare capacity in mind. The spare capacity can

take the form of administrative spare, spare capacity attributed to modularity, and demand related spare.

Q. How do the fill factors adopted for feeder and distribution facilities affect the cost estimates developed by the models?

A. The fill factors used in the ILECs' cost proxy models affect the level of investment required to provide services to customers. Lower than necessary utilization rates increase total loop investment because the increase in required capacity associated with lower fill factors increases the amount of loop plant used to deliver telecommunications services. Optimistically robust fill factors may jeopardize the quality of service.

The appropriate fill factor used in the cost proxy models should balance current and expected demand levels as well as accommodate the requirements for administrative and modular related spare capacity over the economic life of the feeder and distribution facilities. Deploying facilities to satisfy demand that is not expected to materialize until after the facilities have been retired represents poor management judgment. A competitive firm would not be able to overcome such errors of judgment by passing on the higher costs to its customers.

The economic lives that the incumbent carriers have assigned to distribution and feeder facilities for capital recovery purposes should be consistent with the fill factors developed as part of the efficient network configured by the cost proxy models. For instance, if the incumbent carriers assign an economic life of 14 years for metallic distribution facilities, then it is not reasonable to size these

facilities to satisfy demand levels that may not emerge for 25 to 30 years in the future, long after the facilities are projected to be retired.

Q. Have you commented previously upon the level of operating expenses and common costs that the incumbent carriers seek to recover through the proposed UNE rates?

A. Yes. In the prefiled testimony that I submitted on June 8, 2000, I commented upon the level of total operating expenses, including common costs, that the incumbent carriers project will be incurred on a forward-looking basis in the provision of unbundled network elements. At an earlier point in this proceeding, the Commission had ordered that the issues of operating expenses and common costs be addressed by the intervenors in their June 8, 2000 prefiled testimony. The Commission subsequently deferred the review of these issues until the current round of testimony. Although my initial comments with respect to the ILECs' operating expenses and common costs appear in my June 8, 2000 prefiled testimony, they are further discussed here as a matter of convenience.

Q. How are the operating expenses developed in the ILECs' cost proxy models (Issue 7(t))?

A. The operating expenses proposed to be recovered by the ILECs are estimated by massaging base period expense levels through a series of adjustments and factors. The base year expenses may then be adjusted through inflation factors and productivity offsets as well as "normalization" adjustments in an effort to make the baseline data representative of forward-looking conditions. Other adjustments may also be proposed such as an avoided retail expense adjustment,

activity based cost adjustments, special study adjustments, and shared and common cost adjustments. Annual charge factors are also developed under a costing pool methodology that assigns individual plant and expense account activity to one or more cost pools.

Q. What conclusions did you reach regarding the reasonableness of the level of operating expenses included in the ILECs' cost studies?

A. The results of my analyses suggest that the operating expenses included in BellSouth's and GTE's cost studies appear overstated and not representative of forward-looking conditions. For instance, the inflation factor of 3.2% to 3.5% assumed by BellSouth exceeds the productivity offset of 3.1% resulting in a growing level of expenses each year during the forecast period. GTE has made an initial series of adjustments to its base year expenses (i.e. 1998 ARMIS data) that actually increase the operating expenses prior to other adjustments.

One would expect lower levels of operating expenses to be projected on a forward-looking basis assuming the network configurations of the cost proxy models embrace the most efficient, least cost technology and the engineering and operating practices of the carrier reflect productivity enhancements. As presented in Exhibit__(WJB-1), the trend of BellSouth's and GTE's operations indicate declining expense levels on a per access line basis over the last several years. Therefore, an ILEC's proposal to recover a level of operating expenses that exceeds its incurred costs should undergo rigorous scrutiny.

Q. What are common costs (Issue 7(u))?

A. Common costs refer to those costs that are common to all products and services of the ILECs. These costs cannot be identified with the provision of any specific service or group of services.

Q. How do the ILECs propose to recover the common costs that have been *identified*?

A. The carriers propose to recover their projected common costs through a uniform mark-up applied to the unbundled network elements and UNE combinations. BellSouth proposes a mark-up of 6.24%, GTE advocates a "fixed allocator" of 18.1%, and Sprint caps the common cost mark-up at 15.00%.

