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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of

DOCKET NO. 960757-TP

Petition by Metropolitan Fiber
Systems of Florida, Inc. for
arbitration with BellSouth
Telecommunications, Inc.
concerning interconnection, rates,
terms, and conditions, pursuant to:
the Federal Telecommunications
Act of 1996.

Petition by AT&T Communications
of the Southern States, Inc. for
arbitration of certain terms and
conditions of a proposed agreement:
with BellSouth Telecommunications
Inc. concerning interconnection
and resale under the
Telecommunications Act of 1996.

DOCKET NO. 960833-TP

Petition by MCI Telecommunications
Corporation and MCI Metro Access
Transmission Services, Inc. for
arbitration of certain terms and
conditions of a proposed agreement:
with BellSouth Telecommunications,
Inc. concerning interconnection
and resale under the
Telecommunications Act of 1996.

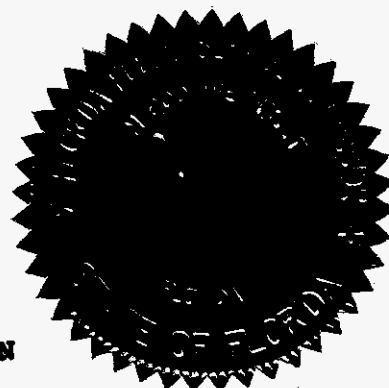
DOCKET NO. 960846-TP

FIRST DAY - MID-MORNING SESSION

VOLUME 2

Pages 155 through 241

PROCEEDINGS: HEARING



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FLORIDA PUBLIC SERVICE COMMISSION REPORTING

1
2 **BEFORE:** CHAIRMAN JULIA L. JOHNSON
3 COMMISSIONER J. TERRY DEASON
4 COMMISSIONER SUSAN F. CLARK
5 COMMISSIONER JOE GARCIA
6 COMMISSIONER E. LEON JACOBS, JR.
7
8 **DATE:** Monday, January 26, 1998
9
10 **TIME:** Commenced at 9:30 a.m.
11
12 **PLACE:** Betty Easley Conference Center
13 Room 148
14 4075 Esplanade Way
15 Tallahassee, Florida
16
17 **REPORTED BY:** JOY KELLY, CSR, RPR
18 Chief, Bureau of Reporting
19
20 **APPEARANCES:**
21 (As heretofore noted.)
22
23
24
25

WITNESSES - VOLUME 2

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P R O C E E D I N G S

1
2 (Transcript follows in sequence from
3 Volume 1.)

4 **MR. LAMOUREUX:** We're going to go ahead and
5 go back on the record.

6 - - - - -

ALPHONSO J. VARNER

7
8 continues his testimony under oath from Volume 1

CONTINUED CROSS EXAMINATION

9
10 **BY MR. LAMOUREUX:**

11 **Q** Mr. Varner, let me circle back to something
12 for a moment, if I may.

13 As you understand the FCC rules, those rules
14 define access to unbundled elements as an unbundled
15 element as well?

16 **A** That's what I said, I was not sure. They
17 define collocation as a means of access to unbundled
18 network elements. But when they list the list of
19 unbundled network elements under their rules, I didn't
20 recall collocation being one of the ones they listed.
21 They do define it as a means of access but I'm not
22 clear whether they need to be a --

23 **Q** I didn't ask about collocation. What I was
24 asking about was access to unbundled elements. As I
25 understand the FCC rules, those define unbundled

1 access to unbundled elements as an unbundled element;
2 is that correct?

3 A I guess I'm a little bit confused by what
4 you mean by "access." What they define as the
5 unbundled element is the element itself; let's say, if
6 you will, a loop. Okay. A loop on the network is an
7 unbundled network. Obviously you have to have a way
8 to get to that loop by itself separated from
9 everything else in the network. If that's what you
10 mean by access to the unbundled network element, then,
11 yes, that's what they meant.

12 They also talked about ways by which you can
13 get that loop to the other parties; collocation, for
14 example. If that's what you mean by access to
15 unbundled network elements, then that's the part
16 that's not clear to me that they intended for that to
17 be an unbundled network element.

18 Q Let me see if I can get at this a little
19 more simply. I left an extra copy of your deposition
20 transcript with you.

21 A Yes.

22 Q Could you turn to Page 26 of that for me?

23 A 26.

24 Q 26. (Witness complies.)

25 A Okay.

1 Q I'm looking at Lines 16 through 18 of that
2 page. Now, is it correct, Mr. Varner, that in your
3 deposition you said "As I understand it, in the FCC
4 rules they have defined the access as an unbundled
5 element as well."

6 A Yes. That's the same answer you looked at
7 before. The answer says -- the question was "Well, do
8 you consider collocation to be a UNE, unbundled
9 network element?" My answer was "I believe it's been
10 defined as one. It's really access to unbundled
11 elements, and I believe, as I understand in the FCC
12 rules, they define the access as an unbundled element
13 as well." That's what I think to be the case. But,
14 again, I'm not sure that that is the case, because of
15 what I just explained earlier.

16 Q Is what you described as your understanding
17 in your deposition still your understanding today?

18 A Yes, it is.

19 Q And we were talking about the pricing
20 standards in the Act right before we broke. Do you
21 have a copy of the Act with you?

22 A Yes, I do.

23 Q Okay. 252(d) is the pricing standard for
24 interconnection and unbundled element; is that
25 correct?

1 A Yes, it is.

2 Q Okay. And 252(d)(1) talks about
3 establishing just and reasonable rates for network
4 elements for purposes of (c)(3) of 251; is that right?

5 A I think it says (c)(2) and (c)(3) if I
6 remember correctly. I'm still trying to find it. I
7 believe I said (b)(5) earlier, but 252(d) too. Just a
8 minute. Oh, I have it now. Yes, for purposes of
9 Section (c)(2) and (c)(3).

10 Q Okay. So the pricing standards of 252(d)
11 apply to 251(c)(2) and 251(c)(3), right?

12 A 252(d)(1) apply to those sections.

13 Q Okay. 251(c)(3) is the requirement to
14 provide nondiscriminatory access to network elements,
15 right?

16 A Yes, it is.

17 Q Okay. So the pricing standard of 252(d)(1)
18 applies to prices for nondiscriminatory access to
19 network elements, correct?

