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April 12, 2002

**BY HAND DELIVERY**

Ms. Blanca Bayó, Director  
The Commission Clerk and Administrative Services  
Room 110, Easley Building  
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2540 Shumard Oak Blvd.  
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Re: Docket No. 990649A-TP

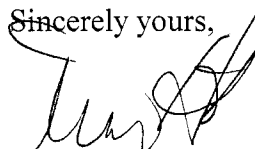
Dear Ms. Bayó:

Enclosed for filing on behalf of AT&T Communications of the Southern States, LLC and MCI WorldCom, Inc. are an original and fifteen copies of AT&T and MCI's Posthearing Brief in the above referenced docket. Also enclosed is a 3 1/2" diskette with the document on it in WordPerfect 9.0.

Please acknowledge receipt of this letter by stamping the extra copy of this letter "filed" and returning the same to me.

Thank you for your assistance with this filing.

Sincerely yours,



Tracy W. Hatch

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Enclosures

cc: Parties of Record

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of A&T and MCI's Posthearing Brief in Docket 990649A-TP has been served on the following parties by Hand Delivery (\*) and/or U. S. Mail this 12th day of April, 2002.

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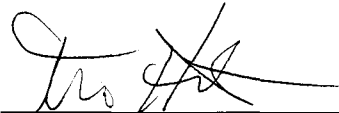
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Tracy W. Hatch

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into pricing of )  
unbundled network elements )  
\_\_\_\_\_ )

Docket No. 990649A-TP

Filed: April 12, 2002

ORIGINAL

**JOINT POSTHEARING BRIEF OF AT&T AND MCI WORLDCOM**

AT&T Communications of the Southern States, Inc. ("AT&T") and MCI WorldCom, Inc. ("MCI WorldCom"), through undersigned counsel, submit this joint posthearing brief and position of issues.

**INTRODUCTION**

*"...the UNE rates that BellSouth has proposed at this high end of the range are simply not plausible. They are just way too high. And that the Commission if it wants to see competition occur in the state it is going to have to do something to bring them down."* (Gillan, Tr. 907)

UNE rate levels are critically important to local competition. BellSouth's Florida exchange network is fundamentally an inherited resource, which enjoys substantial economies of scale and scope and may still be a natural monopoly in many respects. One of the core reasons that the Telecommunications Act requires incumbents to offer UNEs is so that these inherited scale and scope economies can be *shared* by all providers. Without access to UNEs, BellSouth's exclusive network would provide it essentially an insurmountable advantage. Indeed, the future of local competition is directly related to UNE rates, for these rates will determine whether other entrants are provided access to this critical network resource equal to that which BellSouth provides itself.

Previously in this docket, the Commission ordered BellSouth to re-file its cost model using a "bottoms-up" approach including all assumptions because it was troubled by BellSouth's use of linear in-plant factors that distort UNE costs between rural and urban areas. Yet, BellSouth's new filing still fails to comply with the Commission's *FL UNE Order* in a number of significant ways. Moreover, several "sanity checks" of BellSouth's rate proposal, discussed in detail in Issue 1(b), demonstrate that BellSouth's proposal simply is not plausible. The Commission should require BellSouth to use forward-

looking inputs as set forth by the testimony of witnesses Donovan and Pitkin and to run its model using the single most efficient network design. Many of the forward-looking inputs are discussed in detail in Issue 1.

The Commission should set BellSouth rates as proposed by the ALECs in Exhibit BFP-19 so that the rates are consistent with TELRIC and the *FL UNE Orders*. Late-filed Exhibit 70 demonstrates, on a cumulative basis, the impact of AT&T/WorldCom's proposed changes on BellSouth's proposed loop and port rates. The Commission should set the daily usage file rates at zero, because BellSouth already is adequately compensated by the common cost factor to maintain its daily usage file systems. Also, the Commission should ensure that inflation is set appropriately rather than rely upon BellSouth's high and unreliable rate. Finally, the hybrid-copper/fiber xDSL capable loop offering was not properly structured by BellSouth and offers ALECs nothing anyone would ever want to buy. The Commission should reject the hybrid-copper/fiber xDSL capable loop offering as structured by BellSouth and consider this issue in a separate, generic proceeding.

Although Florida is the largest state and most attractive market in the BellSouth region, Florida trails other states in competitive development. (Tr. 902, Exh. 69, JPG-2) The Commission has before it an opportunity and an obligation to set UNE rates at a level that is both consistent with TELRIC and allows competitive carriers a meaningful opportunity to compete in the local market. The future of local competition in Florida depends upon it.

#### **SPECIFIC ISSUES AND POSITIONS**

**ISSUE 1(a).** Are the loop cost studies submitted in BellSouth's 120-day filing compliant with Order No. PSC-01-1181-FOF-TP?

**AT&T/MCI's Position:** \*\*\* No. BellSouth's model fails to comply in many significant ways, including BellSouth's: 1) use of a linear Engineer factor; 2) inappropriate treatment of "Miscellaneous

Contractor Charges” and other errors causing inappropriate Structure Inputs; and 3) use of non-compliant Copper Cable and Fiber Cable Cost. (See Exh. 66, JCD-8) \*\*\*

In the *FL UNE Order*, the Commission ordered BellSouth to re-file its BSTLM and BSCC to explicitly model all cable and associated supporting structure engineering and installation placements, instead of using ratios to develop engineered, furnished and installed costs (EFI) as was done in the previous proceeding. The Commission ordered BellSouth to refile its model using a “bottoms-up” approach including all assumptions because it was “troubled by BellSouth’s use of linear in-plant factors” that distort costs between rural and urban areas. (*FL UNE Order*, p. 294)

BellSouth’s cost model fails to comply with the *FL UNE Order* in a number of significant ways (see Exhibit 66, JCD-8):

- 1) BellSouth used a linear Engineering Factor;
- 2) BellSouth’s Structure Inputs fail to comply primarily because of its inappropriate treatment of “Miscellaneous Contractor Charges.” BellSouth’s Structure Inputs also contain a number of other errors; and
- 3) BellSouth used non-compliant Copper Cable and Fiber Cable Cost.

### **Engineering Costs**

*“We are here because this Commission did not believe in BellSouth’s linear loading factors.”*  
(Donovan, Tr. 833)

### **BellSouth still uses a Linear Loading Factor for Engineering**

BellSouth’s continued use of linear Engineering Factors fails to meet the Commission’s requirements set forth in the *FL UNE Order*. BellSouth’s proposed Engineering Factors are unreasonably high, unsupportable, and are far beyond generally accepted industry opinion. (Donovan, Tr. 763, Exh. 66, Depo. pp. 49, 50) Engineering costs should be based on a “scorched node” TELRIC

environment using a reasonably high productivity span of control based on one engineer per six technicians (Donovan, Tr. 832)

Regarding engineering costs, the Commission specifically ordered BellSouth to refile its cost models using a bottoms-up approach to engineering costs rather than using a linear Engineer, Furnish & Install (EFI) factor. Specifically, the Commission's rationale was made clear in the *FL UNE Order*:

Upon review, it appears that BellSouth's use of linear loading factors, while easy for BellSouth to apply, can generate questionable results, especially in light of deaveraged rates ... no economies of scale for exempt material, *engineering*, or labor, for example, ever occur. It seems very unlikely that there are no economies of scale generated as cable sizes grow larger. (*FL UNE Order*, p. 282, emphasis added)

BellSouth, however, has failed to file a bottoms-up model for engineering costs as ordered by the Commission. Despite the requirement to file a bottoms-up model, incredibly BellSouth still filed a linear loading factor. (Caldwell, Tr. 247) Although BellSouth claims to have modified the model to allow for multiple engineering factors for various plant types, witness Caldwell admits that the engineering factor is still a linear loading factor, which is applied to both material and installation labor. (Caldwell, Tr. 278, 307)

- Q. So the engineering factor is still a loading factor – is still a linear loading factor, is it not?  
A. Yes. It's just no longer applied to just material. It includes the installation as well.  
Q. But this linear loading factor is applied both to material and labor still, isn't it?  
A. Yes. Material and installation labor, correct. (Tr. 307)

This use of linear engineering factors clearly is inconsistent with the requirements of the Order.

BellSouth should have created an engineering cost that correlates with technician labor. Engineering costs are related to direct labor costs and should be broken down into three components to accurately estimate total engineering costs: 1) by sheath feet of cable placed by technicians; 2) by number of splice locations created by technicians; and 3) by the number of pairs spliced by technicians. (Tr. 769, 770) Instead, BellSouth creates a factor that treats engineering cost to be proportional to labor costs plus material costs.

Moreover, BellSouth's use of a linear loading factor for engineering cost is inconsistent with the way BellSouth's own engineers estimate jobs. Although BellSouth revised its BSTLM cost, it failed to revise it consistent with the Outside Plant Construction System (OSPCM) practice described in its January 24, 2002 letter. (Donovan, Tr. 819) The OSPCM is BellSouth's system used by its engineers to estimate jobs. (Caldwell, Tr. 239) BellSouth filed the subsequent revisions to its cost model, in part, because BellSouth learned of a discrepancy in the way the OSPCM system applies the factors and the way the BSTLM applies the factors. (Tr. 819) The engineering factors in the OSPCM are applied to Telco labor plus contractor costs. Yet, even though BellSouth discovered such a significant discrepancy, BellSouth's revision to the BSTLM model code fails to be consistent with the OSPCM practice.

