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BELLSOUTH TELECOMMUNICATIONS, INC.  
DIRECT TESTIMONY OF ALPHONSO J. VARNER  
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET NOS. 960833-TP, 960846-TP, 960757-TP, 971140-TP  
NOVEMBER 13, 1997

Q. PLEASE STATE YOUR NAME, AND BUSINESS NAME AND ADDRESS.

A. My name is Alphonso J. Varner. I am employed by BellSouth Telecommunications, Inc. ("BellSouth") as Senior Director for State Regulatory for the nine state BellSouth region. My business address is 675 West Peachtree Street, Atlanta, Georgia 30375.

Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND AND EXPERIENCE.

A. I graduated from Florida State University in 1972 with a Bachelor of Engineering Science degree in systems design engineering. I immediately joined Southern Bell in the division of revenues organization with the responsibility for preparation of all Florida investment separations studies for division of revenues and for reviewing interstate settlements.

Subsequently, I accepted an assignment in the rates and tariffs organization with responsibilities for administering selected rates and tariffs including preparation of tariff filings. In January 1994, I was appointed Senior Director

1 of Pricing for the nine state region. I was named Senior Director for  
2 Regulatory Policy and Planning in August 1994, and I accepted my current  
3 position as Senior Director of Regulatory in April 1997.

4  
5 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

6  
7 A. My testimony addresses the policy issues related to the cost studies and price  
8 development for unbundled network elements ("UNEs") and interconnection  
9 that BellSouth offers to Alternative Local Exchange Companies ("ALECs").  
10 In addition, I will address the recurring and non-recurring rates that BellSouth  
11 proposes the Florida Public Service Commission ("Commission") adopt in this  
12 docket for those UNEs listed in Issue 1, as follows:

- 13  
14 (a) Network Interface Device  
15 (b) 2 wire/4-wire Loop Distribution  
16 (c) Virtual Collocation  
17 (d) Physical Collocation  
18 (e) Directory Assistance (Directory Transport - DS1 only)  
19 (f) Dedicated Transport (Non-recurring only)  
20 (g) 4-wire Analog Port  
21 (h) 2-wire ADSL-compatible Loop  
22 (i) 2-wire/4-wire HDSL-compatible Loop

23  
24 Finally, I will discuss BellSouth's interpretation of the appropriate non-  
25 recurring charge for each of the following "combinations of network elements

1 for migration of an existing BellSouth customer," listed as Issue 2 in this  
2 docket:

- 3 (a) 2-wire analog loop and port;  
4 (b) 2-wire ISDN loop and port;  
5 (c) 4-wire analog loop and port; and  
6 (d) 4-wire DS1 and port.

7  
8 The rates BellSouth proposes are supported by the cost studies sponsored by  
9 Ms. Daonne Caldwell and others in their testimony. My testimony discusses  
10 the following specific areas: 1) the rates that are being proposed and their  
11 application, and 2) the relationship between BellSouth's cost studies and the  
12 rates and rate application.

13  
14 Q. PLEASE IDENTIFY THE OTHER BELLSOUTH WITNESSES FILING  
15 DIRECT TESTIMONY AND BRIEFLY DESCRIBE THE PURPOSE OF  
16 THEIR TESTIMONY.

17  
18 A. Other BellSouth witnesses filing testimony in this proceeding are Ms. Daonne  
19 Caldwell, Mr. William Zarakas, Mr. David Garfield, Mr. Dan Baeza, Mr. Eno  
20 Landry, Mr. Walter Reid and Mr. Ellis Smith. Ms. Caldwell and Mr. Zarakas  
21 jointly present BellSouth's cost methodology and the results of its cost studies.  
22 Mr. David Garfield, with Bell Communications Research, Inc. ("BellCore")  
23 provides an overview of BellCore's Switching Cost Information System that is  
24 used to determine central office switching investment. Mr. Baeza discusses the  
25 appropriateness of the network design used in BellSouth's cost studies. Mr.

1 Reid presents the appropriate methodology for including forward-looking  
2 shared and common costs in BellSouth's studies. Mr. Smith discusses  
3 statistical sampling and the specific loop sample used in BellSouth's loop  
4 studies. Mr. Landry discusses BellSouth's provisioning process as it relates to  
5 unbundled network elements.

6

7 Q. BRIEFLY OUTLINE THE EVENTS THAT LED TO THIS PROCEEDING.

8

9 A. Following the passage of the Telecommunications Act of 1996 ("the Act"),  
10 BellSouth negotiated in good faith with a number of potential local service  
11 providers. Many of those negotiations were successfully concluded with the  
12 signing of interconnection agreements between the parties. As of October 30,  
13 1997 BellSouth has signed approximately 240 interconnection and/or resale  
14 agreements with a variety of companies in BellSouth, with approximately 130  
15 applicable to Florida. For AT&T, MCI, ACSI, MFS and Sprint, the  
16 negotiations resulted in petitions for arbitration. Specifically, the Commission  
17 arbitrated issues between BellSouth and these companies and issued orders.

18

19 In the arbitration proceedings, the Commission ordered prices for UNEs and  
20 interconnection to be based on BellSouth's Total Service Long Run  
21 Incremental Cost ("TSLRIC") studies. The Commission set permanent rates,  
22 with the exception of those functions for which BellSouth did not provide a  
23 TSLRIC study. In those instances, the Commission set interim rates based on  
24 either the Hatfield study results with modifications or BellSouth's tariff. The  
25 Commission found that TSLRIC is the "appropriate costing methodology" and

1 ordered BellSouth to file TSLRIC cost studies for those rates for which interim  
2 rates were set. (December 31, 1996 Final Order on Arbitration for  
3 consolidated Docket Nos. 960833-TP (AT&T), 960846-TP (MCI) and 960916-  
4 TP (ACSI), at page 33. Hereinafter, this Order will be referred to as the  
5 "December 31, 1996 Arbitration Order.") Today, BellSouth is filing revised  
6 TSLRIC studies, as well as TSLRIC plus shared and common costs, for the  
7 items listed under Commission Issue No. 1. Additionally, BellSouth is filing  
8 the residual recovery requirement ("RRR") for Issues 1(g), 1(h), and 1(i); and  
9 the non-recurring costs associated with operational support systems ("OSS")  
10 recovery.

11

12 Finally, BellSouth is filing cost studies for the non-recurring portion for the  
13 combinations listed under Issue No. 2. This is in response to the  
14 Commission's March 19, 1997 Final Order on Motions for Reconsideration, in  
15 which BellSouth was ordered to provide *non-recurring charges* that do not  
16 include duplicate charges or charges for functions or activities that AT&T and  
17 MCI do not need when two or more network elements are combined in a single  
18 order. The proposed rates based on these cost studies will be explained in  
19 more detail later in the testimony.

20

21 Q. HOW WILL PRICES SET IN THIS PROCEEDING AFFECT THE  
22 DEVELOPMENT OF LOCAL COMPETITION?

23

24 A. In order to create an environment in which efficient competition will occur and  
25 provide the maximum benefit to consumers, local competition must be

1 implemented in a fair and balanced manner. The Act provides for such an  
2 environment. There are no provisions of the Act that, on their face, are  
3 intended to advantage or disadvantage any provider or group of providers.  
4

5 Since cost provides the basis for prices, it is extremely important that costs be  
6 developed and set fairly. If costs result in prices being set either too high or  
7 too low, the development of efficient competition in the local market will not  
8 be encouraged as intended by Congress. Prices that are set either too high or  
9 too low will, in the long run, not benefit the consumer. Prices must be set to  
10 cover, at a minimum, the actual costs incurred by the Local Exchange  
11 Company ("LEC"). Prices must also allow the LEC to recover incremental  
12 costs and historical costs plus a reasonable allocation of its joint and common  
13 costs.  
14

15 Setting prices too low would discourage an ALEC from building its own  
16 facilities even when that would be the correct economic decision. No other  
17 company would be able to provide its own network any cheaper than it would  
18 be able to obtain access to the existing one. Setting prices that only cover  
19 incremental cost, i.e., not compensating the LEC for a portion of its shared,  
20 common and historical costs, would enable an ALEC to avoid making any  
21 capital investment and incurring all the related costs. It would make no  
22 economic sense for the ALEC to build facilities. In other words, there would  
23 still be no competition for the infrastructure. In addition, such uneconomic  
24 pricing may also discourage entry into the market by those ALECs who  
25 initially intend to resell BellSouth's retail services until they establish a

1 customer base that is sufficient to produce and support the capital necessary to  
2 build facilities.

3

4 Moreover, costs/prices must be established that enable the incumbent LEC to  
5 be compensated adequately for the use of its ubiquitous network. BellSouth  
6 should receive just compensation for its services. A portion of all of the costs  
7 of doing business must be included in such compensation. Setting prices for  
8 unbundled network elements and interconnection at incremental cost would  
9 force other services to absorb the other related costs. ALECs, as well as end-  
10 users, benefit from the facilities that caused these other costs to be incurred  
11 and, therefore, should contribute to their recovery.