Q. What adjustment do you recommend to modify the level of common costs the carriers seek to recover?

A. As part of their effort to develop forward-looking expenses subject to recovery through UNE rates, the carriers have made an adjustment to exclude the retail costs that will be avoided in the wholesale environment. The avoided retail cost adjustment, however, appears to understate the level of costs that should be excluded from the cost studies. BellSouth claims that the percentage of retail costs to be excluded on a forward-looking basis is 11.20%. The results of the GTE cost studies indicate that only 8.30% of its forward-looking expenses are attributed to retail costs.

The avoided retail cost adjustment should reflect the wholesale percentage discount ordered by the Florida Public Service Commission for each carrier. In the case of BellSouth, the FPSC ordered a resale discount of 21.83% for

residential customers and 16.30% for business customers. The avoided retail cost discount ordered for GTE is 13.04%. The impact of substituting the Commission-ordered wholesale percentage discount for each carrier's proposed avoided retail costs can be found in Exhibit__(WJB-2).

Issue 8: What are the appropriate assumptions and inputs for the following items to be used in the forward-looking non-recurring UNE cost studies?

(a) network design;

(b) OSS design;

(c) labor rates;

(d) required activities;

(e) mix of manual versus electronic activities;

(f) other.

Q. Did your review of GTE's Wholesale Non-Recurring Cost Study ("NRC Study") find it to be based upon forward-looking practices (Issue 8(e))?

A. No, not in all areas. The Company asserts that "[T]he UNE NRC Study is a forward-looking study that accounts for the activities required to pre-order, order, provision, and install products and services for Competitive Local Exchange Carriers (CLECs)" (NRC Study, page 13-FL 1). A closer review of the NRC Study, however, indicates that many of the nonrecurring charges to be assessed CLECs requesting unbundled network elements are premised on less efficient, manual ordering and provisioning practices.

Q. Please provide an example where you have found the Company's procedures to be overly reliant on manual processes?

A. GTE claims in its NRC Study that CLECs can transmit their Local Service Requests ("LSR") to the Company via a Manual Order, Semi-mechanized Order, or a Mechanized Order "depending on the CLEC's systems, processes, and level of mechanization" (NRC Study, page 13-FL 2). In actual practice, however, the Mechanized Order process is not available as an option but GTE "will in the future develop costs for the fully Mechanized Order process scenario" (NRC Study, page 13-FL 2).

Q. Is this the extent of the Company's reliance upon manual procedures in the determination of its nonrecurring costs to provide UNEs and UNE combinations?

A. No. In the explanation of ordering function activities, GTE discusses the involvement of a Service Representative at its National Open Market Centers ("NOMC") for each of the ordering processing modes (i.e. Manual Mode, Semi-mechanized Mode, and Mechanized Mode). The National Open Market Centers serve as the single point of contact for pre-ordering and ordering local network UNEs. In a parenthetical reference, the Company notes that:

> "(For Exchange – Complex and Advanced/Special UNE services all order entry is currently done manually by the NOMC personnel regardless of the order receipt mode. For these types of orders, a GTE Service Representative inputs the order and, if applicable, the

Data Gathering Form (DGF) into the system)" (NRC Study, page 14-FL 2).

Most the Company's proposed UNEs fall into the Exchange – Complex and the Advanced/Special categories. Thus, CLECs will be assessed nonrecurring charges based upon manual ordering procedures for the majority of UNEs. Exhibit__(WJB-3) reproduces the matrix prepared by GTE of UNE categories and associated UNEs and highlights those UNEs that are subject to the manual order processing procedures.

Q. Are the provisioning practices of the Company based upon more efficient processes than the ordering function activities?

A. No, not necessarily. In an explanation of the provisioning function, GTE states:

> "Provisioning activities include facility assignment and switch translations (if required). Exchange UNEs require manual provisioning. For the Exchange – Basic UNE-Ps much of the provisioning is automated. The Exchange – Basic services can be provisioned using standard network components maintained in inventory without specialized switch translations. The Facility Assignment Center (FAC) consists of the Select, Special Products Assignment Group (SPAG), and Provisioning Support groups. These groups are involved only when there is system fall-out requiring manual assignment and switch updates.

> The Exchange – Complex UNE/UNE-Ps require more manual provisioning due to switch translations, routing instructions, and service arrangements" (NRC Study, page 15-FL 1).