AT&T/WorldCom witness Donovan is, in fact, the only outside plant engineer who testified in this proceeding. (Tr. 880) Witness Donovan is an expert outside plant engineer with over thirty years experience. (Tr. 837, Exh. 65, JCD-1) He has planned and designed outside plant, purchased telecommunications materials and contract labor, has personally engineered and constructed outside plant, and has designed methods for those who do such functions. Also, witness Donovan performed other functions or supervised those who do, in installing, connecting, repairing, and maintaining the various parts of the telecommunications network. (Tr. 760, 761) His expertise also includes working with other outside plant engineers throughout the country, usually through Bellcore, now Telcordia, in which the RBOCs met and discussed their methods and procedures, looked for improvements in those methods and procedures, and reviewed each other's practices. (Tr. 847)

Based on witness Donovan's vast Outside Plant experience, and as the only outside plant engineer who testified in this proceeding, AT&T /WorldCom recommend that the Commission require BellSouth to modify the logic of the BSTLM to have engineering costs reflect a correlation to internal direct labor plus contract direct labor, and to eliminate material cost as a driver of engineering allocations. (Tr. 820, 821)



Moreover, BellSouth's ratio of engineering to technician labor, which varies from the range of one engineer to 5.2 technicians, to one engineer to 1.1 technicians is unrealistic. (Tr. 821, 848-849, Exh. 67, JCD-9) A productive engineering force will create sufficient engineering work orders to keep many construction technicians gainfully employed. (Tr. 821) Moreover, Witness Donovan points out the absurdity of BellSouth's ratio of one engineer to 1.1 technicians – "...such a ratio would indicate that as much time was spent on engineering and paperwork as was spent on building a piece of outside plant." (Tr. 821) Witness Donovan states that at the very least, one engineer should be able to keep at least 6 technicians busy. (Tr. 821) Accordingly, AT&T/WorldCom recommend that the Commission require BellSouth to modify its cost model to reflect a 16.7% engineering to labor ratio ( $1/6 = 16.7\%$ )

Witness Donovan evaluates BellSouth's "span of control" of engineers to technicians in Exhibit 67, JCD-9, analyzing BellSouth's embedded base data for the years 1997 through 2000. There are a number of reasons why embedded engineering costs would vary among Field Reporting Codes (FRC) and might be higher than the expected 1:6 "span of control." First, the engineering is likely to be more complex for some types of construction than others. Second, BellSouth has a number of engineers on its payroll and must charge its engineering time to something when construction investment is reduced, which could inflate engineering costs for short periods.

Finally, to determine the appropriate engineering rate, BellSouth should be required to use an average of several years to levelize obvious year-to-year timing differences rather than using a single year, 1998, as advocated by BellSouth. (Tr. 822) Work must be planned by engineers, funding must be secured, and detailed engineering must be completed even before technicians begin work, and it is unrealistic to assume that one year should be selected to determine an appropriate ratio. Exhibit 67, JCD-9, uses BellSouth data from 1997 through 2000 to determine the appropriate engineering rate.

Accordingly, Exhibit 67, JCD-9, indicates a "TELRIC BSLTM Engineering Factor Input" that can be used instead of a change in logic. Such a factor would result in Engineering Factor Input between 5% - 12% with an overall average of just under 10%. This takes into account engineering complexity differences based on BellSouth's actual costs. (Tr. 823) This is not inconsistent with the FCC ordered 10% engineering factor the FCC developed based on evidence in the Universal Service case.

### **Structure Costs**

#### **Miscellaneous Contractor Charges Spread Over All Structure Costs**

BellSouth fails to meet the Commission's *FL UNE Order* regarding a bottoms-up approach primarily because of its treatment "Miscellaneous Contractor Charges." These charges are for items that are not readily attributable to a particular any particular type of outside plant. Bell South has provided no correlation to outside plant categories for these items. Further, BellSouth has not validated these costs as attributable to construction versus maintenance of outside plant. More importantly, these charges are historic embedded expenditures that are non-TELRIC and should not be included in a forward looking TELRIC cost study. BellSouth has made no showing that these historic embedded base expenditures are appropriate in a forward looking TELRIC cost study. (Donovan Tr. 776; Exh. 66, JCD-8).

In order to recover these historic embedded expenses, BellSouth created a "closing factor" to spread these costs over all structure costs as a 25.43% miscellaneous markup to actual contractor costs for modeled TELRIC items. (Donovan Tr. 776) BellSouth attempts to justify the recovery of these charges by claiming that "these are real costs that are often overlooked by other cost proxy models such as the HAI and the FCC's Synthesis Model." (Caldwell Tr. 279) The fact that the product of BellSouth's engineering cost study fails to equal BellSouth's historically incurred expenditures does not justify the creation of a residual closure factor or means that such a factor is appropriate for inclusion in a forward looking study of the least cost most efficient network. Moreover, the HAI and FCC's Synthesis models do not overlook these types of expenses, those TELRIC models do not include a separate factor for separate recovery of these expenses because such a factor is unnecessary.

Similarly, Witness Kephardt/Milner's explanation of these charges is also to no avail. First, BellSouth applies the factor to the cost for all structure items. This results in the inappropriate allocation of certain types of costs to type of outside plant. The costs for some of the items described, e.g. "bulldozers" do not apply to the placement of cable through boring or plowing. (Milner Tr. 128) Further, the BellSouth's outside plant is placed predominantly through boring and plowing. (Milner Tr. 132-133) Second, and more importantly, the cost for these miscellaneous items incident to the placement of outside plant should already be accounted for in either BellSouth's master construction contracts or in its OSPCM both of which provide the costs for placement of outside plant. (Milner Tr. 112, 127).

BellSouth's attempt to recover its embedded historic expense base through its "miscellaneous contractor charges charges" factor should be rejected outright. (Donovan Tr. 776) BellSouth should be directed to eliminate this factor or set it to zero in BellSouth's compliance run of the BSTLM-SC in this proceeding.

#### **Aerial Contract Labor**

BellSouth's calculations involving contract labor costs for placing poles are flawed. BellSouth includes costs for placing power company poles without taking credit for the number of poles placed. Because the objective is to determine the installed cost per pole, it is inaccurate to divide the costs of installing two poles (one telco pole + one power pole) by only a single (telco) pole. All poles used by BellSouth are not owned by BellSouth. In addition, BellSouth includes costs for placing "Carry-In" poles without taking credit for the number of poles placed. The pole costs and quantities should correlate. These pole placements without pole counts must be excluded to balance the numerator and denominator. (Donovan Tr. 777; Exh. 36) For details of the correction using BellSouth's data, See Exh. 66, JCD-2.

Witness Kephardt/Milner claims that the costs for Place Pole/Power and for PL Carry-In/Pole are additional contractor costs over and above the standard labor costs associated with placing poles. (Kephardt/Milner Tr. 91) The assertion of Witness Kephardt/Milner is totally

unsupported. (Donovan Tr. 777 and Exh. 36) Moreover, such an assertion is suspect in the face of BellSouth's process of using a master construction contract to govern all placement of outside plant. (Milner Tr. 112.) These "additional" contract labor costs should already be embedded in placement cost under the Outside Plant Master Contract. Further, while BellSouth may actually incur these expenses, BellSouth does not state the context in which these expenses are incurred. It does not appear logical that in building an efficient TELRIC network from scratch, that these types of expenses (placing a pole in existing power lines or carrying in a pole to a rear property line) would be appropriately included. It is far more logical that these occur if at all, in the context of ongoing routine maintenance. Accordingly, these expenses should not be included here. The Commission should require BellSouth to exclude contractor line items that have pole placement cost but not matching pole quantities.

#### **Plowing Cable**

BellSouth's testimony in this proceeding indicates that pursuant to its Outside Plant Master Contract, BellSouth pays a single rate for all types of buried excavation except boring. This single rate covers trenching either by hand or with a backhoe as well as plowing. However, the average level of cost presented by BellSouth appears to reflect only trenching operations. BellSouth has omitted any data specific to placement of cable by plowing even though a substantial portion of BellSouth's network is placed by plowing. In fact, BellSouth assumes such a method will be used 78% of the time in the rural density zone, and 15.75% of the time in the Suburban density zone. (Donovan Tr. 779) In a bottoms up analysis that builds a forward looking TELRIC network, a blended rate for plowing is not appropriate particularly when plowing is much less expensive than trenching. BellSouth does have a specific rate for boring; in a true bottoms-up analysis it should also have an accurate reasonable rate for plowing. More importantly, using a blended rate for plowing and trenching, where plowing is such a greater portion of the network, inappropriately loads up the cost of the less expensive means of placing buried plant. (Milner Tr. 133)

When designing a forward looking least cost network, it is patently unreasonable to allow the contractor to pick and choose without direction from the telecommunications company the means by which the network is built. (Donovan Exh. 36, p. 15) The cost difference between low cost cable plowing and much higher backhoe trenching for cable placements is so substantial that it is unreasonable to expect a procuring and contracting organization to lump those two functions together. (Donovan Tr. 779-780).

Given the soil types in Florida, it is to be expected that there would be a significant amount of cable plowing being performed. In fact, Florida conditions make for easy plowing. Moreover, BellSouth's high plowing percentage in rural areas appears to be reasonable. However, the rate used by BellSouth for Plowing is grossly excessive in comparison with the rates of \$0.60/ft. to \$0.80/ft. experienced by witness Donovan in the state of New York where the soil and terrain conditions would make the cost of plowing more expensive than in Florida. (Donovan Tr. 780, 880) BellSouth's rate is

also grossly excessive to the forward looking plowing cost of \$0.77/ft. that has been determined by the FCC in the FCC's Universal Service Proceeding. (Donovan Tr. 780)

Mr. Donovan's proposed inputs are based on his personal knowledge on what it costs to plow cable and are substantiated by the inputs used by the FCC in its Synthesis Cost model which were developed over an exhaustive two year period that included looking at the network placement costs of ILECs and other parties from all across the country. The cost of plowing for BellSouth as an input to the FCC's Synthesis Model should be very comparable to the cost of plowing as an input to the BSTLM. When BellSouth's input for the cost of plowing is so radically higher than the FCC's equivalent input as in this instance, BellSouth's input must be suspect. Mr. Donovan's 30 plus years of experience and his direct personal knowledge of the costs of plowing cable make his recommendation to the Commission of \$0.80/ft. as the appropriate input is the only reasonable rate before Commission. This rate is very conservative considering it is at the high end of plowing costs experienced by witness Donovan. The Commission should order the cable plowing input be set at no more than \$0.80 per foot.