12

13 Likewise, setting prices for UNEs too high will also not create the result  
14 envisioned by Congress. Although setting prices too high will not encourage  
15 ALECs to purchase the elements from the LEC, it would give the ALEC the  
16 maximum incentive to build its own facilities and, in the long run,  
17 infrastructure competition will develop sooner. What Congress envisioned as  
18 an interim step, however, will not come to fruition.

19

20 In both of these examples the prices charged for services offered will not be the  
21 most efficient, and it is the consumer that stands to lose.

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23 Q. YOU MENTIONED THE TELECOMMUNICATIONS ACT OF 1996 IN  
24 YOUR PREVIOUS ANSWER. WHAT STANDARDS ARE ADDRESSED  
25 IN THE ACT?

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A. The Act addresses the pricing of unbundled elements and interconnection. Section 252 (d)(1) of the Act states that the just and reasonable rate for interconnection of facilities and equipment and the just and reasonable rate for network elements:

“(A) shall be--

(i) based on the cost (determined without reference to a rate-of-return or other rate-based proceeding) of providing the interconnection or network element (whichever is applicable);  
and,

(ii) nondiscriminatory, and

(B) may include a reasonable profit.”

Q. DOES THE ACT REQUIRE A SPECIFIC COST STANDARD?

A. No. The Act does not prescribe any specific cost standards. Implicit in its language, however, is the requirement that full actual costs may be recovered. If full actual costs were not intended to be recovered, there would be no reason to provide an opportunity for prices to include a reasonable profit. A profit cannot be realized until the full actual costs of the item are recovered.

Q. DOES THE FEDERAL COMMUNICATIONS COMMISSION (“FCC”) HAVE RULES THAT APPLY TO THE DEVELOPMENT OF COSTS AND PRICES FOR UNEs AND INTERCONNECTION?

1 A. No. The FCC's First Report and Order in CC Docket No. 96-98 (the "FCC's  
2 Order") included several sections that pertain to the development of costs and  
3 prices. Sections 51.505-51.515 (inclusive) which specify a rate structure for  
4 the pricing of elements, were vacated by the United States Court of Appeals for  
5 the Eighth Circuit. Sections 51.601-51.611 (inclusive) regarding resale, and  
6 51.701-51-717 (inclusive), regarding reciprocal compensation for transport and  
7 termination of local telecommunications traffic, were also vacated. The Eighth  
8 Circuit was very clear that states have sole jurisdiction for establishing prices  
9 for UNEs and interconnection. The FCC has no role in establishing prices and  
10 cannot direct the states in any manner in this area.

11

12 Q. WERE THE RULES AND RATE STRUCTURE SET FORTH IN THE  
13 FCC'S RULES APPROPRIATE?

14

15 A. No. Many of the FCC's Rules conflicted with the Act and were appropriately  
16 vacated by the Eighth Circuit. The general guidelines included in Rule 51.503  
17 do, however, appear to be appropriate and in compliance with the Act. This  
18 Rule states that incumbent LECs shall offer UNEs at rates, terms and  
19 conditions that are just and reasonable. Based on the Act and the decision by  
20 the Eighth Circuit, a state commission, however, has the sole authority to  
21 determine rates that are just and reasonable. This Commission is not bound by  
22 any pricing standards developed by the FCC. However, the pricing guidelines  
23 included in the Act are applicable. BellSouth's proposed methodology and  
24 rates are in compliance with these guidelines.

25

1           The August 19, 1997 FCC Order on the Ameritech/Michigan application does  
2           not change this situation. The Commission still has sole authority to establish  
3           appropriate rates for UNEs and interconnection in Florida. The issue of what  
4           the FCC can require for interLATA relief will be addressed between the FCC  
5           and BellSouth once the FCC considers BellSouth's interLATA application. It  
6           has no impact on the ability of the Commission to establish prices in this  
7           proceeding.

8  
9           Q.    HAS THE FLORIDA COMMISSION ADOPTED A COST  
10           METHODOLOGY?

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12           A.   Yes. In Order No. PSC-96-1531-FOF-TP, issued December 16, 1996  
13           (BellSouth/MFS arbitration), the Commission stated “. . . the appropriate cost  
14           methodology to determine prices for unbundled elements should approximate  
15           TSLRIC. This is the pricing policy we adopted in our state proceeding on  
16           unbundling and resale.” Additionally, in establishing permanent rates in the  
17           AT&T/MCI/ACSI consolidated arbitration proceedings, the Commission  
18           stated “[W]e find it appropriate to set permanent rates based on BellSouth's  
19           TSLRIC cost studies.”

20  
21           Q.    IS IT APPROPRIATE TO SET RATES FOR UNBUNDLED ELEMENTS AT  
22           TSLRIC?

23  
24           A.   No. Aside from the fact that it is not a requirement of the Act or the FCC's  
25           Order, as I have stated previously, a company would not stay in business long

1 if it set all rates at TSLRIC. More specifically, BellSouth, as well as any  
2 multiservice company, has shared and common costs that must be recovered by  
3 pricing services, i.e., UNEs, above incremental cost. Although BellSouth  
4 acknowledges that competition will appropriately drive prices toward actual  
5 cost, competition will not drive prices to TSLRIC. BellSouth submits that  
6 prices will move toward a point where all valid costs are recovered. Those  
7 costs include shared and common costs as well as historical costs. If one group  
8 of services is exempt from the requirement to cover these costs, other services  
9 must be priced higher to make up the difference, forcing the prices for those  
10 services to be inflated. Setting prices that do not cover actual costs establishes  
11 a vicious cycle that harms consumers. If the prices of the services provided to  
12 competitors do not cover cost, BellSouth will be subsidizing its competitors.  
13 BellSouth must then attempt to recover this shortfall in retail prices. However,  
14 this purported solution would not work because the competitor who is using  
15 subsidized facilities would not have to recover this shortfall in its prices.  
16 Consequently, the competitor could simply undercut BellSouth's retail prices.  
17 The result is that this subsidy to competitors would ultimately be borne by  
18 those end users who have the least competitive options, e.g., rural residential  
19 customers. In addition, by creating a high price umbrella for the competitor,  
20 all retail customers would pay higher prices than they would otherwise. The  
21 competitors benefit, but the end user loses. This does not seem fair when both  
22 the end-user and the ALEC are benefiting from, and share in, the use of  
23 BellSouth's network. BellSouth must recover all of its costs to continue to be  
24 a viable concern, and all of the users of the network should contribute toward  
25 that recovery.

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The Commission agreed that contribution above TSLRIC is appropriate, stating in its December 31, 1996 Arbitration Order, that “[W]e find it appropriate to set permanent rates based on BellSouth’s TSLRIC cost studies. . . The rates cover BellSouth’s TSLRIC costs and provide some contribution toward joint and common costs.” (Order, page 33).

Q. SHOULD PRICES BE SET EQUAL TO ECONOMIC COSTS?

A. No, for several reasons. First, it is inappropriate to establish a rigid rule for prices to equal any specific cost standard. In this case, economic costs are defined as TSLRIC plus an allocation of shared and common costs. Pricing must account for the cost of the element plus the market, regulatory and competitive conditions that exist. Further, pricing is not so simplistic that it can be narrowed to an exact numerical exercise. Prices for UNEs must be based on cost, but that is not the only factor to consider. Another consideration is that prices must also be functional in the marketplace and be consistent with prices for similar services. For example, BellSouth is recommending that virtual collocation be priced at the existing interstate tariff rates that already exist in the marketplace. These proposed prices are based on cost, but also account for the fact that there is an existing tariff for virtual collocation.

Second, prices should be set so sellers and buyers make correct economic choices. Finally, prices must cover total costs, including incremental, common

1 and historical. This is necessary for a firm to remain in business and is  
2 required for a firm to make efficient investment.

3

4 Q. WHAT ARE THE CONSEQUENCES OF SETTING PRICES THAT DON'T  
5 COVER TOTAL COST?

6

7 A. One consequence of setting prices that don't cover total cost is such pricing  
8 creates incentive for inefficiency. It deters the ILEC from undertaking  
9 investments because it guarantees that the costs of those investments will not  
10 be recovered. ALECs will over-consume the ILEC's facilities and under-  
11 invest in their own facilities, even when investing in their own facilities is the  
12 efficient choice.

13

14 Another consequence of such pricing is that it encourages the ILEC to invest in  
15 technology that involves low shared cost (which reduces economy of scale)  
16 and high incremental costs, even if that is not the lowest cost technology. If  
17 incremental costs are the only costs that can be recovered, the fact that shared  
18 cost technology is cheaper becomes irrelevant.