20 A Yes, just as I explained earlier. But that
21 does not include collocation, which is 251(c)(6),
22 which is separated from the unbundled access. They
23 have a section in the Act called Unbundled Access
24 251(c)(3). Even though it says unbundled access,
25 that's the section this applies to unbundled network

1 elements. That's the section that requires us to make
2 unbundled elements available.

3 There is another section that specifically
4 applies to collocation separate from that, which is
5 251(c)(6), and the pricing standards in the Act --
6 those pricing standards do not apply to 251(c)(6)

7 Q Read me the language in the Act, Mr. Varner,
8 that says the pricing standards in 252(d)(1) do not
9 apply to collocation?

10 A Well, yes. It says on 252(d)(1) what
11 sections it applies to and it lists them and it does
12 not list (c)(6).

13 **COMMISSIONER CLARK:** Mr. Varner, can I ask
14 the question a different way?

15 Is it appropriate to use the same pricing
16 standards to establish the price for collocation?
17 Shouldn't they be just and reasonable?

18 **WITNESS VARNER:** Yes. Just and reasonable
19 does apply. That standard applies to collocation as
20 well as the unbundled elements. The difference is the
21 based-on cost standard. The just and reasonable
22 standard is actually in 251(c)(3) where the unbundled
23 elements are and in (c)(6).

24 **COMMISSIONER CLARK:** Is it your testimony
25 that just and reasonable does not include the notion

1 that it should be based on cost?

2 **WITNESS VARNER:** No, it's not. No, it's
3 not. I'm simply pointing out the Act did not make
4 that requirement.

5 **COMMISSIONER CLARK:** I'm just asking you
6 from a commonsense point.

7 **WITNESS VARNER:** No, I do not.

8 **COMMISSIONER CLARK:** So you think just and
9 reasonable does include that they ought to be based on
10 cost.

11 **WITNESS VARNER:** Yes. When I say based on
12 cost I don't mean set them equal to cost, but you
13 ought to know what the costs are and establish your
14 prices in relation to the cost.

15 **COMMISSIONER CLARK:** But that's your
16 argument on all of the costs; it should be based on
17 cost.

18 **WITNESS VARNER:** Yes.

19 **COMMISSIONER CLARK:** Okay. What I conclude
20 from that is you would agree that the same standards
21 for pricing collocation -- the same standards used for
22 those specifically enumerated in the Act should also
23 be applied to collocation.

24 **WITNESS VARNER:** Yes, if you could do it.
25 Now, the one area where we can't do it is virtual

1 collocation because we have the problem with the
2 tariff being in effect.

3 **COMMISSIONER CLARK:** Well, is that an
4 impossibility or simply a choice you all have made?

5 **WITNESS VARNER:** Again, subject to whether
6 or not we can, in fact, have separate tariffs for each
7 state, subject to whether that can be done or not,
8 that would determine whether it's an impossibility or
9 a choice. And I don't know the answer to that
10 question.

11 **COMMISSIONER CLARK:** Okay.

12 **Q** (By Mr. Lamoureux) Let me see if I can sum
13 up my questioning.

14 Would you agree with me, Mr. Varner, that
15 there's nothing in the Act that specifically says that
16 prices for collocation are exempt from the pricing
17 standard of 252(d)(1)?

18 **A** Yes. 252(d)(1) lists the sections for which
19 its applicable and collocation is not one of them.

20 **Q** But would be of the sections that is
21 applicable is 251(c)(3), which is the requirement of
22 providing access to unbundled elements?

23 **A** That's correct. But that's not the
24 collocation section.

25 **Q** You do agree with me that collocation is

1 means of providing access to unbundled elements,
2 correct?

3 A And subject to the explanation I gave
4 earlier, depending on how you define access, what I
5 will typically think of as access, it is a way of
6 getting access to unbundled network elements. But
7 obviously the way the Act is set up, they are looking
8 at it somewhat differently.

9 Q BellSouth intends to make physical
10 collocation and virtual collocation available as a
11 means of getting access to unbundled elements; isn't
12 that correct?

13 A Yes. Again, subject to the way that I use
14 the term.

15 Q You mentioned that the Florida BellSouth
16 virtual collocation tariff was approved in 1994; is
17 that correct?

18 A The FCC tariff.

19 Q Was that true for the Florida tariff as
20 well?

21 A I don't recall for the Florida tariff what
22 the date was.

23 Q Do you recall how -- within ballpark
24 figures? Was it two, three, four years ago?

25 A It was around the same time. I can't

1 remember whether it was -- I believe it was shortly
2 after the FCC.

3 Q Okay. BellSouth was rate-of-return
4 regulated in Florida in 1994; is that correct?

5 A We were under an incentive sharing plan in
6 1994.

7 Q Would you agree with me that an incentive
8 sharing plan is a form of rate based regulation?

9 A It has a lot of the features of rate based
10 regulation but it departs somewhat from the norm with
11 respect to rate base regulation, in that you have the
12 sharing bands and so forth associated with it. It's
13 certainly a form of rate base regulation.

14 Q Now, the prices that BellSouth is proposing
15 for this proceeding are set forth in Exhibit AJV-1 to
16 your testimony; is that right?

17 A Yes.

18 Q Could you turn to that exhibit for me for a
19 moment? Just so I'm clear, we should be working off
20 the revised Exhibit AJV-1 that came with your rebuttal
21 testimony; is that right?

22 A Filed on December 9th. Yes.

23 Q Now, looking only at the loop and the port
24 elements that are on their exhibit, BellSouth does not
25 advocate setting prices for those loop and port

1 elements at the TSLRIC of those elements; is that
2 correct?

3 A That's correct.

4 Q BellSouth also does not advocate setting
5 those prices at TSLRIC plus shared and common costs,
6 correct?

7 A That's right.

8 Q Built into BellSouth's loop and port prices
9 is an amount which you called this morning the
10 residual recovery requirement?

11 A Yes.

12 Q Okay. So in the column to the right, under
13 "proposed rates," where it says "recurring," the
14 recurring rates for all of the loops and the ports
15 under there include in them the residual recovery
16 requirement?

17 A That's correct.

18 Q None of the rates proposed by BellSouth that
19 are adopted by the Florida Commission as a result of
20 the AT&T/BellSouth arbitration included a residual
21 recovery component, did they?

22 A They could or they couldn't. You can't tell
23 from the way that the rates were set. You mean the
24 rate, the permanent rates? The rates other than the
25 ones we're dealing with here?