#### **Buried Restoration**

BellSouth inappropriately has taken a conglomeration of costs, declared them to be restoration activities and has spread them uniformly, on a per foot basis, onto Buried Cable and Bore Buried Cable costs.

BellSouth's restoration cost allocation is incorrect for several reasons. First, BellSouth arbitrarily spreads the cost of Cut & Restore Asphalt, Cut & Restore Concrete, and Cut & Restore Sod across all buried structure categories rather than attributing the costs to those specific categories. Although BellSouth claims it cannot distinguish costs for different restoration activities, indeed there is significant contractor data for those specific costs. (BellSouth Attachment 3). AT&T/WorldCom recommend that buried excavation inputs be revised to reflect restoration costs under the proper categories as depicted in Exhibit 66, JCD-2, page 4.

Second, BellSouth inappropriately included costs such as conduit pipe, with Buried Restoration

costs. By definition, buried cable involves cable in contact with dirt, not in contact with pipe. (FCC Final Inputs Order, par. 65) Accordingly, costs such as various sizes of Corrugated Pipe should not be included in calculating buried cable restoration costs. (Donovan, Tr. 781) Other miscellaneous costs should be removed from the average cost of buried restoration.

Third, BellSouth inappropriately includes the cost of buried restoration costs in its Bore Cable and Plow Cable, and it should be removed from those categories. Boring of cable is done to avoid the need for restoration, and plowing cable does not require restoration expenditures. Surface restoration costs are inappropriate for Boring Cable because Boring Cable Operations is done to avoid the need to cut and restore the ground surface. (Donovan, Tr. 781) Similarly, Plowing Cable does not require appreciable surface restoration activities. (Tr. 781)

Fourth, BellSouth has taken contractor costs for buried splice pits and evenly distributed them among buried structure categories. (Exh. 66, JCD-2, p. 5) Splice pits are not needed for normal buried splicing operations, because such splices are routinely placed in above ground pedestal closures. Material costs for such closures are included in the Exempt Material Loading Factor, and labor is included in Splicing Labor. Moreover, splice pits are typically used for maintenance activities, not for new construction. (Tr. 783, Exh. 65, JCD-3) Accordingly, AT&T/WorldCom recommend that splice pits should be excluded from this restoration category.

Finally, BellSouth inappropriately includes the costs of pipe for Bore Cable. By definition, Bore Cable needs no restoration. Boring for buried cable involves using a drilling type device – a mechanical “mole” – that bores a hole in soil under pavement, in which a cable is pulled through the hole in the dirt. BellSouth’s calculations for this contractor activity mismatch the numerator and denominator because BellSouth incorrectly adds the cost of various types of pipe into the bore buried cable contractor costs. (Tr. 783, Exh. 66, JCD-2, p. 6) Because Boring Buried Cable does not normally use pipe, such pipe should be excluded from Bore Cable and should be accounted for properly under Push Pipe/Pull Cable category. AT&T/WorldCom recommend the correct inputs listed in Exhibit 66, JCD-2.

### **Push Pipe/Pull Cable**

BellSouth calculates the costs for Push Pipe/Pull Cable (PPPC) based on one line of contractor cost data that has nothing to do with this category of cost. BellSouth mistakenly designated "Place Cable or Wire in Conduit" as representing PPPC, because placing cable or wire in conduit has nothing to do with PPPC. (Donovan, Tr. 784, Exh. 66, JCD-2, p. 7) A more appropriate method for developing such costs is to use the cost per foot for Bored Buried Cable, discussed above, and to add the cost of pipe on a per foot basis. This information is available under BellSouth data that it incorrectly categorized under Bore Buried Cable. The more appropriate costs for PPPC are determined by adding the two per foot costs together. Accordingly, AT&T /WorldCom recommend that the Commission require BellSouth to use the costs found in Exhibit 66, JCD-2, page 7 for PPPC.

### **Buried Cable**

The primary base number for buried cable (before BellSouth's inappropriate spreading of costs) was incorrectly calculated by BellSouth and should be corrected based on BellSouth-supplied contractor data. BellSouth's numerator does not match its denominator because it includes inappropriate costs and, even if deemed appropriate, it excludes matching footages from the denominator. (Exh. 66, JCD-2, p. 8). These inappropriate "Buried Cable" costs included by BellSouth consist of placing of conduit (not a "Buried Cable" item), extra cables in the same trench, and other inappropriate costs. Only contractor costs labeled as Placing Buried Cable, along with associated footages, should be used to calculate buried cable placing costs per foot. Those calculations are included in the recommended input values listed in Exhibit 66, JCD-2, page 8. (Tr. 784-785)

### **Underground Excavation Contract Labor**

Of the eight underground conduit placing input categories available in BSTLM, BellSouth used the same input for seven of them (one of the seven, Rocky Trench, has zero percent usage). The single non-uniform category is Bore Underground Cable. BellSouth's overall combined weighted input costs for underground conduit placing per foot vary significantly between Rural, Suburban, and Urban density



zones. One might ask, if excavation costs are the same regardless of the excavation method, then why are the costs by density zone not the same? The answer is simple. BellSouth inappropriately used an extremely high Bore Underground Cable cost, and then applied varying percentages of use by density zone as a "fudge-factor" to make the cost per density zone vary. (Tr. 785-787)

Although boring cable under the surface may be used sparingly for Buried Cable, it is even more unusual to build duct banks of multiple 4-inch diameter plastic cable ducts between manholes using subsurface boring methods - in fact, it is rare. In witness Donovan's experience, such a rare occurrence would only take place to cross under an Interstate Highway or railroad line where no overpass or underpass is available for several miles. BellSouth's own data shows this to be true. (Tr. 786) In fact, the percentage of this type of construction was less than one half of one percent, or 0.47% of underground feet of excavation activity. (Exh. 66, JCD-2, pp. 9 -10). However, allegedly based on BellSouth management opinion, BellSouth allocated BSTLM percentages for this rare, and extremely high cost type of construction, as 2.67% in Rural, 5.75% in Suburban, and 12.5% in Urban density zones, even though BellSouth experiences only 0.47% of this type of underground excavation activity in its entirety. The Commission should adjust these BSTLM input percentages, based on underground route feet produced by BSTLM, to result in an overall average of 0.47%, but varying by density zone based on sheath feet differences. This method reflects highest use in Urban, less in Suburban, and the smallest amount in Rural density zones. (Tr. 786-787)

AT&T/WorldCom also recommend re-allocating restoration costs for Asphalt, Concrete, and Sod discretely to appropriate underground excavation categories, rather than spreading them inappropriately across all types of excavation. Results are the same as for Buried Structure, with increases of \$1.27/ft. in the Urban density zone, increases of \$0.47/ft. in the Suburban density zone, and decreases of \$0.31/ft. in the Rural density zone, as opposed to BellSouth's allocations of such costs. This treatment is fair to all parties, and results in a more accurate calculation of cost by geographic area. (Tr. 787)

#### **Conduit Material**

BellSouth's input value for conduit material is another case of mismatching the numerator and denominator. The conduit material input should reflect the cost of 4-inch PVC conduit pipe, and should not contain any placing labor. However, BellSouth has included one line of contractor cost that inappropriately includes labor. This line of data which is captioned, "This is conduit placed by contractor," should be therefore be excluded from the average material cost of PVC conduit. (Donovan Tr. 788) In addition , and as noted int Exhibit 66, page 11 of Attachment JCD-2 BellSouth has not explained how BellSouth went form its proposed conduit material cost per foot plus a 25.43% miscellaneous loading to obtain its proposed proprietary input value. This represents and unexplained additional increase in material cost of approximately 50%. (Donovan Tr. 788) The Commission should require a conduit material cost based on Witness Donovan's corrections to BellSouth data as indicated in Exh. 66, Attachment JCD-2. This is a conservative correction to BellSouth's data since this input value is slightly higher than Mr. Donovan's experience of \$0.60/ft. and the FCC's USF input value of \$0.72/ft.

### **Manholes**

BellSouth revised the manner in which it treated Manhole Costs in its January 28, 2002 filing. Notwithstanding its attempt at a fix, BellSouth has again failed to accurately capture the TELRIC investments appropriate for manhole investment.