19

20 A third consequence is such pricing invites inefficient entry of ALECs by  
21 placing all of the risks of building and maintaining a network on the incumbent  
22 ILEC. As previously discussed, ALECs don't commit to use ILEC facilities  
23 over their economic life, but they have the option to do so. If prices don't  
24 cover costs, the ALECs don't bring to the marketplace anything more than an  
25 arbitrage mechanism that allows them to avoid paying the costs they would

1 otherwise have to pay in a competitive marketplace. End user customers are  
2 the losers in this arrangement.

3

4 Q. WHAT COSTS THAT NEED TO BE RECOVERED ARE NOT INCLUDED  
5 IN TSLRIC?

6

7 A. There are three additional categories of costs that must be recovered that are  
8 not included in the development of incremental cost.

9

10 The first group of costs are referred to as shared costs and are not included in  
11 the TSLRIC studies. Shared costs are costs that are shared by several  
12 elements, but that can be directly attributed to the particular element being  
13 studied. This category of costs may include costs such as general purpose  
14 computers, engineering expense, plant administration and network  
15 administration.

16

17 Another group of costs excluded is generally referred to as common costs.  
18 These costs are common to the corporation as a whole and cannot be directly  
19 attributed to an individual element or service. These costs include such  
20 functions as the executive, legal, and administrative functions.

21

22 The third type of cost excluded in forward looking incremental cost is  
23 historical cost. Historical costs are the difference in costs between the network  
24 BellSouth is actually using and the network composed of forward looking  
25 technology. These costs include capital costs and plant specific expenses

1 related to the current network and other non-plant specific expenses.

2

3 Q. DOES PRICING AT TSLRIC PROVIDE FOR A REASONABLE PROFIT  
4 AS PERMITTED BY THE ACT?

5

6 A. It certainly does not. Proponents of this theory equate economic profit with  
7 cost of capital which is not a legitimate comparison. Cost of capital is a cost  
8 like any other cost of doing business. It is well accepted that a profit cannot be  
9 realized until all costs, including cost of capital, have been recovered.

10 Although pricing at TSLRIC would provide for the cost of capital attributable  
11 to the investments directly related to the specific element involved, it would  
12 not provide for any contribution to shared or common costs or any cost of  
13 capital on investment not related to a specific service. Until BellSouth  
14 recovers all of its costs, and cost of capital on its total operations is a cost,  
15 BellSouth does not make a profit.

16

17 Q. HOW DOES BELLSOUTH PROPOSE TO ESTABLISH PRICES FOR  
18 INTERCONNECTION AND UNBUNDLED NETWORK ELEMENTS?

19

20 A. Prices will be established based on cost and will recognize market conditions  
21 and regulatory requirements as necessary. Costs are only one input to the price  
22 setting process. Prices for new services must also be established in appropriate  
23 relationship to existing services to prevent arbitrage. In addition, where  
24 regulatory requirements exist, prices must meet those requirements.

25

1 To encourage development of competition, BellSouth has proposed most of its  
2 prices to be equal to TSLRIC plus shared and common costs. Where historical  
3 costs were significant, prices equal to the actual costs of providing the service,  
4 including shared, common costs and historical costs were proposed. This does  
5 not mean that historical cost recovery is not important for any element. It  
6 merely recognizes that the bulk of historical costs are resident in a relatively  
7 few elements. These are the lowest prices that can be charged and still recover  
8 costs. Setting prices lower than these levels would have BellSouth subsidize  
9 its competitors. These costs are clearly a price floor, not a price ceiling.

10

11 Q. PLEASE DESCRIBE THE ELEMENTS THAT INFLUENCED  
12 BELL SOUTH'S DEVELOPMENT OF RATES FOR THIS DOCKET.

13

14 A. The revised cost studies submitted in this proceeding provide the foundation  
15 for establishing the proposed rates for the UNEs as listed by the Commission.  
16 As noted earlier, in some instances, the cost data and accompanying cost  
17 factors simply become the proposed rate. This is the simplest approach, and in  
18 most instances, the most appropriate approach for today's conditions. Other  
19 factors, however, must also be considered. For example, for virtual  
20 collocation, tariffed rates also exist. In deciding whether to propose the cost  
21 study rate or the existing tariff rate, a significant factor is the arbitrage  
22 opportunities that arise when two different rates apply for the identical service.  
23 As long as the tariffed rate has been established based on costs, that rate may  
24 be appropriate for a comparable unbundled element.

25

1 Q. WHAT COSTS ARE INCLUDED IN THE FIRST COMPONENT OF  
2 BELLSOUTH'S PROPOSED RATE STRUCTURE?

3  
4 A. The first component is TSLRIC. The methodology used is consistent with the  
5 guidelines definition established by the Commission in Order No. PSC-96-  
6 1579-FOF-TP for the AT&T/ MCI/ACSI consolidated arbitration. The  
7 Commission stated: "[W]e find TSLRIC should be defined as the costs to the  
8 firm, both volume sensitive and volume insensitive, that will be avoided by  
9 discontinuing, or incurred by offering, an entire product or service, holding all  
10 other products or services offered by the firm constant." (Order, page 25). Ms.  
11 Caldwell and Mr. Zarakas include a more detailed discussion of the  
12 development of TSLRIC in their testimony, and Mr. Reid discusses the  
13 development of shared and common costs.

14  
15 Q. PLEASE DESCRIBE IN MORE DETAIL WHY SHARED AND COMMON  
16 COSTS, THE SECOND COMPONENT, ARE APPROPRIATELY  
17 INCLUDED IN THE RATE SETTING PROCESS.

18  
19 A. Although shared and common costs are not incremental to any one service that  
20 BellSouth provides, they are nonetheless valid costs of doing business and  
21 must be recovered. For BellSouth to stay in business, revenues from all  
22 services must not only cover incremental cost, but they must also provide  
23 sufficient contribution to cover all other costs of the firm. The FCC also  
24 recognizes that the rates for each element should include "a reasonable  
25 allocation of forward-looking common costs."

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Q. PLEASE EXPLAIN FURTHER THE THIRD COMPONENT OF BELLSOUTH'S PROPOSED RATE STRUCTURE THAT YOU MENTIONED EARLIER IN YOUR TESTIMONY.

A. The third component of the proposed rate structure is the difference between TSLRIC plus shared and common costs, and the actual cost of providing the network element. This factor is designed to recognize that the actual element being provided is part of a real, existing network that will be used on a going forward basis, and not some portion of a theoretical projection of a future network. Rate development must recognize that an existing network has real costs and that these costs should be recovered by the cost causers.

The Act states that BellSouth may include a reasonable profit in setting its rates. BellSouth cannot make a reasonable profit unless it is able to set its prices sufficiently above TSLRIC to provide a reasonable contribution toward its shared and common costs and recover historical costs. Since the Act permits rates to contain a profit above costs, it clearly anticipates that rates will recover, at a minimum, the actual costs of the firm. It is certainly reasonable to recover historical costs, which are real costs, since it is also reasonable to make a profit.

Q. WHY SHOULD PRICES FOR CERTAIN UNEs INCLUDE THE RESIDUAL RECOVERY REQUIREMENT?

1 A. As I stated previously, BellSouth is entitled to recover all of its actual costs of  
2 doing business. The historical cost of an element that BellSouth provides on  
3 an unbundled basis is certainly a legitimate cost of doing business. Using only  
4 forward looking costs of providing a service may be appropriate for a firm that  
5 is starting from scratch and building a completely new network to provide such  
6 a service. This is certainly not the case with BellSouth.

7

8 The fact is, the network in place today allows BellSouth to offer a wide variety  
9 of UNEs and reduces the forward looking cost of those elements. The network  
10 that provides ALECs that functionality has a cost. BellSouth should have the  
11 chance to recover the costs associated with investments previously made and  
12 currently used in the network and those made in good faith pursuant to  
13 obligations under a traditional regulatory compact. If BellSouth is forced to set  
14 all of its rates only at TSLRIC plus reasonable shared and common costs, it is  
15 precluded from recovering all of its actual costs.

16

17 Q. HAS BELLSOUTH INCLUDED THE RESIDUAL RECOVERY  
18 REQUIREMENT IN ALL RATE ELEMENTS PROPOSED?

19

20 A. No. BellSouth has chosen a simple, straightforward method for recognizing  
21 these historical costs: identify the primary area, in this case investment,  
22 impacted by recognizing only forward looking incremental costs; identify the  
23 primary elements impacted, in this case the 2-wire ADSL-compatible loop, the  
24 2-wire/4-wire HDSL-compatible loops and the 4-wire Analog port; and  
25 calculate the impacts on these elements.

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By providing TSLRIC studies for the loops and port in question, and then adjusting them to recognize historical cost differences, the impact of ignoring these historical costs is identified. The adjustments that recognize the historical costs, used in conjunction with the TSLRIC studies plus shared and common costs, become the basis for establishing the loop and port rates.

Q. COULD YOU EXPLAIN WHY THE HISTORICAL COSTS WERE ONLY CALCULATED FOR THE LOOPS AND PORT AND NOT FOR OTHER UNBUNDLED ELEMENTS?