1 Q That's right.

2 A Yes. You can't tell from that.

3 Q BellSouth, however, did not expressly
4 advocate something called a residual recovery
5 requirement during the AT&T/BellSouth arbitration in
6 Florida, did it?

7 A That's correct. The way that the cost
8 studies were done at that time, there was no way to
9 identify and set that part out separately. We had
10 some TSLRIC studies that were previously done on the
11 methodology we previously used, and those were the
12 studies that were presented.

13 So whatever those studies produced, those
14 were the costs that the Commission had in front of
15 them. And they set prices in that proceeding
16 sometimes equal to those numbers, sometimes above
17 those numbers, to generate a contribution.

18 Well, when they set a price above those
19 numbers, that amount above a TSLRIC cost would be
20 going towards the residual recovery requirement. We
21 didn't expressly identify an amount for a residual
22 recovery requirement because you couldn't, but they
23 did set some prices about the TSLRIC.

24 Q Let me see if I understand that. Are you
25 saying that any of the prices that came out of the

1 AT&T/BellSouth arbitration in Florida that were set
2 higher than BellSouth's proposed TSLRIC would, by
3 definition, include an amount for residual recovery?

4 A Yes, they would, to the extent that that
5 item was applicable to that rate element. Take, for
6 example, a loop. They set a loop price above the
7 TSLRIC cost. That's a contribution, is what it's
8 called. That's the amount above the cost that's
9 called a contribution.

10 What the contribution does is the
11 contribution goes to cover other costs. The first
12 thing you cover, obviously, is common costs. Once
13 common costs are covered, then the next thing you have
14 to recover is you have to cover the residual recovery
15 requirement. Now, if the price was set far enough
16 above cost to cover all those costs, then the price
17 would actually contain a profit. But since we did not
18 identify how much the residual recovery requirement
19 was -- wasn't able to -- all we know is that the price
20 is above the incremental cost and it may very well be
21 making a contribution towards the residual recovery
22 requirement, but you can't tell because it wasn't
23 separately identified.

24 Q Let me just work with a concrete example.
25 If I go back to the arbitration and look at

1 BellSouth's TSLRIC studies for the 2-wire loop and I
2 see that the proposed TSLRIC for the 2-wire loop was,
3 say, \$15, and the price for that loop was set at \$18,
4 you're telling me that that \$3 difference would be
5 contribution toward the residual recovery requirement?

6 A I'm telling you it's a contribution towards
7 common costs, residual recovery requirement, and if,
8 in fact, the extra \$3 was sufficient to cover those
9 costs, then it would actually also have a profit
10 contained in it. But you can't tell how much is the
11 common cost or how much is the residual recovery
12 requirement using of that \$3 because those items
13 weren't separately identified. All you know is
14 there's a \$3 contribution going towards covering other
15 costs of the firm.

16 Q Let me see if I can give this example.
17 Let's say I figured out that the shared and common
18 cost of that loop was \$3. So then it would be the
19 case that in that example there was no contribution
20 towards the residual recovery requirement because the
21 \$3 covered only the shared and common cost?

22 A That's correct. But there is nothing in the
23 proceeding that would allow you to be able to make
24 that determination.

25 Q Did BellSouth propose separately, or

1 identify separately in that proceeding what its shared
2 and common costs were for each of the elements?

3 A I don't remember.

4 Q Now, generally the way the residual recovery
5 requirement works, if there was a percentage decrease
6 for some reason in the TSLRIC for 2-wire ADSL loops,
7 there would then be a corresponding increase in the
8 residual recovery requirement so that BellSouth's
9 proposed price would stay about the same. Isn't that
10 correct?

11 A No.

12 Q Could you turn to your deposition for me.
13 Page 94. Bottom of 93 and into 94. Looking at Lines
14 23, on Page 93, didn't you say if it was just a
15 percentage type change of something, that would be
16 generally what you could expect to happen?

17 A Yes, sir, I said that, and I'll go ahead and
18 explain.

19 If you're just making a percentage-type
20 change, you would expect for those to go in the same
21 direction. And, in fact, as we've made the revisions
22 to cost studies we've seen that happen. That as you
23 reduce the TSLRIC, the residual recovery requirement
24 goes up. But our experience has been is that they
25 don't offset each other. They come reasonably close

1 but they don't offset each other. And in some
2 changes, such as the one we filed on December 9th,
3 there's no relationship at all. It depends on what
4 type of change is made in a TSLRIC study whether that
5 -- you know, that relationship occurs or not.

6 Generally, that is the right -- that is the
7 correct relationship; that when the TSLRIC goes down,
8 the residual recovery requirements goes up. They
9 don't off-set each other; they do move in that general
10 direction, but there are some changes that are made
11 wherein they don't do that.

12 Q Let me try and ask my question just a little
13 bit differently then.

14 Generally, the way the residual recovery
15 requirement works, there was a percentage decrease in
16 the TSLRIC for a 2-wire ADSL loop, there would be an
17 increase in the residual recovery requirement to
18 account for the percentage decrease?

19 A Not to account for it entirely. What
20 happens is that's the general direction in which they
21 move.

22 Q And by general direction you mean as the
23 TSLRIC were to go down, the residual recovery
24 requirement would go up?

25 A Yes, generally. But as I said, we have had

1 changes wherein there are exceptions to that, but more
2 often than not that's the general direction that it
3 follows.

4 Q And because of that, the price stays roughly
5 the same, doesn't it?

6 A When that happens, that's correct. The
7 price stays -- you know, the prices of some of those
8 do, so if one goes down, the other goes up; the price
9 only changes by the difference between the two.

10 Q So looking at your chart here, AJV-1, the
11 TSLRIC that you have listed for the elements is pretty
12 much irrelevant, isn't it, because the price is always
13 going to be the same; when the TSLRIC goes down, the
14 residual recovery requirement goes up?

15 A No, it's not irrelevant. What happens, as I
16 said, for items other than the loops and the ports and
17 virtual collocation, of course, because it's proposed
18 at tariff rates, the prices we proposed are set equal
19 to the TSLRIC plus an allocation of shared and common
20 costs. So that is, in fact, a price there.