The Company subsequently discloses the degree of manual assignment in provisioning UNEs:

> "The FAC has responsibility for assignment of outside plant facilities and central office line equipment for Exchange – Basic, Exchange – Complex, and Advanced/Special – Basic UNEs. **All Exchange and Advanced/Special UNEs require manual *assignment.*** *The Assignment, Activation, and Inventory System* (AAIS) will automatically process an order for Exchange – Basic UNE-Ps whenever possible. However, when mechanized assignment does not happen, the FAC will manually provision the order" (NRC Study, page 15-FL 2, emphasis added).

As explained in the NRC Study, the Company's provisioning activities are largely dependent upon manual assignment for the majority of UNEs much like the ordering functions.

Q. Has GTE indicated what percentage of orders will fall-out and require manual intervention?

A. Yes. In a description of "Infrastructure Enhancements," the Company states that in the Mechanized Order mode a "small percent of orders fall-out of the system

and require a GTE service representative to notify the CLEC" (NRC Study, page 13-FL 2). It is revealing what GTE considers to be a small percent of fall-out orders.

The Company assumes that "[A]pproximately 22% of the New Basic Exchange UNE LSRs submitted electronically by the CLEC fall out of NOCV and require a GTE Service Representative to manually input the order" (NRC Study, page 14-FL 2). In effect, GTE projects that its electronic ordering systems will be so inefficient that more than one out of five orders will be kicked out and require manual intervention. Such a high fall out rate is not representative of forward-looking conditions and it is doubtful that GTE's own customers would tolerate such inefficiency.

Q. Have you identified any other areas of the Company's Non-Recurring Cost Study that result in excessive nonrecurring costs?

A. Yes. Although the procedures that a CLEC must undertake to establish an account with GTE appear reasonable on their surface, they seem to consume an inordinate amount of time for account set-up:

> "CLEC Account Establishment – GTE establishes the CLEC account in each state that the CLEC requests. The NOMC receives the CLEC profile from the CLEC's account manager, reviews it for completeness, and then enters the CLEC profile information and creates summary bill masters in NOCV. Once the CLEC

account has been established for a state, the CLEC may submit an LSR for processing" (NRC Study, page 13-FL 6).

In order to conduct these account establishment procedures for one CLEC, GTE estimates that it will take 462 minutes or nearly 8 hours to set-up the account (NRC Study, page 14-FL 22). Furthermore, it is unclear from the cost study documentation whether the CLEC Account Establishment charge will be assessed by individual state in which the CLEC requests UNEs from GTE or on a per carrier basis.

It should be kept in mind that while GTE is fully recovering its costs associated with establishing the CLEC account, the CLEC must not only absorb these charges but also the costs incurred in having its employees interact with GTE in the account establishment process.

Q. Have you identified any other shortcomings in the Company's NRC Study?

A. Yes. GTE asserts its UNE NRC Study is a "forward-looking study" (NRC Study, page 13-FL 1). The pre-ordering activities for Dark Fiber, however, do not appear representative of forward-looking practices as they rely upon extensive manual effort. The preordering effort for Dark Fiber – Exchange Facilities is projected to take 243.25 minutes or nearly 4 hours at a cost of $143.52. The preordering activities for Dark Fiber – Interoffice Facilities are estimated to consume a total of 474.50 minutes or nearly 8 hours at a nonrecurring charge of $282.05. These may be the embedded pre-ordering practices of GTE but they are not representative of a forward-looking cost study.

Q. What other areas of the Company's NRC Study warrant further scrutiny by the Commission?

A. The Company intends to recover the one-time costs incurred for OSS system upgrades through a "Transition Cost" charge. GTE has "identified two types of costs associated with OSS – Transition Costs and Transaction-specific Costs. Transition costs are the costs to upgrade existing OSS and the start-up costs to establish mechanized systems. These infrastructure changes were required to make GTE's OSS accessible to CLECs. The transition costs include the one-time expenses to upgrade the five categories of OSS: pre-order, order, provisioning, repair/maintenance, and billing" (NRC Study, page 13-FL 6). It would be more appropriate to recover any OSS-related "Transition Costs" through the Company's recurring rates for UNEs in order to avoid assessing CLECs even higher nonrecurring rates.