BellSouth admits that it made a mistake in its originally filed manhole costs, and is now trying to recoup its incorrect investment allocations. Particularly, BellSouth alleges that this Commission can now correct its 30 manhole cover per manhole assertion, but that BellSouth forgot to include other costs that more than account for the difference. (Donovan Tr. 824)

The key issue for manhole costs is the appropriate number of cables that can be accommodated by a particular sized manhole. In Witness Caldwell's amended surrebuttal testimony, she indicates manholes that can accommodate 1 cable, 2 cables, 3 to 4 cables, or 5 or more cables. (Caldwell Tr. 387) BellSouth now claims that its single sample for Type M031A contractor costs represents multiple

manholes, rather than a single manhole, at a higher cost per cubic foot than larger manholes. However, BellSouth has provided absolutely no evidence in support of that claim that would contradict Mr. Donovan's testimony that the cost is simply a single outlier manhole that should be excluded from the average cost per cubic foot in a very limited non-TELRIC sample. (Donovan Tr. 824) In fact, BellSouth's new input values indicate that a 4-foot by 8-foot by 7-foot (224 cubic-foot) manhole costs much more than a 6-foot by 12-foot by 7-foot (504 cubic-foot) manhole which is almost twice the size (\$19,337.15 for a 224 cu. ft. manhole vs. \$15,330.54 for a 504 cu. ft. manhole). The contention that a smaller manhole costs much more than a larger manhole is ludicrous. (Donovan Tr. 825) BellSouth is attempting to cleverly cloud the issue by using selective cost per cubic-foot values rather than simply providing the straightforward data – cost by type of manhole. In addition, a major issue is how many cables can be accommodated by a particular sized manhole in a TELRIC environment. (Donovan 825). BellSouth claims that its smallest manhole is 4 feet wide by 3 feet deep by 6 feet long (72 cubic-feet). Exhibit 68, JCD-10, page 10.1 clearly shows that such a manhole can accommodate not 1, or 2, or 3, or 4, but far more than 4 cables. The other manhole sizes in JCD-10, pages 10.1-10.3 show capacity for far more than 6 cables. (Donovan Tr. 826, 855-856). Even a smaller 3-feet wide by 3.5 feet deep by 5 feet long (52.5 cubic-foot) manhole can accommodate at least 4 cables. (Donovan Tr. 826, 855-56; Exh. 68. JCD-10, page 10.4)

The correct cost of a manhole can be determined by the least-cost method. BellSouth has not presented any substantiated data for any volume purchases. Even its claim for higher costs per cubic-foot of manhole space is unsupported by data, and fails the test of logic in looking at the comparison between a 224 cubic-foot and 504 cubic-foot manhole presented above. (Donovan 826) In addition, BellSouth stacks costs upon costs to drive up its final value far beyond reason by using a 75.6% adder ( $1.2543 \times 1.40 = 1.756$ ). BellSouth's 25.43% “fudge factor” is discussed elsewhere but it should be again noted that the grab-bag of alleged miscellaneous expense contractor items has nothing to do with manholes, and certainly nothing to do with manhole covers. (Donovan Tr. 826-27)

Besides the 25.43% closure factor, BellSouth advocates multiplying the inflated total by another 40% “fudge factor” to account for additional alleged costs. This 40% factor is addressed elsewhere. However, the majority of BellSouth’s claimed basis for the 40% factor is exorbitant engineering costs and a double-counting of exempt material loadings a part of which is manhole covers and collars. (Donovan Tr. 827) BellSouth should not be allowed to recover the costs of manhole covers and collars through exempt material loading factors and also through the cost of that material directly as part total manhole costs. The appropriate costs are reflected in the tables in Mr. Donovan’s testimony. (Donovan Tr. 828)

This Commission should require BellSouth to use the least-cost forward looking value for the most efficient cost per cubic foot. The fact that a 224-cubic foot manhole can support any number of cables modeled by the BSTLM indicates that an input value as low or lower than what that presented in Mr. Donovan’s testimony is reasonable and appropriate.

#### **Buried and Underground Structure Sharing**

BellSouth fails to make any consideration for forward looking opportunities for structure sharing. BellSouth’s views are short-sighted, do not reflect emerging competitive realities, and reflect violation of FCC structure sharing rules.

The Telecommunications Act of 1996 and the FCC's implementation of that Act make it clear that CLECs should have unfettered equal access to structure space. BellSouth's claim that other parties are leasing only an average of 0.07% of the space is highly suspect. (Donovan Tr. 791) In contrast to BellSouth, Verizon claims that more than 30 different companies occupy its conduits in Manhattan. This disparity suggests that BellSouth is either deliberately failing to provide access its own ducts and creating severe barriers to entry, or is mistaken in its forward looking structure sharing projections. For example, BellSouth has assumed that it never shares buried structure. BellSouth ignores that it does have certain buried sharing opportunities such as where housing development contractors provide free trenches for BellSouth and other utilities..

In a forward looking environment, CLECs and ILECs must either continuously dig up streets to place facilities or or else significant amounts of structure sharing will take place. Based on Mr. Donovan's past experience, a forward-looking telco share of 50% in the rural density zone, and 33% in the suburban and urban density zones is appropriate. (Donovan Tr. 791) For these reasons, the Commission should reject BellSouth's almost non-existent structure sharing percentages, and encourage competition by requiring BellSouth to an utilize efficient forward looking structure sharing percentages of 50% structure sharing between power companies and BellSouth in the Rural density zone, and 33% structure sharing between power companies, BellSouth, and any number of competitors and cable TV companies making up the third 33% in Suburban and Urban density zones. (Donovan Tr. 792; Exh 36 p.33-34)

BellSouth has also overlooked another efficient low cost sharing opportunity with itself by not assuming an appropriate level of sharing buried structure between its feeder and distribution plant on the same route. (Donovan Tr. 793) Good planning engineers have been taught that structures are a high cost limited resource, and all efforts should be made to share that investment not only with other service providers, but to use that resource for both feeder and distribution cables. It makes no sense economically, and is environmentally unsound, to build multiple structures along a cable route. An engineer in a forward looking environment would design the network to take advantage of the shared facilities where available. (Donovan Tr. 793)

In its model, BellSouth assumes that feeder and distribution cable laid along the route only share the distribution cable structure with the feeder cable structure 25% of the time; according to BellSouth's inputs to BSTLM feeder would require its own unique structure 75% of the time. In a forward-looking TELRIC environment, BellSouth should be expected to encounter a much higher level of structure sharing between feeder and distribution facilities. Contrary to witness Milner's assertion that there is no data available on fiber feeder sharing, the Kansas Corporation Commission found that actual structure sharing for feeder and distribution was at least 40% in each of the 15 wire centers

examined and much higher in some. (Exh. 37, Kansas Corporation Order, para. 51-54) Based on the actual data showing fiber feeder sharing, a more reasonable forward looking share level for feeder and fiber facilities is 75%. (Donovan Tr. 793)

#### **Distance between Poles**

BellSouth calculated its distance between poles by taking its total sheath feet of cable and dividing it by the number of poles. This method is flawed and produces unreasonable results. The embedded cable amounts from ARMIS are not forward looking. A more appropriate measure of cable is the sheath feet produced by the BSTLM. Using this more forward looking data, the weighted average was determined to be a pole span of 184 feet. This is a more appropriate and forward looking measure of cable placed on poles. (Donovan Tr. 795).

BellSouth's proposed pole span is also inconsistent with Mr. Donovan's personal empirical observations of pole spacing in many locations in Florida, including some within BellSouth's territory. (Donovan Tr. 869)

#### **Span Length between Anchors and Downguys**

Anchors and downguys are used to anchor and stabilize the end of a run of poles. BellSouth's proposed intervals for downguys and anchors of 500 feet is unreasonably short and should be changed. BellSouth's proposal is inconsistent with accepted industry practice and is also inconsistent with BellSouth's BSTLM Methodology Manual. (Donovan Tr. 796)

#### **Copper Cable and Fiber Cable Costs**

##### **Copper and Fiber Cable Placing and Splicing Costs**

Copper Cable Placing – BellSouth has ignored the Commission's *FL UNE Order*, has failed to avail itself of BSTLM's flexibility, and has filed costs using a linear Cable Placing Factor. Although BellSouth filled in a few of the BSTLM placing inputs, its failure to populate placing setup times with forward looking (or any) values ignores the model's capability to perform a bottoms-up approach, and

results in a linear loading factor. Most importantly, BellSouth ignored the function built in to the BSTLM to correctly perform a bottoms-up calculation based on the typical industry standard “Fixed Setup Time plus Cable Feet Placed Per Day” method of estimating outside plant costs. (Donovan Tr. 799).

BellSouth could reasonably be expected to encounter 15 minutes of travel time, and 30 minutes of setup time for cable placing operations, using a 2-technician crew size for underground placing and a 1-technician crew size for buried and aerial placing. It was also be reasonable to expect an underground placing crew to place approximately 3,000 feet of cable per day, a buried crew to place approximately 8,000 feet of cable per day, and an aerial crew to place approximately 5,000 feet per day. BellSouth’s proposed inputs fall far short of these reasonable productivity levels.

The reason why BellSouth's method fails is because BellSouth combines setup costs into a “Cable Feet Placed per Day” productivity figure. This is equivalent to BellSouth assuming that its technicians will travel to the work site, place 100 feet of cable, and stop work. The work crew would then travel to another work site, place 100 feet of cable, and stop work. It would then travel to a third work site, place 100 feet of cable, and return to the garage. This represents absurdly poor productivity. This is inconsistent with TELRIC principles and inconsistent with Mr. Donovan’s experience. (Donovan Tr. 799-801). There is no reason for BellSouth’s failure to use available inputs. To correct this problem, the Commission should order BellSouth to file a bottoms up cable placing inputs with reasonable productivity numbers.

Copper Cable Splicing – As it did with copper cable placing, BellSouth fails to utilize discrete travel and set-up times in the copper cable splicing portion of the BSTLM. By combining travel, setup and closure into a “Copper Cable Pairs Spliced per Hour” productivity figure, BellSouth has created another linear loading factor. (Donovan Tr. 802) By assuming a travel, setup and closure for every 100 pairs spliced, BellSouth creates a scenario in which there is an incidence of travel, set up and closure for each 100 pairs spliced. In the case of 4200 hundred pair cable, there would be 42 incidences of

travel, setup and closure respectively regardless of the length of cable and the number of actual splices. (Donovan Tr. 802; Exh. 66, JCD-5) Such a result is completely irrational. In addition, BellSouth has used the wrong cable splicing rate. BellSouth has stated that its actual splicing rate is 300 pairs per hour, not the 100 pairs per hour used in the model. (Exh. 7, BellSouth Response to Interrogatory 3). BellSouth should be ordered to use its actual splicing rate for copper cable of 300 pairs per hour as well as a fixed set up time of 2 hours with a travel time of 15 minutes.