21 What it tells you for the loops and the
22 ports is how much is included for the residual
23 recovery requirement, which as you described in the
24 previous proceeding, was something that was unknown.
25 So now you can see how much the residual recovery

1 requirement amount is for each of those items by
2 knowing what the TSLRIC is.

3 Q But with respect to the loops and ports,
4 BellSouth is not advocating setting prices at the
5 TSLRIC, right?

6 A We're not setting -- advocating TSLRICs for
7 any of them, loops and ports included.

8 Q For the loops and ports which have a
9 residual recovery requirement, really the TSLRIC is
10 pretty much irrelevant because all you ever look at is
11 the price?

12 A No. As I said -- that's not the price, if
13 that's what you mean by irrelevant. The price is what
14 is shown in the recurring column. By looking at the
15 price and comparing it to the column that says "TSLRIC
16 plus shared and common" you can identify how much has
17 been included for the residual recovery requirement.

18 For example, you look at the loop
19 distribution, the rate is \$12.57, the TSLRIC plus
20 shared and common is \$10.24, so it's about \$2.30-some
21 cents that's the residual recovery requirement.

22 Q BellSouth's objective in this proceeding is
23 that all prices for unbundled network elements should
24 be set at actual cost; is that correct?

25 A Yes.

1 Q Okay. Now, it's BellSouth's position that
2 any kind of rule that price should equal any kind of a
3 cost standard sets up a situation as unworkable?

4 A Yes.

5 Q Isn't that correct?

6 A Yes.

7 Q So by your own definition, BellSouth's
8 position that all prices should be set at actual cost
9 is unworkable, isn't it?

10 A No, it's not. What I was describing there
11 is that if you establish as a policy matter that all
12 of your prices are going to equal cost, for one thing,
13 there's no way you can implement that in this
14 proceeding, because we're only dealing with a few
15 network elements.

16 Now, if you wanted to establish that for
17 these items you want your prices to equal actual cost,
18 then fine, yes, you can implement that. But
19 establishing as a policy matter that all of my prices
20 are going to be set equal to cost becomes unworkable
21 for a number of reasons. One is you can't do it.
22 Another reason is that it really doesn't make sense in
23 a competitive marketplace to have that type of a rule
24 because what it going to happen is the marketplace is
25 going to help you make those decisions about what

1 prices customers are willing to take.

2 So that's what I was getting at when I said
3 establishing that as a rigid rule. If you want to
4 establish it as a policy matter, it's going to be
5 applied to everything; not just the few network
6 elements that are in this proceeding.

7 Q Mr. Varner, wouldn't you agree with me that
8 the objective that all prices should be set at actual
9 cost is a cost rule or a cost standard?

10 A All prices?

11 Q Uh-huh?

12 A Yes, that would be a cost standard.

13 Q Okay.

14 A Or a pricing standard. It's not a cost
15 standard; that would be a pricing standard.

16 Q Okay. Could you turn to Page 27 of your
17 deposition, please. (Pause)

18 Q I'm looking at Line 15. Didn't you say in
19 your definition "If you establish any kind of a rule
20 that price is equal, should be equal, to any kind of a
21 cost standard, if it's economic cost or any other cost
22 standard, in all cases you set up a situation that's
23 unworkable."

24 A That's right. That's exactly what I said
25 and that's what I was explaining earlier.

1 Q And BellSouth's price cost standard in this
2 case is that all prices should be set equal to actual
3 cost?

4 A The pricing -- the pricing standard that
5 we're using for the unbundled network elements -- and
6 it's all unbundled network elements, is that the
7 prices should be set equal to actual cost. We have
8 not established, however, as a general pricing rule,
9 that all of our prices should be set equal to actual
10 costs. We know that that's impossible to do. But for
11 these unbundled network elements, we've established
12 that the prices should be as low as you would expect
13 for them to be in a competitive marketplace, and as
14 low as we could make them for -- consistent with sound
15 business practices, and that is to set them equal to
16 the actual cost of providing the elements. Those are
17 the lowest prices that we could charge that would be
18 sound business.

19 Q All of the prices on AJV-1 are set so as to
20 allow BellSouth to recover its actual cost; is that
21 correct?

22 A Yes. Except for the virtual collocation, of
23 course, which is set equal to the tariff prices. And
24 you can see the relationship to costs when you look at
25 that. The costs are there and you can see some are

1 higher, some are lower. As I said, the objective is
2 to set them at equal actual cost, but virtual
3 collocation exhibits a situation wherein trying to
4 have that type of rule becomes unworkable.

5 Q Now, it's BellSouth's position that prices
6 for unbundled elements should include the historical
7 costs of unbundled elements with respect to the loops
8 and ports; is that correct?

9 A Yes. Where historical costs, the residual
10 recovery requirement is what I mean when I say
11 historical costs.

12 Q Is there a difference of the residual
13 recovery requirement and historic costs?

14 A No. I use them synonymously in my
15 testimony.

16 Q The Act says nothing of recovery of historic
17 cost specifically, does it?

18 A No, it doesn't. The Act doesn't specify any
19 specific cost standard, but it clearly contemplates
20 and mandates, I believe, the recovery of your actual
21 costs.

22 Q Now, at Page 19 of your direct testimony you
23 say that BellSouth is entitled to recover all of its
24 actual costs of doing business.

25 A Yes.

1 Q Is that correct?

2 A Yes.

3 Q Can you point me to a decision by the
4 Florida Public Service Commission that specifically
5 says that BellSouth is entitled to recover its actual
6 cost of doing business?

7 A Not offhand I can't.

8 Q Likewise, the Act says nothing specifically
9 about recovery of the actual costs of doing business,
10 does it?

11 A No, it does not. As I say, the Act does
12 not -- doesn't talk about any specific cost standard.
13 But what it does say is that the prices have to be
14 just and reasonable. And it does make provisions for
15 a profit. And you cannot have a profit until you
16 first recover all of your actual costs. I think those
17 two provisions of the Act clearly mandate that the
18 prices at least cover actual cost.

19 Q But there's no rule, statute, decision that
20 you're aware of that specifically says BellSouth is
21 "entitled", as you used that word in your direct
22 testimony, to recover its actual costs of doing
23 business?

24 A Again, not that I can recall. Obviously
25 when you were back under rate-of-return regulation

1 that's what the Commission was charged with doing back
2 during that time. So I'm sure that those decisions
3 would have that kind of language in it. But I
4 couldn't -- couldn't point to anything specifically
5 and say that that's what was there.