A. Yes. As described by Ms. Caldwell, the area with the greatest discrepancy when comparing actual and forward looking costs is investment. This should not be surprising because one would expect technological advancement to impact this area substantially. While there are a large number of unbundled elements with an investment component, a predominant portion of investment, (approximately 70 percent) is found in the loops and ports. To simplify the process, BellSouth has limited the historical cost calculation to these two elements even though similar calculations could be made for other unbundled elements. However, the additional amount required would be very small.

Q. IF BELLSOUTH CANNOT RECOVER FULL ACTUAL COSTS FROM THE RATES CHARGED FOR THE UNBUNDLED ELEMENTS AT ISSUE, WHAT WILL BE THE EFFECT ON FLORIDA CONSUMERS?

1 A. As I stated above, BellSouth's end-users, i.e., Florida consumers, will be  
2 forced to cover all additional costs. The major result would be that since these  
3 costs are legitimate costs of doing business, BellSouth must recover them from  
4 some source. If they cannot be recovered from the services or elements with  
5 which they are associated, other rates must be increased. Prices for end-user  
6 services, out of necessity, will be affected. In the long run, the Florida  
7 consumer, and more likely, the rural consumer, will be required to make up the  
8 difference and, in effect, subsidize the ALECs. In Florida, this scenario is  
9 exacerbated by the price regulation rules. Under price regulation, BellSouth is  
10 precluded from raising certain rates for a specified period. If BellSouth is  
11 precluded from recovering all of its actual costs, an artificial advantage is  
12 created for the ALECs and an irreversible and unfair disadvantage is created  
13 for BellSouth.

14  
15 Q. ARE THERE OTHER CONSEQUENCES OF NOT INCLUDING A  
16 COMPONENT FOR THE RECOVERY OF SHARED AND COMMON  
17 COSTS IN THE RATE FOR UNBUNDLED NETWORK ELEMENTS?

18  
19 A. Yes. Dr. Richard Emmerson cited at least two more consequences in his  
20 testimony in the North Carolina Utilities Commission's Docket No. P-140, Sub  
21 50. Dr. Emmerson stated, "[f]irst, new firms considering undertaking the risk  
22 of entering on a facilities basis would be aware that successful entry would  
23 yield at most recovery of the incremental costs of entry, without the possibility  
24 of contribution towards the firm's joint and common costs and without any  
25 reward for the risk of entering. These firms would be unlikely to undertake the

1 risks of entry.”

2

3 He goes on to say that, “BellSouth, faced with receiving no contribution from  
4 the unbundled network elements towards its joint and common costs would  
5 have to balance the returns on other investments that could yield at least some  
6 contribution with investing in new elements and its carrier of last resort  
7 obligations. Just as the incentives created by such pricing would make new  
8 entrants less likely to enter on a facilities basis, they would make BellSouth  
9 less likely to invest in facilities. To the extent BellSouth may be constrained  
10 by its legal obligations to invest in new facilities, pricing without recovery of  
11 joint and common costs is unfair.”

12

13 Q. PLEASE EXPLAIN THE EXHIBITS ATTACHED TO YOUR TESTIMONY.

14

15 A. Exhibit AJV-1 provides an overall summary of BellSouth’s proposed rates in  
16 this docket and their associated costs. The cost study reference number is  
17 provided with the description of the corresponding rate element. The summary  
18 cost data contained in BellSouth’s cost studies is provided as well as the rates  
19 that BellSouth proposes.

20

21 Exhibit AJV-2 demonstrates discounts on non-recurring rates for UNE loops  
22 and ports when the elements are ordered at the same time.

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24 Q. PLEASE EXPLAIN THE DERIVATION OF BELL SOUTH’S PROPOSED  
25 RATES FOR EACH UNE IN THIS DOCKET.

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A. The following section of this testimony describes how BellSouth's rate setting approach applies to the individual UNEs, as listed by issue number. Where an explanation is required, individual cost study results and the corresponding rates are discussed.

**Issue 1(a): Network Interface Device (NID)**

Q. WHAT ARE BELLSOUTH'S PROPOSED RECURRING AND NON-RECURRING RATES FOR THE NID?

A. BellSouth proposes that the NID be priced at a recurring monthly rate of \$1.42, with non-recurring rates of \$46.99 for the first and \$14.57 for each additional NID. These rates are equal to the TSLRIC plus shared and common costs submitted by BellSouth.

**Issue 1 (b): 2-wire/4-wire Loop Distribution**

Q. PLEASE DESCRIBE BELLSOUTH'S PROPOSED RECURRING AND NON-RECURRING RATES FOR 2-WIRE/4-WIRE LOOP DISTRIBUTION.

A. BellSouth recommends a recurring rate of \$12.36 per month for 2-wire loop distribution and \$16.58 per month for 4-wire loop distribution. These rates are based on TSLRIC plus shared and common costs, and each includes a residual recovery requirement. All rates for 2-wire and 4-wire loop distribution,

1 including non-recurring rates, are listed on Exhibit AJV-1.

2

3 **Issue 1(c): Virtual Collocation and Issue 1(d): Physical Collocation**

4

5 Q. COULD YOU EXPLAIN BELLSOUTH'S PROPOSED RATES FOR  
6 VIRTUAL COLLOCATION?

7

8 A. Yes. BellSouth submitted cost studies for both physical and virtual  
9 collocation. Unlike many other elements, however, existing tariff rates should  
10 apply to virtual collocation. These rates have existed in federal tariffs for  
11 several years and came under significant scrutiny at the time of their initial  
12 filing. In Florida, these rates, terms and conditions for virtual collocation are  
13 set forth in Section E20.1 of the Florida Access Service Tariff. Although  
14 these rates are not subject to the pricing standards of Section 252(d) of the Act,  
15 they are cost based.

16

17 There are several practical reasons for proposing the existing tariff rates. The  
18 Act provides an obligation that LECs offer physical collocation to ALECs.  
19 Virtual collocation may be provided only after the ILEC has demonstrated to a  
20 state commission that physical collocation is not practical for technical reasons  
21 or because of space limitations. These requirements are contained in Section  
22 251(c)(6) of the Act. Virtual collocation, therefore, will be the exception rather  
23 than the rule. Conversely, existing interexchange carriers ("IXCs") only have  
24 virtual collocation available to them and as a practical matter may wish to  
25 continue virtual collocation for their combined IXC/ALEC business. It would

1 appear nonsensical to charge the carrier one price for a portion of the virtual  
2 collocation space and features and a different rate for others. Further, it would  
3 appear somewhat arbitrary to allocate a portion of the space to IXC business  
4 and another portion to ALEC business for the sake of applying different rates.  
5 The practical effect of establishing different rates is that arbitrage would result.

6  
7 Q. WOULD YOU PLEASE COMPARE YOUR RECOMMENDED TARIFF  
8 PRICES FOR VIRTUAL COLLOCATION TO THE COST STUDY  
9 RESULTS YOU ARE SUBMITTING?

10  
11 A. Yes. For comparison purposes, I have listed the results of BellSouth's cost  
12 studies for virtual collocation on Exhibit AJV-1, alongside the tariff rates that  
13 BellSouth is proposing. Specifically, the exhibit lists BellSouth's TSLRIC  
14 results, TSLRIC plus shared and common costs, and the proposed rates. Since  
15 there are no tariff rates for the 2-wire and 4-wire cross connects applicable to  
16 virtual collocation, BellSouth is proposing TSLRIC plus shared and common  
17 costs for these UNEs.

18  
19 Q. WHAT RATES DOES BELL SOUTH RECOMMEND FOR PHYSICAL  
20 COLLOCATION?

21  
22 A. The issues related to virtual collocation as outlined above do not apply to  
23 physical collocation. For that reason BellSouth recommends prices equal to  
24 cost study results plus shared and common costs for physical collocation.  
25 These rates are listed in Exhibit AJV-1.

1

2 **Issue 1(e): Directory Assistance (Directory Transport - DS1 Only)**

3

4 Q: WHAT ARE BELLSOUTH'S PROPOSED RECURRING AND NON-  
5 RECURRING RATES FOR DIRECTORY TRANSPORT - DS1 ONLY?

6

7 A. BellSouth proposes that the Commission adopt its TSLRIC cost study results  
8 plus shared and common costs as the permanent rates for the directory  
9 transport - DS1 unbundled elements. The recurring and non-recurring rates for  
10 these elements are listed on Exhibit AJV-1.

11

12 **Issue 1(f): Dedicated Transport (Non-recurring only; DS1)**

13

14 Q. PLEASE EXPLAIN BELLSOUTH'S APPROACH TO SETTING NON-  
15 RECURRING RATES FOR DEDICATED TRANSPORT.

16

17 A. Dedicated transport is used only for the traffic of the ALEC ordering it and will  
18 typically connect two BellSouth facilities for that ALEC's use. The non-  
19 recurring rates for dedicated transport are based on BellSouth's TSLRIC  
20 studies, plus shared and common costs, and are listed on Exhibit AJV-1.