Stub Cable – For underground copper cable, BellSouth inappropriately doubles the cost of copper cable splicing at every splice point to allegedly account for copper cable stubs. The manner in which the BSTLM models copper cable splices is wrong based on industry splicing practices. The BSTLM models a splice case for each branch cable where two or more cables branch off from the main cable. (Donovan Tr. 806; Stegman Tr. 220; See also Exh.66, JCD-7; Exh. 36, pp 7-9) For example, where a main cable is branched off into two cables each going in a different direction, the BSTLM places two splices, each one with a separate splice case for each branch cable. The BSTLM uses a stub cable to connect the splice of one branch cable to the splice case of the other splice. (Exh. 66, JCD-7) A standard copper splice case has four entrance/exit holes. (Donovan 805) Normally, at a splice location where two or more cables branch off the main cable only one splice case is used; the main cable enters through one splice case entrance and the two branch cables each exit through one of the other three entrance/exit holes. (Donovan Tr. 806) This is the appropriate splicing configuration based on sound engineering practices. In this scenario, no stub cable is needed. In contrast the BSTLM inappropriately models extra splice cases that are not required to accomplish the splice. (See Exh 66, JCD-7) Based on the BSTLMs' limitation that no more than three cables exist at any splice point, there is no reason that there be any stub cables be placed.

In addition to placing excessive splice cases in modeling a network, the BSTLM also models a travel, setup and closure event for each splice modeled. (Stegman Tr. 220) In the case of a main cable branching in two directions the BSTLM assumes that the technician traveled twice to reach the point



of the splice, the technician set up two separate times and closed two separate times for what in reality is a technician traveling to a splice point, setting up for the splice, splicing the two separate branch cables to the main cable within a single splice case and closing the splice. The BSTLM produces irrational results in the instance described above. This error in the BSTLM causes significant overstatement in the material and labor costs for splicing copper cable.

The Commission should order BellSouth to file a bottoms-up cable splicing model and to eliminate all stub cable investment and correct the error in the BSTLM that creates excessive splice cases, as well as excess travel, set up and closing events.

Fiber Placement and Splicing - BellSouth's inputs for fiber optic cable generally suffer from the same problems as BellSouth's copper cable inputs. Specifically, BellSouth does not have separate cable placing setup and cable placing productivity parameters; there are no separate splicing setup and fiber splicing productivity parameters; the Miscellaneous Material loading on Non-Exempt Material is inappropriate; Other-Plant Labor-Indirect Salary, Benefits, and Other loading on Non-Exempt Material is inappropriate, Interest During Construction is inappropriate, and BellSouth's 35.72% Engineering linear loading factor absurdly high. (Donovan Tr 813).

The Commission should order BellSouth to use the appropriate BSTLM inputs for fiber cable placing, splicing and productivity minutes. BellSouth should be directed to utilize the inputs available in BSTLM to populate separate costs for setup under fiber cable placing and under fiber cable splicing, as well as productivity costs based on Minutes per Fiber Spliced (i.e., Hours per Fiber Strand Spliced). Absent BellSouth data, the appropriate Fiber Cable Placing values are: 45 minutes for Travel and Setup; a Fiber Cable Placing rate equivalent to 3,000 feet per day for Underground, 8,000 feet per day for Buried, and 5,000 feet per day for Aerial. For Fiber Cable Splicing the appropriate values are: Travel and Setup of 2 hours, and a Fiber Splicing productivity rate of 5 minutes per fiber strand spliced. (Donovan Tr 814-815).

#### **Miscellaneous Material Rate**

The Miscellaneous Material Rate represents what is typically called Exempt Material. The FCC System of Accounts requires major telephone companies to do “cradle to grave” tracking of certain investments, such as telephone poles, and manholes. Other less expensive items are tracked in a less detailed manner known as Exempt Material. (Tr. 809) For decades, major telephone companies, with the FCC approval, have found it appropriate to track exempt material as a component of the technician’s fully loaded labor rate. The exempt material load on labor is normally computed by conducting an audit of technician Exempt Material usage every two years. In these audits technicians keep track of all items, including nuts and bolts, for about one or two weeks. The data is then related to the hours expended and an exempt material clearing rate is established. Typically, as a company purchases these minor items, the cost is kept in a holding account. The dollars are then cleared out and into Final Plant Accounts on the basis of hours charged to each Final Plant Account. (Tr. 810) Based witness Donovan’s vast experience observing the exempt material component of fully loaded labor rates, witness Donovan observes that the labor load component normally varies for cable splicing technicians and cable placing technicians as shown by the confidential numbers found on Tr. 810.

BellSouth, however, takes a different, inappropriate approach. (Tr. 810) BellSouth included Exempt Material/Miscellaneous Material as a percentage loading on Exempt Material. This is inconsistent with the way major telephone companies and even BellSouth handle this cost. (Tr. 810) The Miscellaneous Material Rate filed by BellSouth appears to be unreasonably high. (Tr. 810) By improperly treating Exempt Material as a load on Non-Exempt Material, BellSouth has created an “apples to oranges” problem. Moreover, BellSouth has failed to comply with this Commission’s order to create a bottoms-up approach to address the concern that use of linear loading factors reflects no economies of scale for exempt material. (Tr. 811) AT&T/WorldCom believe Exempt Material is already included in the fully loaded labor rate proposed by BellSouth.

For example, the BSTLM independently develops the NID and drop material investments using bottoms-up inputs. (Tr. 323) Exempt material allocation is based on labor investment in BellSouth’s

accounting records. (Tr. 323) Because labor dollars exist in these accounts, then Exempt Material is allocated to these accounts. (Tr. 323) The hypotheticals depicted in Exhibits 49 and 50 illustrate how BellSouth's allocation methodology was applied and how the potential for double-counting exists.

Q. Is it possible under Bell's allocation methodology that some NID and drop material investment is allocated to other accounts?

A. Based on the way the accounts are laid out here, yes. (Tr. 315)

Witness Caldwell admits that she does not know what percentage of total exempt material is actually associated with the NIDs and drops, nor has she performed such analysis. In fact, such analysis was not filed in this proceeding. (Tr. 312, 313)

BellSouth also includes a number of items that should be excluded from its Exempt Material list as follows (Exhibit 7, BellSouth Response to ATT/WorldCom Interrogatory Item No. 5):

- 1) Bracket Tap Video 29-119942 – Witnesses could not be certain of the use of this item but presumed it was a small strap of metal to which one of coaxial connector (taps) would be placed. (Tr. 117) Bridged taps and related items should be excluding from forwarding looking cost studies.
- 2) CARD 56 KBPS CO SM 8806-1318-01 through CARD T1 CO EXTN 8806-1325-01 – Line cards related to the DLC should be excluded from exempt material because BellSouth would recover those costs in the BSTLM investment of the DLC investment. Although witness Caldwell claims these cards to be related to fiber isolators and placed in a DLC system, she says they are not the same working cards that are included in the model. However, she is unable to identify the purpose of each card. In fact, BellSouth no longer uses about 5 or 6 of these cards, although the witness was not able to identify which ones. (Tr. 338-341)
- 3) CASE COIL 1 MOD 1PR through CASE MODULAR 6 SGL COILS, COIL LOAD LID TPI 880040-01 – These are load coils. (Tr. 118) Load coils are not forward-looking technology and should therefore be excluded.
- 4) DROP COMP 2FB2TWP 37581590-250 through 37581590-750 – Essentially this is fiber to the home or premise. (Tr. 119) This should be excluded from Exempt Material because it is accounted for elsewhere.
- 5) FRAME & COVER MNHL B30 through SH30 – Manhole collars are already included in the BSTLM. Witness Caldwell suggests that these manhole collars are placed by BellSouth rather than the contractor; however, she concedes that these are not used in new construction. (Tr. 342-343) Therefore, these costs should be excluded from a forward-looking cost study and the Exempt Material list.

BellSouth's inclusion of these inappropriate items in Exempt Material is particularly disconcerting because BellSouth admits that:

...exempt material is a large bucket of dollars. And once an item of plant enters that exempt material category you can no longer determine the dollars associated with it. (Tr. 338)

This means that the Commission will not be able to associate specific dollar amounts with items that should be excluded from BellSouth's Exempt Material list.

Accordingly, AT&T/WorldCom believe Exempt Material is already included in the fully loaded labor rate proposed by BellSouth and recommend the Commission disallow BellSouth's Miscellaneous Material Rate as double counting. In the alternative, the Commission should adopt a reasonable Exempt Material load on labor not to exceed 20% of direct labor costs. (Tr. 811)

**BellSouth's 40% Factor is Inappropriate**

*"A closure factor is simply a multiplier used to take efficient TELRIC costs and increase them until they equal embedded costs." (Donovan, Tr. 836)*

Incredibly, in its January 28 filing, BellSouth claims its 40% factor for Miscellaneous Material Loading Factor never made it through its model. The 40% factor consists of about 28% Engineering, 8% Exempt Material, and 4% Other. (Tr. 295, 296, 830) BellSouth advocates multiplying the already inflated total by this additional 40% "fudge factor" to account for alleged additional costs.