6 Q Now, as I understand your testimony, you
7 believe that the phrase "based on cost" as it appears
8 in the Act does not mean equal to cost; is that
9 correct?

10 A That's correct.

11 Q But you do agree that incremental costs
12 establishes a lower bound or floor which prices should
13 not go below; is that correct?

14 A A form -- that's correct, a form of
15 incremental cost; long run incremental cost would be
16 the price floor.

17 Q So is it correct that under BellSouth's
18 interpretation of the phrase "based on cost," any
19 price that is greater than long run incremental cost
20 is based on cost?

21 A Yes.

22 Q And did I hear you agree this morning that
23 the prices that you have proposed for virtual
24 collocation are also based on cost?

25 A Yes.

1 Q And some of those prices are actually below
2 incremental cost; is that correct?

3 A Yes. They are below the current incremental
4 cost. They were based on cost at the time they were
5 filed. But obviously, over time, the cost of change
6 for provisioning those, and the current prices, do not
7 reflect the current cost of providing the virtual
8 collocation. But they were based on cost at the time
9 they were filed and approved.

10 Q So by BellSouth's standards any price, be it
11 above cost or below cost, is a price based on cost; is
12 that correct?

13 A No, that's not correct.

14 Q Now, either in your summary or in response
15 to a question from one of the Commissioners this
16 morning, I think I figured out that the residual
17 recovery requirement, the RRR as we call it sometimes,
18 is essentially an investment differential between the
19 TSLRIC and actual cost. Would you agree with me on
20 that?

21 A No, it's not an investment differential,
22 it's a monthly cost differential. It takes the
23 investment and converts it to a monthly cost. So it's
24 not the investment itself, it's the depreciation
25 expense and the return and the taxes associated with

1 the investment.

2 Q But is the residual recovery requirement
3 another way of saying that the TSLRIC price will not
4 recover all of the investment that BellSouth has put
5 into a particular element?

6 A Yes, that's the major thing, I believe, that
7 gives rise to it, is that the TSLRIC plus shared and
8 common, would not cover the actual costs of the
9 equipment that we'll be using. Remember, when we do
10 the TSLRIC studies we go out and we obviously use
11 forward-looking technology practices and so forth.
12 But we're actually going to be providing these
13 services to AT&T and MCI for the next, roughly, 30
14 months. That's the only time period that these prices
15 are good for; the remaining life of the agreement --
16 which, if I remember correctly, it was a three-year
17 agreement, it's about six months old.

18 So the equipment we're actually going to be
19 using to provision these elements to AT&T and MCI
20 during that ensuing 30-month period may not reflect,
21 you know -- those items, but that's the cost that
22 we're going to incur to provision those items to you,
23 and that's the cost that we're trying to recover.

24 Q All right. Let me see if I can ask a
25 broader question. I heard you talk about residual

1 recovery requirement and investment somewhat together
2 in a earlier answer you gave this morning. All I want
3 to know is what is the relationship between investment
4 and the residual recovery requirement?

5 A That's the carrying charges on the
6 difference in cost between what it would actually cost
7 us to provision these elements to you, and the TSLRIC
8 plus shared and common. What gives rise to that
9 difference is investment.

10 Q Okay. So let's take, for example, the
11 2-wire ADSL loop.

12 A Yes.

13 Q By including the residual recovery
14 requirement, are you saying there that the TSLRIC,
15 plus the shared and common cost, if that were set as
16 the price, that would not be sufficient to recover all
17 of the investment that BellSouth has made in 2-wire
18 ADSL loops?

19 A No. It would not be sufficient to recover
20 the investments that we would be utilizing to
21 provision ADSL loops to AT&T and MCI if they were to
22 purchase them today, or, you know, the next year,
23 couple years or so.

24 Q Okay. And as I understand it, the residual
25 recovery requirement was proposed only for those

1 elements where BellSouth had made a sufficient
2 investment such that the TSLRIC, plus the shared and
3 common costs, would be deficient to recover all of the
4 costs for those elements?

5 A Could you repeat -- I didn't quite --

6 Q Sure.

7 A I didn't follow you all the way through that
8 question.

9 Q The residual recovery requirement is not
10 proposed for all unbundled elements?

11 A That's correct.

12 Q And it is proposed, as I understand it, only
13 for those elements that have a sufficient investment
14 component in the cost, such that the TSLRIC plus the
15 shared and common costs would not be sufficient to
16 recover all of the investment. Is that generally
17 correct?

18 A That's generally the result. What we've
19 done is we've identified those items wherein the
20 actual cost is substantially higher than the TSLRIC
21 plus shared and common. What makes the actual cost
22 higher we found when we looked at that was the fact
23 that there were large -- those items had large amounts
24 of long-lived plant investment was what was causing
25 the actual costs to be higher than the TSLRIC plus

1 shared and common. So what you end up with is you end
2 up with the residual recovery requirement being
3 applied to those items that have substantial amounts
4 of long plant investment in them, because that's what
5 gives rise to the difference.

6 **COMMISSIONER DEASON:** Let me ask a question
7 at this point, please. If that's the end result, why
8 go through the exercise at all of doing a TSLRIC
9 analysis?

10 **WITNESS VARNER:** A couple of reasons. One
11 is that for items other than loops and ports, we look
12 at -- TSLRIC seems to give you an amount that's pretty
13 close to the actual cost. Once we determine what was
14 causing the difference between actual cost and TSLRIC,
15 for the remaining items we feel confident that you're
16 getting a price based on -- if you use TSLRIC plus
17 shared and common that allows you to recover your
18 actual costs, or pretty close to it.

19 So it only became necessary to deal with
20 this difference for those items that had that
21 substantial difference. And we've also found that
22 that varies by state. It's, at most, loops and ports.
23 In some states it's only loops. So the reason for
24 going through it is to determine where it is that you
25 have the difference, and then to identify it so that

1 you only apply it in the cases where it's significant.

2 Our objective is to really only deal with
3 this item where it's significant; if it's not
4 significant, it's not worth it to go through the
5 exercise.

6 **COMMISSIONER DEASON:** But what you're
7 telling me is you've done the analysis, and those
8 situations where it doesn't materially differ from
9 actual investment, you use that, you use TSLRIC, just
10 not materially different.

11 **WITNESS VARNER:** Yes.