21

22 **Issue 1(g): 4-wire Analog Port**

23

24 Q. PLEASE COMMENT BRIEFLY ON THE ISSUES THAT RELATE TO THE  
25 4-WIRE UNBUNDLED PORT AS A COMPONENT OF SWITCHING.

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A. There are diverse issues related to this unbundled element. First, the question of recovery of historical costs is relevant to the port, which is the monthly recurring component of unbundled switching. Secondly, the treatment of vertical features that can be provided through the switch is also at issue.

Q. PLEASE EXPLAIN THE STRUCTURE AND RATES FOR THE 4-WIRE ANALOG PORT.

A. The proposed rates for the 4-wire analog port (as a component of unbundled switching) are shown on Exhibit AJV-1. The port costs include the TSLRIC-based costs, shared and common costs, and a portion of historical costs in a manner similar to the loop. The proposed rates for this element also include for the recovery of the costs associated with the applicable vertical features.

Q. PLEASE EXPLAIN BELLSOUTH'S PROPOSAL FOR UNBUNDLED SWITCHING AND THE INCLUSION OF VERTICAL FEATURES.

A. In its December 31, 1996 Arbitration Order, the Commission adopted the FCC's definition of local switching as an unbundled network element. (Order, pages 15-16). The FCC definition, as quoted by the Commission, defines local switching to encompass ". . . all features, functions, and capabilities of the switch which include, but are not limited to: (1) the basic switching function of connecting lines to lines, lines to trunks, trunks to lines, trunks to trunks, as well as, the same basic capabilities made available to the incumbent LEC's

1 customers, such as a telephone number, white page listing, and dial tone; and  
2 (2) all other features that the switch is capable of providing, including but not  
3 limited to custom calling, custom local area signaling service features, and  
4 Centrex, as well as any technically feasible customized routing functions  
5 provided by the switch.”

6  
7 In the arbitration proceedings, the cost studies submitted by BellSouth did not  
8 include the vertical features because BellSouth treated these features as retail  
9 services subject to resale. The Hatfield model data submitted by AT&T was  
10 said to include the features in the switching costs. Neither BellSouth nor  
11 AT&T, however, provided a study with and without the vertical features to  
12 determine what the cost of these features were.

13  
14 In this proceeding, BellSouth has again provided switching and port costs  
15 excluding the vertical features, but has also included the costs of the vertical  
16 features that would be applicable to the 4-wire Analog port, Issue No. 1(g).  
17 To determine the rate for switching including these vertical features, it is  
18 necessary to add up the costs of all the vertical features and add them to the  
19 basic port cost. This would yield a monthly 4-wire analog port cost of \$17.36.

20  
21 **Issue 1(h): 2-wire ADSL-compatible Loop and Issue 1(i): 2-wire/4-wire HDSL-**  
22 **compatible Loop**

23  
24 Q. PLEASE DESCRIBE THE FACTORS USED IN DEVELOPING THE  
25 RECURRING AND NON-RECURRING RATES FOR THE 2-WIRE ADSL-

1 COMPATIBLE LOOP AND THE 2-WIRE/4-WIRE HDSL-COMPATIBLE  
2 LOOP.

3  
4 A. There are several individual factors that are considered in developing the rates  
5 and costs for all of BellSouth's unbundled loops. To assist in putting all the  
6 factors into perspective, the following summary is provided outlining the  
7 considerations that went into the development of the loop costs and rates:

8 1) The types of loops for which costs and rates are provided.

9 2) The level of geographic averaging: Rates are proposed on a statewide  
10 basis, i.e., no geographic deaveraging.

11 3) The type of costs to be recovered in the rates: Loop studies are provided to  
12 reflect typical TSLRIC results plus an allocation of shared and common costs  
13 as well as historical costs (to recognize some of the infirmities of a TSLRIC-  
14 only approach).

15  
16 Q. WILL THERE BE VARYING RATES FOR THE DIFFERENT TYPES OF  
17 LOOPS BELLSOUTH OFFERS?

18  
19 A. Yes. First, as discussed earlier, BellSouth is filing loop rates to recognize the  
20 impact of shared and common costs and historical costs in addition to the  
21 TSLRIC results. Each loop type has characteristics which differentiate it from  
22 the others. Following are the loop types, and associated proposed recurring  
23 rates:

1

Loop Type	Proposed Monthly Rate
2-Wire ADSL	\$22.79
2-Wire HDSL	\$17.38
4-Wire HDSL	\$26.51

2

3 Q. IN GENERAL, WHAT ARE SOME OF THE CHARACTERISTICS THAT  
4 CAUSE DIFFERENT LOOP TYPES TO HAVE DIFFERENT COSTS?

5

6 A. The variance in costs for different types of loops is mainly attributable to the  
7 type of facility required. For instance, a 2-wire analog loop can operate  
8 effectively with smaller gauge copper and longer loop lengths than some other  
9 facility types, because the services that ride these facilities (typically residential  
10 and some business local exchange service or Plain Old Telephone Service  
11 [POTS] ) are not technically demanding. On the other hand, the facilities that  
12 are required to provide ISDN, ADSL or HDSL loops are subject to technical  
13 limitations and specifications. Such facilities require shorter loop lengths,  
14 heavier gauge copper and more manual work activity than POTS. As  
15 evidenced by these varying physical loop characteristics, the resulting costs  
16 and rates also vary.

17

18 Q. ARE THERE OTHER NON-RECURRING COSTS THAT SHOULD BE  
19 CONSIDERED IN THE PROVISION OF THE UNBUNDLED ELEMENTS  
20 INCLUDED IN THIS PROCEEDING?

21

22 A. Yes. The non-recurring charges associated with the recovery of operations  
23 support systems costs should be considered. In addition, non-recurring prices

1 should recognize the difference in cost between unbundled elements that are  
2 ordered electronically using the OSS and those that are ordered manually.

3

4 Q. HOW DOES BELLSOUTH PROPOSE TO RECOVER ITS COSTS OF  
5 PROVIDING OPERATIONS SUPPORT SYSTEMS?

6

7 A. Access to operations support systems by ALECs is necessary for implementing  
8 resale, unbundling and interconnection. Typically, the costs for BellSouth's  
9 existing operations support systems are recovered in basic service rates and  
10 generally through nonrecurring charges, e.g., service order charges. In this  
11 situation where access to OSS are being provided for ALEC use, some  
12 additional factors need to be considered. First, ALECs will determine whether  
13 they will use manual interfaces, standard electronic interfaces or uniquely  
14 designed interfaces. Second, the FCC defined operations support systems as  
15 unbundled network elements. In its order in Docket CC 96-98, the FCC  
16 concluded, "...that operations support systems and the information they contain  
17 fall squarely within the definition of a "network element" and must be  
18 unbundled upon request under section 251(c)(3)...." (paragraph 516)

19

20 Given these circumstances, BellSouth has approached this issue in the  
21 following manner. First, it has developed the basic nonrecurring costs for the  
22 unbundled network elements without reflecting either the costs of electronic or  
23 manual interfaces. These are the costs shown in Exhibit AJV-1 that are  
24 specifically associated with the various unbundled elements. The next step  
25 was to develop an increment for processing an order manually. This increment

1 varies by unbundled network element, as would be expected. The nature of a  
2 manual order would lead to different work times based on the type of order.  
3 The increment for manual orders has been added to the basic nonrecurring  
4 costs, and these costs and charges are so noted on Exhibit AJV-1. For  
5 example, Exhibit AJV-1 indicates a 2-wire ADSL loop (Ref. # A.6.1) with a  
6 basic nonrecurring charge of \$621.78. If the order is placed manually, the  
7 charge becomes \$663.17, or a \$41.39 additional increment. As demonstrated  
8 in BellSouth's cost studies, the costs of manual orders will vary on an item  
9 specific basis.

10

11 Q. HOW DOES BELL SOUTH INTEND TO RECOVER THE COSTS  
12 ASSOCIATED WITH THE OPERATIONS SUPPORT SYSTEMS AS AN  
13 UNBUNDLED ELEMENT?

14

15 The total costs for the electronic interfaces were simply divided by the number  
16 of anticipated orders (including resale orders which are not impacted by this  
17 proceeding), and it was determined that it would take approximately \$11.00 an  
18 order to recover the OSS costs in Florida. Because a large number of the  
19 orders will be for resale, recovering this cost for each electronically processed  
20 unbundled element order will, in reality, defray only a small portion of the  
21 costs. While BellSouth could have selected other means for recovering its  
22 OSS costs, the combination of different nonrecurring charges and the  
23 electronic interface charges noted above seems to best capture the treatment of  
24 OSS as a network element. A balance has been struck between following cost  
25 causative principles and treating small and large ALECs equitably.