Q. Are there any other items you wish to comment upon with respect to the Company's NRC Study?

A. Yes. GTE will add an additional nonrecurring charge of $5.53 to each Local Service Request submitted by a CLEC. According to the Company, the purpose of this extra charge is to recover the shared and fixed costs of the National Open Market Centers:

> "GTE's shared/fixed costs were developed based on the costs GTE actually incurred, as described in GTE's NRC Study. GTE proposes to recover these costs through an additional amount

included in the NRC assessed on every CLEC order. Specifically, whenever a CLEC places an order or initiates an activity involving GTE's NOMCs, the CLEC's 'ordering' NRC includes $5.53 for recovery of shared/fixed NOMC costs. This amount is based on an estimate of how many times CLECs will use GTE's NOMCs in a year" (Direct Testimony of Mr. Dennis Trimble, page 26, line 1).

The magnitude of the per order charge to recover NOMC related costs requires that the Company provide full cost documentation in support of the charge. But GTE has provided scant cost documentation in support of the NOMC shared/fixed cost per order charge of $5.53. Indeed, the only support that Mr. Trimble provides is at such a high level (i.e. three line items of information) that it cannot be determined whether the per order NOMC charge is reasonable. One would expect the NOMC per order charge to be uniform across GTE's operating subsidiaries in different jurisdictions since it is based upon an estimate of how many times CLECs will use GTE's National Open Market Centers in a year. But somehow GTE has estimated the NOMC per order charge to be $5.53 in Florida while the same per order cost recovery in North Carolina is estimated to be $4.76. Based upon the Company's premise for developing the NOMC per order charge, the costs recovered on a per order basis from a CLEC should be the same whether the CLEC is requesting UNEs in North Carolina or in Florida. The Commission should order the Company to be more forthcoming concerning its investment and operating costs associated with each of its NOMCs. At this point, the Commission is not in a position to determine if such a per order charge is even necessary much less reasonable.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

TALLAHASSEE, FLORIDA

In re: Investigation into pricing of unbundled network elements.	)))	**Docket No. *990649-TP***