12 **COMMISSIONER DEASON:** In those situations
13 where it's materially different, well, then you're
14 going through an exercise to add an increment to add
15 to the TSLRIC.

16 **WITNESS VARNER:** Okay.

17 **COMMISSIONER DEASON:** My question is for
18 efficiency purposes, why not just do it actual
19 investment, actual cost; do it and say, "This is the
20 standard we're using."

21 **WITNESS VARNER:** Yes, I think I can answer
22 that. I see the confusion there.

23 We did not do the actual cost study for
24 every unbundled network element. We determined actual
25 cost for -- I think the first ones we did were loops,

1 and we had TELRIC actually was the cost that we had as
2 the forward-looking cost. And we noticed that there
3 was a difference. So then we started investigating
4 why was there a difference? What's causing there to
5 be a difference for this item. Then we determined --
6 that enabled us to determine that what's causing this
7 is the investment. It's the amount of investment in
8 the actual cost versus the forward-looking. But once
9 we knew that then we knew that this is only going to
10 be an issue in items that have significant amounts of
11 investment. So it was just a matter of looking at the
12 items and saying, "Okay, which of these have
13 significant amounts of investment in it?" The ones
14 that didn't, there was no need to even look at actual
15 cost for. There were only, really, two that had
16 significant amounts, and that was loops and ports. So
17 those were really the only two that we looked at. We
18 didn't go through and do them all and then decide that
19 they were different.

20 **COMMISSIONER JACOBS:** May I ask a question?
21 It's kind of following on Commissioner Deason's
22 question. When you do that -- let me step back for a
23 moment.

24 In the world prior to your doing this cost
25 study for purposes of ALECs, you reached that point in

1 your analysis, would there have been any consideration
2 for how that loop would have been implemented? What
3 would be the density? What would be the distribution
4 of services on there? In other words, would there
5 have been some kind of usage analysis done there?

6 **WITNESS VARNER:** The door closed and it cut
7 out part of what -- the very last thing you said.

8 **COMMISSIONER JACOBS:** Would there have been
9 any kind of a usage factor in that analysis?

10 **WITNESS VARNER:** No, not on loops. On
11 loops -- when we develop a cost, if you will, for a
12 loop, we're developing a cost of that pair of wires,
13 if you will, that connects you from the wire center to
14 the premises. And that pair of wires is used for a
15 number of different things; a number of different
16 types of calls and so forth. But it's still one pair
17 of wires. And that's what we're developing the cost
18 for. Now, what it is used for doesn't change the cost
19 of establishing a pair of wires from that central
20 office --

21 **COMMISSIONER JACOBS:** Because you do it --

22 **WITNESS VARNER:** -- to the premises.

23 **COMMISSIONER JACOBS:** I'm sorry, I
24 interrupted you -- because you're doing it totally.

25 **WITNESS VARNER:** That's correct. And we're

1 trying to recover the cost here of establishing that
2 pair of wires, which is particularly important in
3 unbundled network elements because that's what we're
4 offering to an ALEC, a pair of wires. The ALEC
5 determines how they are going to use that pair of
6 wires. We don't have -- we can't have a different
7 price based on them using it one way versus another
8 way.

9 **COMMISSIONER JACOBS:** My question had more
10 to do with the density of use more so than any
11 particular type of use. What I'm driving at is --
12 I'll just leave it at that.

13 **WITNESS VARNER:** It sounds like what you're
14 driving at is sort of the deaveraging question, am I
15 correct on that?

16 **COMMISSIONER JACOBS:** That's why I backed
17 away from that. I don't want that to -- come at its
18 own time.

19 **Q** **(By Mr. Lamoureux)** Let me follow up with
20 something you just said. You said you will offer
21 CLECs a pair of wires and it's up to the CLECs to
22 determine what they do with that pair of wires.

23 **THE WITNESS:** What use -- services they put
24 over that pair of wires. For example, when you buy an
25 unbundled loop from us, you determine what are the

1 retail services; they go over that unbundled loop. We
2 give you a, for example, 2-wire analog loop. That
3 means any services that can utilize a 2-wire analog
4 loop you would put over that 2-wire analog loop.

5 Q ADSL is a service, isn't it?

6 A Well, ADSL is a service and what we offer as
7 an unbundled element is an unbundled loop that is
8 capable of supporting ADSL service.

9 Q Fine. It's the same as a twisted pair
10 copper wire, isn't it?

11 A No. It has different loop characteristics
12 than, for example, a 2-wire analog loop. That's why
13 it's a separate element. It's shorter in length.
14 There's a limitation on -- and I can't remember the
15 numbers. I think Mr. Baeza can probably tell you the
16 exact technical parameters. But the length is
17 shorter. You're limited about how long that loop can
18 be. And I think it requires a larger size cable, a
19 larger gauge cable than a regular 2-wire analog loop
20 does.

21 Q Does 9,000 feet sound about the right
22 distance?

23 A I can't remember whether nine was HDSL or
24 ADSL. I think nine was HDSL, and ADSL, I believe, was
25 18; 16 or 18. But Mr. Baeza can tell you exactly.

1 Q Your testimony is that ADSL and HDSL loops
2 are physically different than a 2-wire loop that would
3 be used to provide plan old telephone service?

4 A The technical parameters for them are
5 physically different; they have physically different
6 technical parameters that apply to them.

7 Q Well, for other than the loops and ports on
8 your exhibit, is the actual cost lower than the TSLRIC
9 that BellSouth has calculated for those elements?

10 A For the ones other than those? No, we would
11 expect it would be higher. We haven't calculated it.
12 But we don't think it would be significantly different
13 one way or the other. Because the thing that makes
14 the difference is the amount of the long lived plant
15 investment, and there isn't much of that in those
16 other elements.

17 Q Now, looking at Page 2 of your exhibit
18 there's no residual recovery requirement proposed for
19 any features associated with the port.

20 A That's correct. Because there's no price
21 proposal features.

22 Q Now, you have TSLRIC cost associated with
23 each of those features?

24 A That's correct.

25 Q But you don't have a residual recovery

1 requirement identified for any of the features?

2 A That's correct.

3 Q So I take it from your earlier explanation
4 then that that must mean that BellSouth does not have
5 a significant amount of investment in any of those
6 individual features; is that correct?