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Q. HOW WILL NON-RECURRING CHARGES BE APPLIED WHEN MULTIPLES OF THE SAME ELEMENTS ARE INSTALLED AT THE SAME TIME?

A. The non-recurring charges for unbundled network elements have been studied and costs developed on a stand-alone basis. The applicable rate will be charged for each individual element for which a non-recurring charge applies. This is true whether the element is ordered alone or in multiples. The one exception is when an element has one non-recurring charge for the first unit installed and another non-recurring charge for additional unit(s) installed at the same time. For example, if an ALEC ordered five units of the same item, one first unit charge would apply and four additional unit charges would apply.

Q. PLEASE ADDRESS BELLSOUTH'S APPROACH TO DEVELOPING THE APPROPRIATE NON-RECURRING CHARGE FOR THE COMBINATION OF NETWORK ELEMENTS IDENTIFIED IN ISSUE 2.

A. BellSouth's suggested non-recurring charges ("NRCs") for each of these combinations are listed on Exhibit AJV-2 and are consistent with this Commission's March 19, 1997 Order No. PSC-97-0298-FOF-TP (Final Order on Motions for Reconsideration and Amending Order No. PSC-96-1579-FOF-TP). In that Order, the Commission stated "[W]e hereby order BellSouth to provide NRCs that do not include duplicate charges or charges for functions or activities that AT&T does not need when two or more network elements are

1 combined in a single order.” The Commission also stated that the same is  
2 applicable to MCI.

3  
4 The Commission’s use of the word “migration” in Issue 2 could lead to  
5 confusion in the interpretation of issues in this docket. Specifically, Issue 2  
6 calls for NRCs for each combination for “migration of an existing BellSouth  
7 customer.” In the telecommunications industry, the term “migration” typically  
8 applies to a switch “as is.” A switch “as is” pertains only to a resale  
9 environment. This is a UNE cost proceeding, not a resale proceeding.  
10 BellSouth is focusing on NRCs as applied to unbundled network elements that  
11 are ordered simultaneously, which is consistent with the Commission’s  
12 decision in the AT&T and MCI arbitration orders. BellSouth’s discounted  
13 non-recurring charges are not intended to accommodate a switch “as is.”

14  
15 Q. PLEASE EXPLAIN HOW BELLSOUTH WILL EXCLUDE THE  
16 DUPLICATE CHARGES WHEN ALECs ORDER TWO OR MORE OF THE  
17 NETWORK ELEMENTS, AS IDENTIFIED IN ISSUE 2, COMBINED ON A  
18 SINGLE ORDER.

19  
20 A. BellSouth will discount the NRCs for use by ALECs when two or more of the  
21 network elements identified in Issue 2 are combined in a single order. The  
22 discounted NRCs, listed on AJV-2, reflect the elimination of all duplicate  
23 charges. The discounted NRCs will be developed as follows: BellSouth will  
24 first consider (1) the non-recurring costs for each of the applicable elements on  
25 a stand-alone basis, and then (2) the total that would apply if the NRCs for the

1 stand-alone items were added together without considering duplicate costs.  
2 BellSouth will then compare the figure for (2) to (3) the costs for the  
3 combination when any duplicate charges have been removed. The comparison  
4 between figures (2) and (3) will provide a percentage difference that BellSouth  
5 will use as the basis to discount the NRC for the specific combination. To  
6 summarize, the new NRCs that BellSouth proposes for the combined orders are  
7 specific numbers that are based on a percentage discount that eliminates  
8 duplicate charges. All of these NRCs also include shared and common costs.  
9 BellSouth has not yet determined whether the discounted NRCs will appear on  
10 the bill as a discounted charge or as the original minus the discount.

11

12 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

13

14 A. My testimony requests that the Commission approve BellSouth's proposed  
15 prices for the unbundled network elements addressed. The Act allows an  
16 incumbent LEC to develop rates based on cost and to include a reasonable  
17 profit. BellSouth's proposed rates for these UNEs are based on TSLRIC,  
18 including shared costs, and include cost components for common and historical  
19 costs. These are the lowest prices that can be charged and allow BellSouth to  
20 recover its costs.

21

22 BellSouth must be allowed to recover its actual costs of providing a service.  
23 Historical and common costs are legitimate costs that must be recovered. The  
24 benefits of historical and common facilities and costs should be shared by  
25 BellSouth's end user customers and by those ALECs interconnecting with

1 BellSouth as well as purchasing unbundled network elements from BellSouth.  
2 I would not expect, because MCI needs a switch to enter the local telephone  
3 market, that Lucent Technologies would provide that switch at its TSLRIC or  
4 any other similar cost. Just as Lucent needs a reasonable contribution to its  
5 shared and common costs and recovery of its historical costs, BellSouth also  
6 needs such cost recovery. If BellSouth is unable to recover such costs, the  
7 shortfall will impact its retail prices. Consequently, BellSouth's end users,  
8 particularly residential customers, will be harmed while competitors are being  
9 subsidized through below cost prices.

10

11 The cost of providing services must also include a component to recover  
12 historical costs. BellSouth's actual forward-looking economic cost of a service  
13 cannot exclude historical costs. BellSouth has calculated the impact of this  
14 cost component and applied those costs only on unbundled loops and ports.

15

16 BellSouth is not asking for anything extraordinary from the Commission.  
17 BellSouth asks only that the Commission recognize that BellSouth has real  
18 costs associated with the provision of UNEs that are over and above those  
19 submitted in its TSLRIC studies and to allow BellSouth to recover those costs  
20 in a competitively fair manner. BellSouth further requests that the  
21 Commission adopt its prices for UNEs as outlined in my testimony and as  
22 specified in my exhibits.

23

24 Q. DOES THIS COMPLETE YOUR TESTIMONY?

25

1 A. Yes.

**Florida Rate and Cost Analysis**

Cost Ref. #	Rate Element	TSLRIC Cost			TSLRIC plus Shared and Common Cost				Proposed Rate		
		Recurring	Electronic Non-Recurring	Manual Non-Recurring	Recurring (A)	Electronic Non-Recurring	Manual Non-Recurring	Recurring (B)	Electronic Non-Recurring	Manual Non-Recurring	
A.0	Unbundled Local Loop										
A.2	Sub-Loop 2-Wire Analog										
A.2.2	Loop Distribution Per 2-wire analog voice grade loop	7.96	279.60 208.09	309.96 216.64	10.10	2.26	397.93 296.10	439.32 307.75	12.36	397.93 296.11	439.32 307.75
A.2.6	NID per 2-wire analog voice grade loop	1.18	4.10 2.13	34.46 10.68	1.42		5.60 2.92	46.99 14.57	1.42	5.60 2.92	46.99 14.57
A.2.11	Loop Distribution per 4-wire analog voice grade loop	10.81	320.50 249.34	350.75 257.89	13.55	3.03	456.51 355.18	497.75 366.83	16.58	456.51 355.18	497.75 366.83
A.2.12	Installation of 2-wire / 4-wire ALEC NID		88.25 57.29	118.61 65.84			116.98 72.78	158.37 84.43		116.98 72.78	158.37 84.43
A.2.13	Cross Connect, 2-wire or 4-wire		7.23 7.23	7.23 7.23			10.23 10.23	10.23 10.23		10.23 10.23	10.23 10.23
A.6	2-Wire Asymmetrical Digital Subscriber Line (ADSL) Loop										
A.6.1	2-wire asymmetrical digital subscriber line (ADSL) loop	15.33	435.95 366.59	466.31 375.14	18.62	4.17	621.78 522.77	663.17 534.42	22.79	621.78 522.77	663.17 534.42
A.7	2-Wire High Bit Rate Digital Subscriber Line (HDSL) Loop										
A.7.1	2-wire high bit rate digital subscriber line (HDSL) loop	11.52	435.95 366.59	466.31 375.14	14.20	3.18	621.78 522.77	663.17 534.42	17.38	621.78 522.77	663.17 534.42
A.8	4-Wire High Bit Rate Digital Subscriber Line (HDSL) Loop										
A.8.1	4-wire high bit rate digital subscriber line (HDSL) loop	17.86	454.68 385.65	484.93 394.20	21.66	4.85	647.99 549.46	689.23 561.11	26.51	647.99 549.46	689.23 561.11

**Notes:**

Under Non-recurring columns, single entry in first column indicates an electronic order; single entry in the second column indicates a manual order; where four costs/rates are shown, the first column is first and additional for electronic orders, second column is first and additional for manual orders.

(A) Residual Recovery Requirement

(B) Includes Residual Recovery Requirement where applicable

(C) 4-Wire analog port costs do not include vertical feature costs shown in Section B.2.