EXHIBITS

OF

WILLIAM J. BARTA

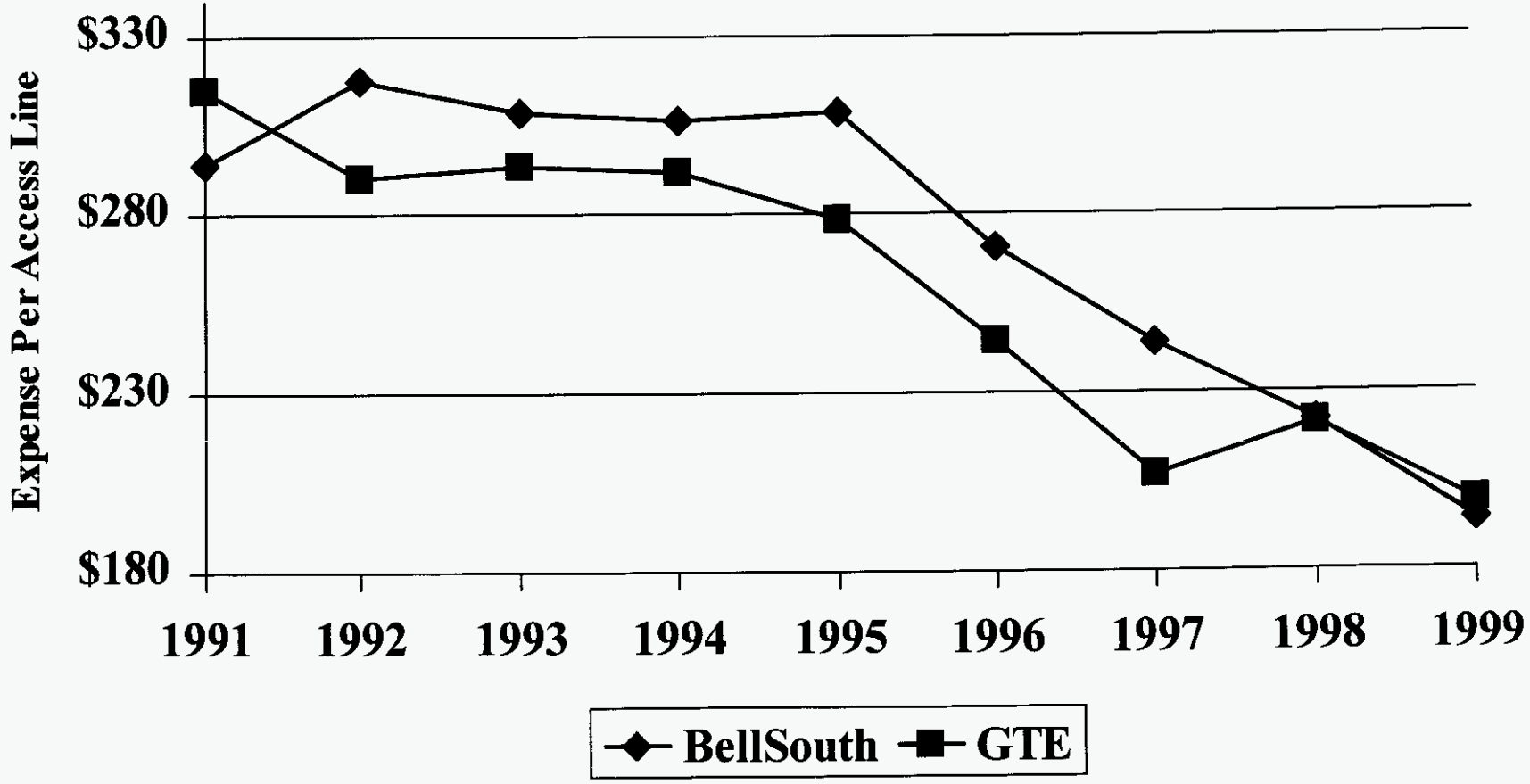
ON BEHALF OF THE

FLORIDA CABLE TELECOMMUNICATIONS ASSOCIATION

HENDERSON RIDGE CONSULTING, INC.
CUMMING, GEORGIA
JULY 31, 2000

BellSouth Telecommunications, Inc. and GTE Florida, Inc.
State of Florida

(Total Operating Expense - Depreciation Expense) Per Access Lines
1991 - 1999



Analysis of Forward-looking Avoided Retail Costs vs. Commission-ordered Discount
BellSouth and GTE

Line no.		BellSouth	GTE	Sprint
1	Total retail costs to be avoided per cost study	$ 2,188,369,392	$ 88,966,793	(study not performed)
2	Total expenses subject to recovery per cost study	19,534,404,596	1,064,237,565	
3	Avoided retail cost percentage	11.20%	8.36%	
4	Commission-ordered avoided retail cost percentage	21.83%	13.04%	
5	Difference between carrier avoided retail cost percentage and Commission-ordered avoided retail cost percentage	10.63%	4.68%	
6	Additional retail costs to exclude from TELRIC studies	$ 2,075,991,131	$ 49,809,785	

Source:
Residential wholesale percentage discount for BellSouth per FPSC Order PSC-96-1579-FOF-TP issued December 31, 1996.
GTE wholesale percentage discount per FPSC Order PSC-97-0064-FOF-TP issued January 17, 1997.

GTE – Florida
Matrix of UNE Categories and Associated UNEs

Exchange - Basic	Exchange - Complex	Special/Advanced - Basic	Special/Advanced –Complex
• 2-Wire Analog Loop	• **Complex Non-Digital Loop**	• **2-Wire Digital Loop**	• **DS1 Loop**
• 4-Wire Analog Loop	• **Subloop Distribution: 2-Wire Non-loaded, 4-Wire Non-loaded**	• **4-Wire Digital Loop**	• **DS3 Loop**
• Basic Analog Line Side Port	• **Subloop Feeder: 2-Wire Non-loaded, 4-Wire Non-loaded**	• **Entrance Facilities**	• **Dedicated Switched Access Line**
• Vertical Features	• **Loop Conditioning**	•	• **ISDN PRI Digital Trunk Side Port**
• Interim Number Portability (INP)	• **CentraNet Port**	•	• **DS1 Digital Trunk Side Port**
• C.O. Interconnection	• **ISDN BRI Digital Line Side Port**	•	• **Dedicated Switched Access Port**
• Subloop Distribution: 2-Wire Standard, 4-Wire Standard	• **Vertical Features**	•	• **Dedicated Non-Switched Transport**
• Subloop Feeder: 2-Wire Standard, 4-Wire Standard	• **Switch Feature Group**	•	• **SS7 Links**
• Subloop Unbundled Customer Serving Terminal (Drop)	• **Customized Routing OA/DA**	•	• **STP Ports**
• Network	• **Line Sharing**	•	• **Dark Fiber**

Interface Device (NID)			
•	•	•	• **Enhanced Extended Links (EELs)**
•	•	•	• **Entrance Facilities**

*UNE categories in bold indicate UNEs that are subject to manual ordering processing procedures per GTE's Nonrecurring Cost Study.