7 A Well, we don't believe that there's a
8 significant amount of long lived plant investment.
9 But the reason you don't see -- there is another
10 reason you don't see anything on here is that we're
11 not proposing a price for features either. The only
12 price being proposed is for the 4-wire analog port,
13 including all of the features. And if you look at
14 that price, what you have is the TSLRIC plus shared
15 and common costs, which is the port with no features,
16 plus all the features of \$16.27, and a proposed rate
17 of \$17.32. So you have a residual recovery
18 requirement of about \$1 -- a little over -- about
19 \$1.15 or something like that. \$1.05.

20 Q In order to get the price for the 4-wire
21 analog port with all of the features, BellSouth
22 calculated the cost for the port itself and the cost
23 for each of the features and added them up to get a
24 price for the port with all of the features, right?

25 A That's correct.

1 Q Okay. BellSouth calculated a residual
2 recovery requirement for the port itself without any
3 of the features?

4 A That's correct.

5 Q BellSouth has no residual recovery
6 requirement associated with the features themselves?

7 A That's correct.

8 Q So I draw from that the conclusion that
9 there is no substantial investment in the features?

10 A That's correct. It's principally processor
11 time is what is included in the features.

12 Q Now, look at AJV-1, can you tell me what
13 price AT&T will have to pay in order to collocate in a
14 particular central office in Florida?

15 A I can't tell you in total. I can tell you
16 the prices AT&T pays for the various piece-parts of
17 the collocation arrangement that they may order. But
18 the total price is going to depend on what that
19 collocation arrangement is that AT&T orders.

20 Q Let me use a specific example. Let's say
21 AT&T wants to collocate in BellSouth's central office
22 in Tallahassee.

23 A You can't do that.

24 Q Let's try Miami. Is there a central office
25 in downtown Miami?

1 A Hialeah.

2 Q I'm sorry, what?

3 A Hialeah.

4 Q Okay. Let's take that central office. Can
5 you tell me, looking at AJV-1, how much AT&T will have
6 to pay in order to collocate in that central office?

7 A Not without more information than that from
8 AT&T I can't.

9 Q So there's no way to tell what the price
10 would be for collocation in that central office?

11 A Oh, there is, but I need more information
12 than what you just gave me.

13 Q What information do you need?

14 A Well, for example, I would need to know,
15 first, how many square feet you wanted in the office;
16 what type of equipment that you were planning to put
17 into the office so I could determine whether or not
18 there needed to be any additional heating and air
19 conditioning work; whether we needed to extend the
20 fire control systems in the office, or anything of
21 that nature.

22 What happens is then someone would go to the
23 Hialeah central office and determine what work needs
24 to be done in that office in order to make whatever
25 number square feet AT&T wanted available, and make

1 that space suitable for containing the equipment that
2 AT&T wanted to put in it.

3 For example, if AT&T came in and said "All
4 right, I want hundred square feet in the Hialeah
5 central office and I want a POT bay," then that's what
6 I'm going to put in that space. Then we could send
7 people to the Hialeah central office, they could look
8 at what equipment is there, what space is available,
9 and decide what work needs to be done and come back
10 and quote AT&T a price for doing that. That's what
11 the application fee under collocation is for; is for
12 doing all of that work.

13 We would tell you that. And we'd also come
14 back and then -- I don't know if I said this or not --
15 but we'd come back and tell you what it would cost to
16 do that work.

17 Q Let's say I tell you, sitting here today,
18 that AT&T wants to lease hundred square feet of that
19 central office and wants to put in a 5ESS switch.
20 Sitting here today, can you look at AJV-1 and tell me
21 what the price for collocation would be in that
22 central office?

23 A No. No, there's no way I can do that.
24 That's what the application process is for. There's
25 an application fee under physical collocation, that

1 when you tell me that information -- which is typical
2 of what a calculator would tell me -- then I would
3 send somebody to that office, and say, okay, this is
4 what AT&T wants to do. Now, what work needs to be
5 done in that office in order to accommodate that?

6 They would go through that office and
7 determine what work needs to be done. If you said
8 it's a 5ESS switch, one of the first things they'd
9 look at is whether or not you needed to increase the
10 capacity of the ventilation systems, heating and air
11 conditioning, because that would generate additional
12 heat in the office.

13 Another thing they would look at, obviously,
14 is whether the power plant in the office was
15 sufficient to handle that additional power load. And
16 if not, what needed to be added to the power plant.
17 Whether the fire control systems in the office, once
18 they determine what space -- where that space was
19 going to be located, whether they had sprinklers or
20 whether they needed to be extended over into that
21 space in the event there was a fire.

22 So, making those determinations and
23 identifying those specific details of what needs to be
24 done is what is done as part of the application
25 process. Once that is all done, then we come back and

1 say, okay, you wanted to put this in the Hialeah
2 office; this amount of space. This is what it would
3 cost to make that space ready and capable of handling
4 your request.

5 Q Okay. AJV-1 is BellSouth's proposed prices
6 for this proceeding?

7 A That's correct.

8 Q Now, I want to make sure as I understand is
9 there's no way I can look at AJV-1 and determine for
10 any particular central office in Florida what the
11 price AT&T would have to pay to purchase collocation
12 in that central office?

13 A Well, you could if you were given enough
14 information.

15 Q All right. If I gave you all of the
16 information you just requested -- I haven't submitted
17 an application, however.

18 A Okay. You have not submitted an
19 application.

20 Q For our central office.

21 A All right.

22 Q I cannot look at AJV-1 and use that
23 information to figure out what price BellSouth is
24 going to charge me to purchase collocation in a
25 particular central office?

1 A Oh, no, you can't. Because that's what the
2 application does. Once you -- in order to determine
3 what the cost of the collocation arrangement is, the
4 types of things I just described, would have to be
5 determined for the specific office that you wanted
6 collocation in.

7 And the only way to determine that is that
8 once you tell us, yes, I want -- you know -- or you
9 could just come in and say, "I just want to know what
10 the price is for collocation in that office." And you
11 go through the application process. And we'll be able
12 to tell you exactly what it is that -- what it would
13 cost to make whatever space available and capable of
14 handling whatever it is you wanted to do in that
15 office. But that's what the application process is
16 for.

17 Q Just so I'm clear, the beginning of your
18 answer was you cannot determine what the price is
19 prior to the application?