Essentially all underground structure engineering is vendor engineering already included in contractor/vendor costs. Application of an additional 28% factor is nothing more than double counting, and the Commission should eliminate it. In the alternative, then the engineering cost should be set less than the levelized amount of 12%. (Tr. 829, Exh. 17, JCD-9)

Moreover, the Commission should exclude exempt material costs in a category where they have already been accounted for (in the case of manholes) or do not belong as being inappropriate (in the case of conduit pipe and excavation trenches). (Tr.830-831)

Accordingly, AT&T/WorldCom recommend the Commission eliminate the 40% "fudge factor" in its

entirety. In the alternative, the Commission should reduce the factor to no more than 16%, consisting of 12% Engineering, 4% Other, while excluding exempt material costs in a category where they have already been accounted for (in the case of manholes) or do not belong as being inappropriate (as in the cases of conduit pipe and excavation trenches. (Tr. 831)

Also, as mentioned previously, it is both industry common practice and BellSouth's practice to apply exempt material loadings to labor costs, not to material costs. BellSouth uses contractors to build its manholes and conduit systems. Thus, exempt materials do not apply because it is not using telco labor. (Tr. 831) Most importantly, the contractor costs for manholes and conduit pipes *already* include all of the costs, including sales tax and handling. The contractor prices used in this cost study were developed from vendor contracts and are inclusive of all additional materials that may be required. Accordingly, the Commission should disallow the 40% adder. (Tr. 831)

#### **Other – Plant Labor – Indirect Salaries**

Other plant labor, indirect salaries, benefits, and other expenses should not be a load on Non-Exempt Material. First, direct supervision and other direct expenses are already components of BellSouth's fully loaded labor rates. Second, these costs are not part of the material procurement organization because large telephone companies book those costs as part of Supply Expense, which is an uncontested loading being applied by BellSouth as a separate component. (Tr. 812) Application of this loading is a double-count of expenses that would result in over-recovery. Accordingly, the Commission should disallow this loading.

### **Interest During Construction Factor**

It appears that BellSouth has included Interest During Construction in an improper manner and BellSouth's inputs appear to have misapplied such a charge. (Tr. 812-813) The Commission should require BellSouth to produce all necessary information to determine exactly what items are included in its Interest During Construction Factor, including the source of this cost, how interest during construction is calculated, and to what it is applied, on a detailed basis.

**ISSUE 1(b).** Should BellSouth's loop rate or rate structure, previously approved in Order No. PSC-01-2051-FOF-TP, be modified? If so, to what extent, if any, should the rates or rate structure be modified?

**AT&T/MCI's Position:** \*\*\* Yes. The Commission should require BellSouth to correct the BSTLM, and reject BellSouth's loading factors, inputs, and installation & engineering factors for DLCs, and to use those proposed by AT&T/WorldCom. BellSouth should be required to set rates as proposed AT&T/WorldCom in Exhibit 58, BFP-19, and use the single most efficient network design. \*\*\*

### **BellSouth's Rate Proposal Simply Isn't Plausible**

*"...the costs they [BellSouth] are presenting to you here are unreliable. Because if their forward-looking costs are so above their accounting costs, their actual incurred expenses, then they have a financial catastrophe on the horizon . . ." (Gillan, Tr. 905, 906)*

UNE rate levels are critically important to local competition. Without access to UNEs, BellSouth's exclusive access to this network would provide it an insurmountable advantage. The future of local competition is directly related to UNE rates, for it is these rates that will determine whether other entrants are provided access to this critical network resource equal to that which BellSouth provides itself. (Tr. 898)

BellSouth's proposed rates produce a statewide average cost, per average POTS user, of approximately \$25.13 per line, per month, compared to the ALECs' proposed rates, which produce a statewide average UNE cost of \$13.76. The principle difference between the proposals for UNEs

necessary to offer basic POTS is that the ALECs recommend the elimination of BellSouth's daily usage information and lower rates for the analog loop. (Tr. 899)

BellSouth's rate proposal is simply not plausible. This is demonstrated by reviewing three comparisons as a sanity check of BellSouth's proposal. The first compares BellSouth's claimed UNE-cost of its local network to the network-related costs that it actually reports for 2000. The second compares the same UNE costs to BellSouth's 2000 revenues to determine whether BellSouth itself could operate profitably if it were required to obtain access to the network like any other ALEC. (Tr. 899) The third is derived from the FCC's "TELRIC Test."

The first example compares BellSouth's claim that its UNE costs of its local network to the network-related costs that it actually reported for 2000. (Exhibit 69, JPG-1, JPG-3) Incredibly, BellSouth's claimed TELRIC cost for only its switched lines, which in Florida is only two-thirds of its lines, exceeds \$2 billion. In contrast, BellSouth's historic expenses for 2000 *for its entire network for all lines*, is \$290 million *less than* BellSouth's claimed TELRIC cost for switching. (Tr. 900, 904-905) The analysis even assumed 100% of its reported network related expenses, including Plant Specific Operating Expense, Plant Non-Specific Operating Expense, Corporate Operating Expense, Depreciation and Amortization Expense. This means the analysis took everything – including aircraft, cars, chauffeurs, to the extent BellSouth has any, all of its general-purpose computers, land and building. This analysis alone demonstrates that BellSouth's TELRIC proposal simply is not credible. If BellSouth's forward-looking costs are so far above its accounting costs, BellSouth would have a financial catastrophe on the horizon. (Tr. 906)

The second comparison examines whether BellSouth could afford to provide service in Florida if it had to lease its network from itself. This analysis included all revenue BellSouth received from switched services, calculated how much money BellSouth would pay to lease its network just to provide POTS lines, and assumed other cost categories would stay the same. Exhibit 69, JPG-1 demonstrates that BellSouth's "UNE-self" would have barely covered its costs, producing a gross margin of only

14%, in contrast to the 44% gross margin the BellSouth actually enjoyed in Florida in 2000. (Tr. 901, 906, Exh. 69) In comparison, the AT&T/WorldCom rate proposal actually produces a gross margin of about 43% - almost exactly what BellSouth's actual margin was in 2000. (Tr. 907)

Z-Tel witness, Dr. George Ford applied another "sanity test" to BellSouth's UNE loop rate. Dr. Ford derived his test from the FCC's own "TELRIC test" or "benchmark test." Using the UNE cost data supplied by the Hybrid Cost Proxy Model ("HCPM"), Dr. Ford compared the ratio of UNE costs to UNE rates for BellSouth in Florida, Georgia and Louisiana. (Tr. 386) If the ratio of UNE rates is less than or equal to the ratio for UNE costs between two states, the UNE rate passes the sanity test. Dr. Ford observed that, BellSouth's *costs* (as measured by the HCPM) of providing UNEs are lower in Florida than in Louisiana or Georgia; yet, BellSouth's Florida UNE loop rate is more than \$1.50 higher than its rate in Georgia. (Tr. 393) The results show that BellSouth's loop rate for Florida is at least 23% higher than the cost/rate relationship would justify. (Tr. 393) Thus, BellSouth's Florida loop rate fails the sanity test. While it cannot be used to set actual rate values, Dr. Ford's sanity test indicates that BellSouth's loop rate is facially suspect. The findings of witnesses Pitkin and Donovan, who plumbed the details of BellSouth's assumptions and inputs, show the suspicion created by the sanity tests to be deserved.



### **The Commission Should Modify BellSouth's Rates and Rate Structures**

The Commission should require BellSouth to use forward-looking inputs and to run its model using the single most efficient network design. Specifically, the Commission should: 1) require BellSouth to correct the known remaining algorithm error in the BSTLM; 2) reject BellSouth's loading factors and rely on the corrections developed by witnesses Pitkin and Donovan; 3) reject BellSouth's installation and engineering factors for DLC equipment and rely on the more appropriate factors previously sponsored by witnesses Pitkin and Donovan; and 4) reject BellSouth's inputs and rely on witness Donovan's inputs. A list of all input changes to BellSouth's January 28, 2002 amended filing is found in Exhibit 59, BFP-18. Late-filed Exhibit 70 demonstrates, on a cumulative basis, the impact of AT&T/WorldCom's proposed changes on BellSouth's proposed loop and port rates. Moreover, the Commission should require BellSouth to recalculate its rates using a single, unified network design as required by the FCC. (47 C.F.R. 51.505(b))

The Commission should require BellSouth to make all of the corrections proposed by AT&T/WorldCom so that the BSTLM will produce results that are consistent with TELRIC and satisfy the FL UNE Order. The appropriate rates are set forth in Exhibit 58, BFP-19.

The Commission should require BellSouth to fix the remaining known algorithm error in the model.

AT&T/WorldCom's witness Pitkin identified three algorithm errors that need to be corrected in the BSTLM filed in this phase. Specifically, witness Pitkin identified algorithm errors regarding 1) calculation of EF&I costs for fiber cable; 2) stub cable investment; and 3) structure sharing calculations. (Tr. 574-576) In its January 28, 2002 filing, BellSouth has appeared to correct two logic errors and FDI Placing hours identified by witness Pitkin in his rebuttal testimony. (Tr. 601) BellSouth, however, has not corrected the stub cable investment and thus inappropriately places additional costs for stub cable in its undergrounds facilities as discussed in detail in Issue 1(a). The correction for BellSouth's error is found in Exhibit 57, BFP-3.

**The Commission should require BellSouth to use appropriate loading factors as recommended by the ALECs.**

Contrary to the direction given BellSouth by this Commission in its FL UNE Order, BellSouth's BSTLM bottoms-up model still inappropriately includes linear loading factors, which cause cost distortions. (Tr. 577) There are a number of problems associated with using linear loading factors. First, BellSouth developed these factors using its historical data, which is inappropriate for use in a TELRIC model. Simply put, experience from BellSouth's continuing operations is not an appropriate basis for estimating start-up TELRIC investment. Second, BellSouth's linear loading factors rely solely on a single year's data from 1998. A high ratio of exempt material to non-exempt material in this single year could significantly overstate TELRIC. (Tr. 578) Third, use of linear loading factors as multipliers on non-exempt material investment is not an appropriate basis for developing forward-looking investments. Fourth, there are errors in BellSouth's developments of linear loading factors for exempt material and indirect labor. (Tr. 578) These problems are discussed in detail in Issue 1(a).

