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January 24, 2002

Mrs. Blanca S. Bayó
Director, Division of the Commission
Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

**Re: Investigation into Pricing of Unbundled Network Elements
(BellSouth Track), Docket No. 990649A-TP**

Dear Mrs. Bayó:

The purpose of this letter is to inform the Commission and parties to this proceeding of changes BellSouth has made to certain inputs in its cost-study filed in this proceeding and to explain the reasons for the changes.

First, the engineering factors BellSouth used in its original cost study are the same factors used in BellSouth's internal cost estimating system, OSPCM. In gathering information for a Staff-requested late-filed deposition exhibit, BellSouth learned of a discrepancy in the way the OSPCM system applies the factors and the way the BSTLM© applies the factors. The engineering factors in the OSPCM are applied to Telco labor plus contractor costs. The BSTLM©, however, was programmed to apply the factors to Telco labor, contractor costs, and material cost. Thus, application of the factors from BellSouth's OSPCM resulted in an overstatement of the engineering costs for copper and fiber cable accounts. In order to address this problem, BellSouth has developed engineering factors based on relationships between engineering costs and total non-engineering investments for each plant account. A worksheet setting forth the development of these factors is attached.

Second, BellSouth has made two of the BSTLM© logic changes addressed by Mr. Pitkin in his rebuttal testimony and by Mr. Stegman in his surrebuttal testimony. Those two changes address the cell reference problem

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with the fiber cable, EF&I calculation and the cell reference problem with the structure sharing calculation.

Third, BellSouth is correcting an error with respect to Feeder/Distribution Interface (FDI) placing hours. BellSouth uses contractors to place FDI's with placement costs based on the weight of the cabinets. Since the BSTLM input tables for FDI placement assume Telco placement, BellSouth had to convert contractor costs to Telco placement hours by dividing contractor costs by the Telco labor rate. BellSouth made an error in that calculation, resulting in a slight overstatement of FDI cost. BellSouth's revised inputs reflect the a correction of the referenced error.

Lastly, BellSouth changed inputs regarding its underground excavation costs and manhole costs. BSTLM© calculates all conduit duct costs, underground excavation costs and manhole costs as engineering, furnished and installed (EF&I) (rather than distinguishing between material and labor), because BellSouth's contracts with outside vendors provide for these items on a furnished and installed basis that includes the material and labor associated with installing the material. Since the BSTLM© applies loadings (e.g., sales tax, exempt material, supply expense) to material only, this would result in an understatement of these miscellaneous loading costs in the BSTLM©. BellSouth developed a 4C loading factor to account for these loadings and applied that factor to the BSTLM inputs in its cost study filing in this proceeding. BellSouth later learned that this loading was not applied to Type 1 and Type 2 manholes or to the underground excavation costs per foot. BellSouth is correcting this problem by applying the loading to all manhole sizes, to duct costs per foot. and to underground excavation costs per foot. BellSouth is also revising manhole costs as set forth in the surrebuttal testimony of BellSouth witness Daonne Caldwell.

BellSouth is in the process of re-running its cost models with the revised inputs discussed above and plans to file an amended cost study as well as an amended Exhibit DDC-3 to Ms. Caldwell's testimony. However, due to the processing times associated with running the cost models and the logistics of making electronic copies and transporting them to Tallahassee, BellSouth will be unable to file its amended cost study and exhibit, which is the cost output summary, until Monday, January 28, 2002. We did, however, want to get this information to the Commission and the parties even before those cost study runs can be completed. We are providing to all parties today via e-mail an executable file, FI_Network_Version_Changes.exe, to replace a user's Invest Logic.xls file, as well as with three new .mdb data bases (1 for each BSTLM© scenario) with BellSouth's revised inputs so that parties can see these revisions and run them

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in the cost model if they wish. This file contains proprietary information and is being provided pursuant to a Notice of Intent being filed today as well as to the terms of the Protective Agreement.

I would appreciate your marking a copy of this letter as "filed" and returning it to me. If you have any questions or need any further information, please do not hesitate to contact me.

Sincerely,


Andrew D. Shore (KA)

cc: All Parties of Record (via e-mail and overnight mail)
Marshall M. Criser III
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Nancy B. White

**CERTIFICATE OF SERVICE
Docket No. 990649A-TP**

I HEREBY CERTIFY that a true and correct copy of the foregoing was served via
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(+) Signed Protective Agreement