(F) Existing Virtual Collocation Rates from Florida's Access Service Tariff, Section E20.1

**Florida Rate and Cost Analysis**

Cost Ref. #	Rate Element	TSLRIC Cost			TSLRIC plus Shared and Common Cost				Proposed Rate		
		Recurring	Electronic Non-Recurring	Manual Non-Recurring	Recurring (A)	Electronic Non-Recurring	Manual Non-Recurring	Recurring (B)	Electronic Non-Recurring	Manual Non-Recurring	
B.0	Unbundled Local Exchange Ports and Features										
B.1	Exchange Ports										
B.1.2	Exchange Ports - 4-wire analog voice grade port (See Note C)	8.68	21.68 21.08	51.02 29.63	10.11	1.05	29.24 28.43	69.24 40.08			
B.2	Features										
B.2.1	Three-Way Calling	1.16	1.22	1.22	1.37		1.55	1.55	1.37	1.55	1.55
B.2.2	Customer Changeable Speed Calling	.0934	1.22	1.22	.1072		1.55	1.55	.1072	1.55	1.55
B.2.3	Call Waiting	.0349	1.22	1.22	.0382		1.55	1.55	.0382	1.55	1.55
B.2.4	Remote Activation of Call Forwarding	.0611	1.22	1.22	.0680		1.55	1.55	.0680	1.55	1.55
B.2.5	Cancel Call Waiting	.0088	1.22	1.22	.0102		1.55	1.55	.0102	1.55	1.55
B.2.6	Automatic Callback	.8987	1.22	1.22	1.06		1.55	1.55	1.06	1.55	1.55
B.2.7	Automatic Recall	.3060	1.22	1.22	.3570		1.55	1.55	.3570	1.55	1.55
B.2.8	Calling Number Delivery	.2037	1.22	1.22	.2362		1.55	1.55	.2362	1.55	1.55
B.2.9	Calling Number Delivery Blocking	.2444	1.22	1.22	.2593		1.55	1.55	.2593	1.55	1.55
B.2.10	Customer Originated Trace	.1320	1.22	1.22	.1541		1.55	1.55	.1541	1.55	1.55
B.2.11	Selective Call Rejection	.1502	1.22	1.22	.1768		1.55	1.55	.1768	1.55	1.55
B.2.12	Selective Call Forwarding	.0552	1.22	1.22	.0623		1.55	1.55	.0623	1.55	1.55
B.2.13	Selective Call Acceptance	.3185	1.22	1.22	.3742		1.55	1.55	.3742	1.55	1.55
B.2.15	Multiline Hunt Service (Rotary) Service per line, (in addition to port)	.1208	1.22	1.22	.1396		1.55	1.55	.1396	1.55	1.55
B.2.16	Call Forwarding Variable	.0492	1.22	1.22	.0551		1.55	1.55	.0551	1.55	1.55
B.2.17	Call Forwarding Busy Line	.0290	1.22	1.22	.0312		1.55	1.55	.0312	1.55	1.55
B.2.18	Call Forwarding Don't Answer All Calls	.0343	1.22	1.22	.0375		1.55	1.55	.0375	1.55	1.55
B.2.19	Remote Call Forwarding	1.34	1.22	1.22	1.53		1.55	1.55	1.53	1.55	1.55

**Notes:**

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(A) Residual Recovery Requirement

(B) Includes Residual Recovery Requirement where applicable

(C) 4-Wire analog port costs do not include vertical feature costs shown in Section B.2.

(T) Existing Virtual Collocation Rates from Florida's Access Service Tariff, Section E20.1

**Florida Rate and Cost Analysis**

Cost Ref. #	Rate Element	TSLRIC Cost			TSLRIC plus Shared and Common Cost			Proposed Rate			
		Recurring	Electronic Non-Recurring	Manual	Recurring (A)	Electronic Non-Recurring	Manual	Recurring (B)	Electronic Non-Recurring	Manual	
B.2.20	Call Transfer	.1244	1.22	1.22	.1438		1.55	1.55	.1438	1.55	1.55
B.2.21	Call Hold	.0272	1.22	1.22	.0303		1.55	1.55	.0303	1.55	1.55
B.2.22	Toll Restricted Service	.0406	1.22	1.22	.0449		1.55	1.55	.0449	1.55	1.55
B.2.23	Message Waiting Indicator - Stutter Dial Tone	.0296	1.22	1.22	.0346		1.55	1.55	.0346	1.55	1.55
B.2.24	Anonymous Call Rejection	1.03	1.22	1.22	1.21		1.55	1.55	1.21	1.55	1.55
B.2.25	Shared Call Appearances of a DN	.4512	1.19	1.19	.5320		1.50	1.50	.5320	1.50	1.50
B.2.26	Multiple Call Appearances	.0848	1.19	1.19	.1001		1.50	1.50	.1001	1.50	1.50
B.2.27	ISDN Bridged Call Exclusion	.0012	1.19	1.19	.0014		1.50	1.50	.0014	1.50	1.50
B.2.28	Call by Call Access	37.19	26.82	26.82	43.86		34.06	34.06	43.86	34.06	34.06
B.2.29	Privacy Release	.0054	1.22	1.22	.0060		1.55	1.55	.0060	1.55	1.55
B.2.30	Multi Appearance Directory Number Calls	.1505	1.22	1.22	.1771		1.55	1.55	.1771	1.55	1.55
B.2.31	Make Set Busy	.0030	1.22	1.22	.0031		1.55	1.55	.0031	1.55	1.55
B.2.32	Teen Service (Res. Dist. Alerting Service)	.1421	1.22	1.22	.1543		1.55	1.55	.1543	1.55	1.55
B.2.33	Code Restriction and Diversion	.0416	1.22	1.22	.0461		1.55	1.55	.0461	1.55	1.55
B.2.34	Call Park	.0421	1.22	1.22	.0467		1.55	1.55	.0467	1.55	1.55
B.2.35	Automatic Line	.0937	1.22	1.22	.1010		1.55	1.55	.1010	1.55	1.55
B.2.36	ISDN Message Waiting Indication-Lamp	.0114	1.19	1.19	.0134		1.50	1.50	.0134	1.50	1.50
B.2.37	ISDN Feature Function Buttons		1.22	1.22			1.55	1.55		1.55	1.55
	Exchange port - 4-wire analog with all available features included	14.0157	50.96 50.36	80.30 58.91	16.3109	1.05	66.44 65.63	106.44 77.28	17.36	66.44 65.63	106.44 77.28
D.0	Unbundled Transport and Local Interoffice Transport										
D.4	Interoffice Transport - Dedicated - DSI										

**Notes:**

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(A) Residual Recovery Requirement

(B) Includes Residual Recovery Requirement where applicable

(C) 4 Wire analog port costs do not include vertical feature costs shown in Section B.2.

(F) Existing Virtual Collocation Rates from Florida's Access Service Tariff, Section E20.1

**Florida Rate and Cost Analysis**

Cost Ref. #	Rate Element	TSLRIC Cost			TSLRIC plus Shared and Common Cost				Proposed Rate		
		Recurring	Electronic Non-Recurring	Manual Non-Recurring	Recurring (A)	Electronic Non-Recurring	Manual Non-Recurring	Recurring (B)	Electronic Non-Recurring	Manual Non-Recurring	
D.4.2	Interoffice transport - dedicated - DS1 - facility termination (Non-recurring Only)		167.80 128.56	194.48 155.24			225.46 170.53	261.84 206.91		225.46 170.53	261.84 206.91
G.0	<b>Operator Services and Directory Assistance</b>										
G.6	<i>Directory Transport</i>										
G.6.1/ D.5.3	Directory transport - local channel DS1	40.47	392.12 338.57	455.02 338.57	46.63		552.61 477.88	638.37 477.88	46.63	552.61 477.88	638.37 477.88
G.6.2/ D.4.1	Directory transport - DS1 level interoffice per mile	.5456			.6322				.6322		
G.6.3/ D.4.2	Directory transport - DS1 level interoffice per facility termination	93.51	167.80 128.56	194.48 155.24	107.04		225.46 170.53	261.84 206.91	107.04	225.46 170.53	261.84 206.91
G.6.8	Directory transport - installation NRC, per trunk or signaling connection			327.56 8.39				416.43 11.26			416.43 11.26
H.0	<b>Collocation</b>										
H.1	<i>Physical Collocation</i>										
H.1.1	Physical collocation - application cost			5,187				7,203			7,203
H.1.2	Physical collocation - space preparation	ICB			ICB				ICB		
H.1.3	Physical collocation - space construction cost per first 100 square feet	141.24			149.34				149.34		
H.1.4	Physical collocation - space construction cost per additional 50 square feet	16.38			17.32				17.32		
H.1.5	Physical collocation - cable installation cost per cable			1,825				2,431			2,431
H.1.6	Physical collocation - floor space, per square feet	4.25			4.49				4.49		

**Notes:**

Under Non-recurring columns, single entry in first column indicates an electronic order; single entry in the second column indicates a manual order; where four costs/rates are shown, the first column is first and additional for electronic orders, second column is first and additional for manual orders.