Although AT&T/WorldCom are skeptical about the use of BellSouth's linear loading factors for supplies, rights of way, and interest used during construction, AT&T/WorldCom have left them in which probably overstates the appropriate amount of these factors that should be applied in a TELRIC environment, and would urge the Commission to require BellSouth to provide all of the information necessary to determine the source of these costs. However, consistent with the testimony in this proceeding, AT&T/WorldCom have applied material loadings as a factor on labor instead of material. (Tr. 581-582) Specifically, AT&T/WorldCom have increased the cost of labor to account for exempt material, and removed the indirect labor from BellSouth's linear loading factors. (Tr. 582, 602, Exh. 58, BFP-17)

**The Commission should require BellSouth to use appropriate installation and engineering factors for DLC equipment as recommended by the ALECs.**

BellSouth failed again to use a bottoms-up approach to develop DLC investment. The BSTLM has not been changed to produce a bottom-up approach to DLC Investment. (Stegman Tr. 214) This failure continues to distort the DLC costs that the model develops for various geographic areas. Because BellSouth failed to make these modifications, it is necessary to use an in-plant factor to develop the engineering and installation cost for DLC equipment. (Pitkin Tr. 583)

The only appropriate factor before the Commission in this proceeding is the DLC in-plant factor that Mr. Donovan and Mr. Pitkin recommended in the first phase of this proceeding. That the factor is based on a detailed, bottoms-up approach and is the most accurate approach before this Commission to approximate what would result from a true, bottoms-up approach. (Pitkin Tr. 584).

Mr. Donovan previously modified BellSouth's factors to reflect an appropriate amount of engineering and installation costs. Specifically, the engineering and installation cost should reflect the installation of equipment that has been

completely assembled and tested at the factory. Once the equipment is on site and bolted to its mounting pad, the only assembly required consists of connecting local power, connecting drop facilities, connecting optical fiber facilities, installing the back-up batteries, and plugging the circuit packs into their assigned locations in the racks.

[Alcatel Litespan 2000 DLC practice]

AT&T/WorldCom believe the appropriate number of hours required to install pre-assembled DLC equipment are those which were used as inputs in the HAI Model. Therefore, Mr. Pitkin and Mr. Donovan calculated the ratio of installed investment in the HAI Model to material investment in the HAI Model to arrive at an appropriate installation and engineering factor for DLC equipment. Exhibit 56, Attachment BFP-6 details how these factors were derived. The Commission should require BellSouth to utilize the bottoms up installation and engineering factors developed by Mr. Pitkin and Mr. Donovan for DLC equipment.

**The Commission should reject BellSouth's inputs and rely on the ALECs' inputs.**

Because BellSouth's bottoms-up inputs serve to significantly overstate the TELRIC of providing UNEs in Florida, as discussed in detail in Issue 1(a), the Commission should reject BellSouth's inputs and rely instead on the inputs set forth by AT&T/WorldCom. (Exh. 58-59, BFP-17-18)

**The Commission should require BellSouth to recalculate its rates using a single, unified network design.**

Contrary to FCC rules, BellSouth continues to use three distinct loop cost scenarios.<sup>1</sup> The Commission should require BellSouth to refile its cost study using the one least cost most efficient network configuration to serve all demand so that its cost studies can comply with 47 C.F.R. 51.505(b) and 51.511(a) and that economies of scale and scope can be recognized in UNE rates. (Tr. 534-540)

**ISSUE 2(a). Are the ADUF and ODUF cost studies submitted in BellSouth's 120-day compliance filing appropriate?**

**AT&T/MCI's Position:** \*\*\* No. BellSouth is adequately compensated for its cost to maintain daily usage file systems by the common cost factor. The creation of a separate DUF charge allows BellSouth to double recover costs and creates an additional barrier to entry. \*\*\*

Discussion of Issue 2(a) is combined with discussion of Issue 2(b).

**ISSUE 2(b). Should BellSouth's ADUF and ODUF rates or rate structure, previously approved in Order No. PSC-01-2051-FOF-TP, be modified? If so, to what extent, if any, should the rates or rate structure be modified?**

**AT&T/MCI's Position:** \*\*\* Yes. Because ADUF and ODUF costs are already being recovered through the common cost factor, the ADUF and ODUF rates previously approved by the Commission should be modified and set at zero. \*\*\*

The cost used by BellSouth to develop its DUF charges is the same that BellSouth used to

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<sup>1</sup> WorldCom has appealed the FPSC's decision of this issue in the *FL UNE Order and Order on Reconsideration*.

develop its common cost factor. BellSouth claims this is not true and the costs used to develop its DUF rates are incremental to those included in the common cost factor. This can be true only if the currently approved common cost factor does not include certain forward-looking common costs. (Darnell, Tr. 540)

Under the currently approved costing methodology for the development of common cost, the foundation of the common cost factor is the relationship of its adjusted historical common costs to BellSouth's embedded total cost. The amount of common cost included in the UNE rates depends upon how much direct and shared costs are produced by the costing methodology, because common cost is added on to all costs at the end of the process. (Tr. 541)

Costs associated with the systems used to produce daily usage information are included in the development of the common cost factor. (Tr. 541) Accordingly, BellSouth should not be allowed to charge ALECs for the cost of providing daily usage file information both in the common cost factor and through separate DUF charges; otherwise, BellSouth recovers this cost twice from the ALECs and creates an additional barrier to entry. (Tr. 542) Therefore, AT&T/WorldCom recommend that if the Commission permits BellSouth to charge ALECs separate charges for daily usage information, then the Commission should require BellSouth to lower the common cost factor to account for the system cost being directly assigned to specific rate elements. If this amount is so insignificant that it does not affect the common cost percentage when the cost is removed, AT&T and WorldCom recommend that the Commission reject BellSouth's DUF charges.

**ISSUE 3(a).** Is the UCL-ND loop cost study submitted in BellSouth's 120-day filing compliant with Order No. PSC-01-1181-FOF-TP?

**AT&T/MCI's Position:** \*\*\* No position. \*\*\*

**ISSUE 3(b).** What modifications, if any, are appropriate, and what should the rates be?

**AT&T/MCI's Position:** \*\*\* See position for Issue 1(b). \*\*\*

**ISSUE 4(a).** What revisions, if any, should be made to NIDs in both the BSTLM and the stand-alone NID cost study?

**AT&T/MCI's Position:** \*\*\* Because the BSTLM explicitly models the costs of NIDs and drops, BellSouth should be required to exclude those items from the exempt material loading factor. Otherwise, BellSouth double counts these investments. \*\*\*

**ISSUE 4(b). To what extent, if any, should the rates or rate structure be modified?**

**AT&T/MCI's Position:** \*\*\* Because the BSTLM explicitly models the costs of NIDs and drops, BellSouth should be required to exclude those items from the exempt material loading factor. Otherwise, BellSouth double counts these investments. \*\*\*

For Issues 4(a) and 4(b), please refer to discussion of Issue 1.

**ISSUE 5(a). What is a “hybrid copper/fiber xDSL-capable loop” offering, and is it technically feasible for BellSouth to provide it?**

**AT&T/MCI's Position:** \*\*\* BellSouth admits that it is technically feasible for BellSouth to provide its “hybrid copper/fiber xDSL-capable loop” offering. (Tr. 78) \*\*\*

**ISSUE 5(b). Is BellSouth's cost study contained in the 120-day compliance filing for the “hybrid copper/fiber xDSL-capable loop offering appropriate?**

**AT&T/MCI's Position:** \*\*\* No. BellSouth's offering is inappropriate and should be rejected. This Commission should establish a generic proceeding to investigate proper rates and rate structure for UNE facilities needed by ALECs to provide voice and advanced services to customers served by BellSouth's remote terminals... \*\*\*

BellSouth's proposal is inappropriate for several reasons. First, BellSouth only offers to provide this product using a 16-port DSLAM, even though there are many other sizes of DSLAMs. (Tr. 545) Essentially, this means that ALECs may be forced to use all of these ports even if they do not need them. Instead, the price of an xDSLUNE provided over a hybrid fiber/copper loop should be established on a price per port basis. Second, BellSouth arbitrarily decided that each ALEC must have a dedicated DSLAM. *Id.* Third, BellSouth arbitrarily decided that the offering is only provided with between 1 and 4 DS1s between the DSLAM and the Central Office and those facilities are dedicated

to the ALEC that purchased the DSLAM.

Moreover, ALECs must be able to purchase packet transport at a rate that reflects the economies of scale enjoyed by BellSouth in order to provide voice and advanced services to customers who are served by remote terminals. In addition, packet transport must terminate with packet switching rather than the illogical circuit switching BellSouth has proposed.

BellSouth also has inappropriately repriced UNEs already priced by this Commission (DS1s). The only new facility that exists in BellSouth's offering is the DSLAM and its proposed rate does not comply with TELRIC. (Tr. 545-547) Moreover, BellSouth's offering would cost ALECs about \$150 per month per ADSL making it extremely difficult for an ALEC to compete against BellSouth's Fast Access DSL service, which is offered for just under \$50.00 per month.

Accordingly, the structure of BellSouth's hybrid-copper/fiber xDSL offering is inappropriate and should be rejected. This Commission should establish a generic proceeding to investigate proper rates and rate structure for UNE facilities needed by ALECs to provide voice and advanced services to customers served by BellSouth's remote terminals.

**ISSUE 5(c). What should the rate structure and rates be?**

**AT&T/MCI's Position:** \*\*\* BellSouth's hybrid copper/fiber xDSL-capable loop offering is not structured or cost appropriately. The Commission should not rule at this time; instead, the Commission should consider this issue in a generic proceeding. \*\*\*

In this proceeding, AT&T/WorldCom has summarized why the Commission should determine that Digital Subscriber Lines Access Multipliers (DSLAMs) are UNEs. Essentially, a DSLAM is a physical, electronic device that connects copper wire telecommunications plant to fiber optic transport facilities. DSLAMs are equipped with slots for line cards. Moreover, DSLAMs are not a packet switch; rather, they are analagous to DLCs, which have been determined to be part of the loop – not part of the switch. (Exh. 31, LFDE-2)

DSLAMs are essential for providing high speed access to home and businesses. At this point, BellSouth has 8,881 remote terminals in Florida, and has deployed DSLAMs in 3,375. *Id.* Such extensive remote terminal design is unique among the ILECs. As fiber in the loop deployment increases, so will the importance of remote terminals and DSLAMs. *Id.*

Moreover, this issue is important from a competitive standpoint. BellSouth refuses to permit ALECs to provide voice service to end users using UNE-P when it provides the customer with DSL service. Further, it is unrealistic for ALECs to collocate in remote terminals. First, it is not economically feasible because the fees are steep, obstacles exist in terms of the application and approval process, availability is a potential issue, and security is difficult. Second, BellSouth has a competitive advantage over ALECs in the market: 1) remote terminal collocation significantly reduces economies of scale; 2) applications for collocation would alert BellSouth of a competitor's plans; and 3) BellSouth would always have access to all potential customers before the ALEC.

AT&T/WorldCom believe this issue needs further analysis. The Commission has a statutory obligation under Section 364.01, Florida Statutes, to promote and encourage competitive entry in all markets, which includes digital services. Further, the Commission has the authority to add to the FCC's list of required UNEs. (*UNE Remand Order*, ¶ 154 *et seq.*) The Commission should open a separate docket to focus on DSL UNEs and pricing. While AT&T/WorldCom are in support of FDN and agree there is a need to promote competition in broadband deployment, the Commission needs more evidence than what was presented in this proceeding to make an informed decision on this rather complex issue. Thus, the Commission should not rule on this issue at this time; instead, it should consider this issue in a generic proceeding.

**ISSUE 6.**      **In the 120-day filing, has BellSouth accounted for the impact of inflation consistent with Order No. PSC-01-2051-FOF-TP?**

**AT&T/MCI's Position:**      \*\*\* No. BellSouth uses inflation rates that are too high and unreliable. Moreover, BellSouth's proposed inflation rates use unsupported historical data from 1997,



rather than using more recent supportable data, to estimate future inflation. \*\*\*

BellSouth inappropriately applies the same inflation rates in this 120-day proceeding as it previously used in its April 17, 2001 cost study. The Commission earlier determined that BellSouth should include inflation factors (as proposed by BellSouth in its April 17, 2001 cost studies) in the development of UNE costs. However, BellSouth is now applying its inflation factors in a manner that was not approved by this Commission. Specifically, BellSouth is now applying an overall *blended* inflation factor (which includes inflation for both *material and labor*) to *material-only* investments, thereby artificially overstating costs. (Pitkin Tr. 592)

It is a cardinal rule of costing that cost factors, when used, should be developed in a manner consistent with the way they are to be applied. If BellSouth is applying inflation factors only to *material* investments, the inflation factor itself should reflect *material-only* inflation, not a blend of material and labor. (Pitkin Tr. 592)

Data provided by BellSouth shows that the inflation factors developed in its April 17, 2001 cost study filing represent a composite of both *material and labor*. Exhibit 59, BFP-11, illustrates BellSouth's development of its blended inflation factor for aerial copper cable and also includes BellSouth's actual worksheet developing these factors. Thus, there can be no argument that the inflation factors used by BellSouth represent a *blended* inflation factor. (Pitkin Tr. 593)

BellSouth's use of a *blended* inflation rate is not appropriate in its bottoms-up model. Inflation in the bottoms up model is applied separately to labor investment and material investment. BellSouth recognizes this and applies a *labor-only* inflation factor to its *labor* investment. BellSouth fails, however, to apply a *material-only* inflation factor to its *material* investment, instead continuing to apply its *blended* inflation factor to the *material* component of investment. To correctly apply inflation in the bottoms up model, BellSouth should apply a *labor-only* inflation factor to *labor* investment and a *material-only* inflation factor to *material* investment. (Pitkin Tr. 594-595)

BellSouth's documentation of its labor rate makes clear that it is applying union wage inflation factors to develop the inflated labor rate. BellSouth's description of the inflation factor reinforces the fact that they reflect union contract negotiations. In response to AT&T and WorldCom's interrogatory Item 9 (Exh. No. 7), BellSouth notes, "BellSouth signed a new union wage agreement in August 1998...those base changes have been factored into the forecast for the 1998 – 2000 period." Exhibit 59, BFP-13 shows BellSouth's development of its labor rates using BellSouth's prior forecasted data and BellSouth's most recent data. (Pitkin Tr. 595).

BellSouth is clearly applying a *blended* inflation factor to *material-only* investment. First, BellSouth acknowledges this in its response to Staff's 1<sup>st</sup> Set of Interrogatories No. 18e, stating, "The inflation loading factors are applied to base year ... material costs." Second, Mr. Pitkin's rebuttal testimony provides illustrations of the BSTLM investment calculations. (Pitkin 581-82) Exhibit 57, BFP-8A illustrates how the inflation factor is applied in the bottoms up model. It is clear from this exhibit that the inflation factor is applied to material investment and not to the placing cost and splicing cost showing in rows 19 and 20. Thus, it is clear that the actual inflation factor application in this bottoms-up version of the model does not apply to the labor activities (which, as previously discussed, already reflects *labor-only* inflation). (Pitkin Tr. 595-596)

Material inflation, if any, has been significantly lower than labor inflation. (Exh. 34, Pitkin Late-filed deposition Exh. 2) Because of this, BellSouth's application of a **blended** inflation rate overstates the inflation applicable to material costs and, therefore, overstates material investments. Documentation provided by BellSouth in response to AT&T and WorldCom's discovery shows that material prices have tended to decline in recent years while labor costs have increased. (Exh. 34, Pitkin Late-filed deposition Exh. 2) In this proceeding, BellSouth uses a bottoms-up estimate of current labor costs and applies a *blended* inflation rate to only the *material-only* portion of investment. The overstatement in costs because of this can be seen in the third illustration of Exhibit 58, BFP-14.

Witness Pitkin provided updated the inputs to the BSTLM to reflect *material-only* inflation factors. This ensures that the *material* investments generated by the BSTLM will be inflated by a *material-only* inflation factor. In Witness Pitkin's restatement, the *labor* rates continue to be inflated by the *labor-only* inflation factors (and therefore *labor-only* investments). For both the material inflation factors and labor inflation factors, Mr. Pitkin used BellSouth's actual inflation experience for 2000 and 2001 and BellSouth's projected inflation for 2002. Exhibit 59, BFP-15 contains the inflation factors that Mr. Pitkin used for       Exhibit 59, BFP-16 shows a comparison of BellSouth's inappropriate application of *blended* inflation factors and the correct method of applying *material-only* inflation to *material* investment. This comparison demonstrates that BellSouth is overstating total investment by approximately 10% for 1200-pair aerial copper cable. This overstatement occurs because BellSouth uses a projected *blended* inflation factor instead of an actual *material-only* inflation factor which has declined significantly. (Pitkin Tr. 598; Exh 59, BFP-16.

In addition, BellSouth has provided actual recent material-only, labor-only and blended inflation information. The projected rates used by BellSouth significantly overstated the inflation BellSouth has actually experienced from 1999-2001. Exhibit 59, BFP-15 shows the impact of adjusting BellSouth's prior inflation forecasts for actual data (and more recent forecasted data). (Pitkin Tr. 599)

BellSouth has also erred in its application of the *labor-only* inflation factor to the labor rates. To account for inflation of its internal labor, BellSouth inflated the labor rate for placing and splicing. This can be seen in the increase in the placing and splicing labor rate used by BellSouth before and after Order No. PSC-01-2051-FOF-TP ("*Order on Reconsideration*") In its September 24, 2001 filing, BellSouth used a labor rate of (See proprietary Pitkin testimony Tr. 599, L. 21) the support for which is shown in Exhibit 27, Daonne Caldwell's Late Filed Deposition Exh. 4). Subsequent to the Commission's *Order on Reconsideration* Order, BellSouth then inflated this labor rate to (See Pitkin proprietary testimony Tr. 600, L. 4) based on projected union wage increases in salary, as shown in Exhibit 59, BFP-13. However, BellSouth has not provided any documentation to support its increase

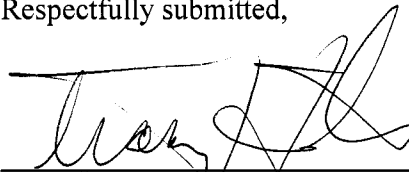
in this labor rate from the already inflated labor rate of (See Pitkin proprietary testimony Tr. 600, L. 8) to the (See Pitkin proprietary testimony Tr. 600, L. 9) used in its cost study.

Based in BellSouth's inappropriate use of a blended inflation rate, the Commission should adopt Mr. Pitkin's changes to the BSTLM inputs for inflation and engineering factors including adjusting the BSTLM input inflation factors to: 1) use actual data where available, 2) use more recent projections where available, and 3) use material-only inflation factors for application of the material investment. The Commission should also adjust the BSTLM labor rates to: 1) use actual data where available, 2) use more recent projections where available, 3) eliminate the error (or undocumented adjustment) that overstates labor rates, and 4) reflect a mark-up for exempt material, consistent with Mr. Donovan's testimony. The Commission should also adjust the engineering factors, by account, consistent with the testimony of Mr. Donovan. The complete list of recommend inputs is shown in Exhibit 59, BFP-18.

**ISSUE 7.      Apart from Issues 1-6, is BellSouth's 120-day filing consistent with the Orders in this docket?**

**AT&T/MCI's Position:**      \*\*\* No position at this time. \*\*\*

Respectfully submitted,



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