(A) Residual Recovery Requirement

(B) Includes Residual Recovery Requirement where applicable

(C) 4 Wire analog port costs do not include vertical feature costs shown in Section B.2.

(D) Existing Virtual Collocation Rates from Florida's Access Service Tariff, Section E20.1

### Florida Rate and Cost Analysis

Cost Ref. #	Rate Element	TSLRIC Cost			TSLRIC plus Shared and Common Cost			Proposed Rate		
		Recurring	Electronic Non-Recurring	Manual	Recurring (A)	Electronic Non-Recurring	Manual	Recurring (B)	Electronic Non-Recurring	Manual
H.1.7	Physical collocation - cable support structure, per entrance cable	21.66			24.79			24.79		
H.1.8	Physical collocation - power, per ampere	6.79			7.64			7.64		
H.1.9	Physical collocation - 2-wire cross connects	.3333	33.93 31.92	36.97 34.96	.3815	44.02 41.25	48.17 45.40	.3815	44.02 41.25	48.17 45.40
H.1.10	Physical collocation - 4-wire cross connects	.6666	33.84 31.84	36.87 34.87	.7631	43.90 41.14	48.04 45.28	.7631	43.90 41.14	48.04 45.28
H.1.11	Physical collocation - DS1 cross connects	2.45	50.18 35.42	53.17 38.41	2.81	66.46 45.95	70.54 50.03	2.81	66.46 45.95	70.54 50.03
H.1.12	Physical collocation - DS3 cross connects	44.87	54.35 39.21	57.34 42.20	51.37	72.33 51.36	76.41 55.44	51.37	72.33 51.36	76.41 55.44
H.1.13	Physical collocation - 2-wire POT bay	.0996			.1141			.1141		
H.1.14	Physical collocation - 4-wire POT bay	.1993			.2281			.2281		
H.1.15	Physical collocation - DS1 POT bay	.8226			.9416			.9416		
H.1.16	Physical collocation - DS3 POT bay	5.08			5.82			5.82		
H.1.17	Physical collocation - security escort - basic, per half hour and additional			33.60 20.71			43.95 26.10			43.95 26.10
H.1.18	Physical collocation - security escort - overtime, per 1/2 hour and additional 1/2 hour			42.06 25.96			55.86 33.15			55.86 33.15
H.1.19	Physical collocation - security escort - premium, per 1/2 hour and additional 1/2 hour			50.53 31.21			67.77 40.21			67.77 40.21
H.2	<i>Virtual Collocation</i>									
H.2.1	Application cost			2,669			3,724			2,848.30 <sup>(T)</sup>
H.2.2	Cable installation cost per cable			1,825			2,431			2,750 <sup>(T)</sup>
H.2.3	Floor space per square feet	4.25			4.49			3.20 <sup>(T)</sup>		
H.2.4	Floor space power, per ampere	6.79			7.64			3.48 <sup>(T)</sup>		

**Notes:**

Under Non-recurring columns, single entry in first column indicates an electronic order; single entry in the second column indicates a manual order; where four costs/rates are shown, the first column is first and additional for electronic orders, second column is first and additional for manual orders.

- (A) Residual Recovery Requirement
- (B) Includes Residual Recovery Requirement where applicable
- (C) 4-Wire analog port costs do not include vertical feature costs shown in Section B.2.
- (T) Existing Virtual Collocation Rates from Florida's Access Service Tariff, Section E20.1

**Florida Rate and Cost Analysis**

Cost Ref. #	Rate Element	TSLRIC Cost			TSLRIC plus Shared and Common Cost				Proposed Rate		
		Recurring	Electronic Non-Recurring	Manual	Recurring (A)	Electronic Non-Recurring	Manual	Recurring (B)	Electronic Non-Recurring	Manual	
H.2.5	Cable support structure, per entrance cable	18.95			21.70			13.35(T)			
H.2.6	2-wire cross connects	.0935	33.93 31.92	36.97 34.96	.1070		44.02 41.25	48.17 45.40	.1070	44.02 41.25	48.17 45.40
H.2.7	4-wire cross connects	.1870	33.84 31.84	36.87 34.87	.2141		43.90 41.14	48.04 45.28	.2141	43.90 41.14	48.04 45.28
H.2.8	DS1 cross connects	1.01	50.18 35.42	53.17 38.41	1.16		66.46 45.95	70.54 50.03	7.50(T)	155.00(T) 14.00(T)	155.00(T) 14.00(T)
H.2.9	DS3 cross connects	12.92	54.35 39.21	57.34 42.20	14.78		72.33 51.36	76.41 55.44	56.25(T)	151.90(T) 11.83(T)	151.90(T) 11.83(T)
H.2.10	Security escort - basic, per half hour			33.60 20.71				43.95 26.10			41.00(T) 25.00(T)
H.2.11	Security escort, overtime, per half hour			42.06 25.96				55.86 33.15			48.00(T) 30.00(T)
H.2.12	Security escort, premium, per half hour			50.53 31.21				67.77 40.21			55.00(T) 35.00(T)
	<b>OSS Cost Recovery</b>										
	Recovery of incremental OSS costs, per electronic order	11.00			11.00				11.00		

**Notes:**

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(A) Residual Recovery Requirement

(B) Includes Residual Recovery Requirement where applicable

(C) 4-Wire analog port costs do not include vertical feature costs shown in Section B.2.

(T) Existing Virtual Collocation Rates from Florida's Access Service Tariff, Section E20.1

1/13/97  
 BellSouth Telecommunications, Inc.  
 FPSC Docket No. 960835-TP, 960846-TP,  
 960757-TP & 971140-TP  
 Exhibit AJV-1

**EXCHANGE PORT - 4WIRE ANALOG  
 WITH VERTICAL FEATURES INCLUDED**

Cost Ref. #	4-Wire Analog
B.1.2	x
B.2.1	x
B.2.2	x
B.2.3	x
B.2.4	x
B.2.5	x
B.2.6	x
B.2.7	x
B.2.8	x
B.2.9	x
B.2.10	x
B.2.11	x
B.2.12	x
B.2.13	x
B.2.15	x
B.2.16	x
B.2.17	x
B.2.18	x
B.2.20	x
B.2.21	x
B.2.22	x
B.2.23	x
B.2.24	x
B.2.25	
B.2.26	
B.2.27	
B.2.28	
B.2.29	
B.2.30	
B.2.31	
B.2.32	x
B.2.33	x
B.2.34	
B.2.35	
B.2.36	
B.2.37	
B.2.39	
B.2.40	
RATES: TSLRIC + Shared and Common	
Monthly	\$17.36
NRC	
Elec. 1 <sup>st</sup>	\$66.44
Elec. Add'l	\$65.63
Manual 1 <sup>st</sup>	\$106.44
Manual Add'l	\$77.28

**Florida Rate and Cost Analysis  
 Unbundled Network Elements Ordered at the Same Time**

Cost Ref. #	Rate Element	Standalone Non-recurring UNE Costs and Rates		Percent Discount for UNEs Ordered at Same Time		Non-recurring Costs and Rates for UNEs Ordered at Same Time	
		First	Additional	First	Additional	First	Additional
	<b>UNEs (Non-recurring Only)</b>						
	<i>2-Wire Analog Loop and Port</i>						
A 1.1	2-wire analog voice grade loop	140.00	42.00				
B 1.1	Exchange ports - 2-wire analog line port (Res./Bus.)	38.00	15.00				
	<b>TOTAL</b>	<b>178.00</b>	<b>57.00</b>	<b>13%</b>	<b>22%</b>	<b>154.86</b>	<b>44.46</b>
	<i>2-Wire ISDN Loop and Port</i>						
A.5.1	2-wire ISDN digital grade loop	306.00	283.00				
B.1.5	Exchange ports - 2-wire ISDN port	88.00	66.00				
	<b>TOTAL</b>	<b>394.00</b>	<b>349.00</b>	<b>8%</b>	<b>11%</b>	<b>362.48</b>	<b>310.61</b>
	<i>4-Wire Analog Loop and Port</i>						
A 4.1	4-wire analog voice grade loop	141.00	43.00				
B 1.2	Exchange ports - 4-wire analog voice grade port	66.44 electronic 106.44 manual	65.63 electronic 77.28 manual				
	<b>TOTAL</b>	<b>207.44 electronic 247.44 manual</b>	<b>108.63 electronic 120.28 manual</b>	<b>8% 8%</b>	<b>11% 11%</b>	<b>190.84 electronic 227.64 manual</b>	<b>96.68 electronic 107.05 manual</b>
	<i>4-Wire DS1 Digital Loop and Port</i>						
A 9.1	4-wire DS1 digital loop	540.00	465.00				
B 1.6	Exchange ports - 4-wire ISDN DS1 port	112.00	91.00				
	<b>TOTAL</b>	<b>652.00</b>	<b>556.00</b>	<b>3%</b>	<b>5%</b>	<b>632.44</b>	<b>528.20</b>