20 A Prior to the application, no, you can't; we
21 can't either.

22 Q BellSouth has about 200 central offices in
23 Florida; is that correct?

24 A Yes.

25 Q 197. Does that sound about right?

1 A That's the latest number I've heard.

2 Q Looking at Exhibit AJV-1, would you agree
3 with me that if AT&T wanted or needed to purchase
4 collocation -- I'm talking physical collocation -- in
5 every BellSouth central office in Florida, that would
6 cost AT&T no less than approximately \$2 million?

7 A I don't know. I haven't done the arithmetic
8 so I can't tell you.

9 Q Would you agree with me that for any
10 particular central office, it's going to cost at least
11 about \$10,000 to get collocation in that central
12 office, and that's just the addition of the
13 application fee of little more than 7,000 and
14 purchasing one cable, which is a little more than
15 2,000?

16 A That sounds about right.

17 Q So doing the math, about \$10,000;
18 multiplying that by about 200 central offices, if AT&T
19 wanted or needed to buy physical collocation in every
20 BellSouth central office, it would cost AT&T no less
21 than \$2 million to do that?

22 A If you wanted space in each and every
23 central office in the state.

24 Q And once you add in the price of space
25 preparation and other aspects of collocation, it

1 frankly would be much more than that? Would you agree
2 with me?

3 A Yes. If you want it in every office in the
4 state but that's not typically what we found. People
5 collocate in the office, they put their equipment in
6 there and they serve, you know, customers throughout a
7 pretty broad geographic area. We haven't had a
8 request for every office in the state.

9 Q Now, these are just the up-front costs for
10 collocation. Right? What needs to be paid before you
11 ever even move into the space?

12 A When you say "up front" you're talking about
13 the application and the space preparation?

14 Q Right.

15 A Yes. Those are the nonrecurring costs.

16 Q Now, in addition to those, assuming I buy a
17 hundred square feet collocation space in each
18 office -- again this is a hypothetical -- I'll have to
19 pay \$148 per month per central office, or nearly
20 \$30,000 for the entire state; is that right?

21 A 149.18 is what I have.

22 Q I rounded that to 150 and multiplied it
23 by --

24 A Great.

25 Q -- 200 and got about \$30,000 per month.

1 A Per month for the space rental, yes.

2 Q Now, one of the reasons you can't tell me
3 what the price would be for collocation for any
4 particular central office is that the BellSouth
5 proposed price for space preparation is calculated on
6 what's called an individual case basis; is that
7 correct?

8 A No, that's not the reason I can't tell you
9 the price. The reason I can't tell you the price is
10 because each office that has to be looked at
11 individually to make a determination of what work has
12 to be done. That work is, in fact, what you pay for
13 in the space preparation.

14 Space preparation is on an individual case
15 basis because of the fact that each office, the
16 requirements and the work that has to be done in each
17 office has to be determined specifically for that
18 office and for the collocator's needs. What type of
19 equipment the collocator wants to put in that office.

20 Q The price listed on your price chart for
21 space preparation as ICB?

22 A Yes, individual case basis.

23 Q So you won't know the price for space
24 preparation until after you submit the application,
25 after BellSouth looks at the central office and tells

1 AT&T, "We've looked at the central office; this is how
2 much it's going to be for space preparation."

3 A Yes.

4 Q Okay. And AT&T wouldn't know what the price
5 is for space preparation for a particular central
6 office until after AT&T pays the application fee.

7 A That's when we quote you a firm price.

8 Q That's after AT&T pays the fee?

9 A Yes.

10 Q -- for the application.

11 A That's the only way we can determine that.
12 The only way we can determine what it costs to
13 actually do this is to go through the application
14 process. I mean, the cost, that's \$7,000 in cost in
15 the application process. The reason for that is
16 that's the cost of us going out to the office and
17 making the determination of what all it takes in order
18 to make that space capable and available for you to
19 use.

20 If you use an analogy to a home builder,
21 that's the cost you pay for the blueprints. You go to
22 a contractor and you say, "Okay, I want a house." And
23 you give him a general description of what you want
24 and he comes back and gives you a set of blueprints.
25 That's essentially the costs you would have paid --

1 analogous to the cost you would have paid the home
2 builder to come up and put together that set of
3 blueprints for the house.

4 Q So for a particular central office, let's
5 say because BellSouth has to rip out all of the air
6 conditioning system, move around a bunch of walls,
7 make the space Americans With Disabilities Act
8 compliant, a whole host of things it has to do. The
9 space preparation, let's say it was \$300,000, just as
10 a hypothetical. AT&T wouldn't know that that's the
11 price BellSouth wanted to charge for space preparation
12 until after AT&T paid the more than \$7,000 application
13 fee for that space, right?

14 A If that's what it turned out to be. But you
15 included some things in there that would not be in
16 space preparation. For example, making it consistent
17 with American -- with the ADA. We have to do that
18 anyway. All of our buildings have to be ADA compliant
19 anyhow. So that would not be a part of space
20 preparation.

21 Q Let's clean up my example. Let's say for
22 whatever reason the space preparation fee that
23 BellSouth wants to charge is \$300,000 for a particular
24 central office. AT&T won't know that that's the price
25 BellSouth intends to charge for space preparation

1 until after AT&T pays the more than \$7,000 application
2 to fee for collocation for that central office?

3 A That's correct. Because BellSouth has no
4 way of being able to tell you that until it does the
5 work that the application fee applies for. It has to
6 do the work that is covered by the application fee
7 charged in order to be able to come back and tell you
8 that that's what it's going to cost to do this. To
9 say it on the home builder's analogy, the home builder
10 can't tell you how much it's going to cost to build
11 the house until he's designed it, comes up with the
12 blueprints and knows what the house is supposed to
13 look like. Then he can tell you what it's going to
14 cost him to build it.

15 Q Going back to my hypothetical for the entire
16 state, again if AT&T wanted or needed to physically
17 collocate in every BellSouth central office in
18 Florida, it would have to pay BellSouth about
19 \$1.4 million in application fees before it could ever
20 find out what price BellSouth wants to charge for
21 space preparation for those central offices; is that
22 correct?

23 A There's 7,000 times about 200 -- if you
24 wanted to know get a firm price on collocation for
25 every item, for every office, then, yes, that's what

1 you would pay. You'd get more than that. Obviously
2 the space preparation, that would be the cost for that
3 collocation arrangement; space preparation, cabling
4 and everything else that went with it. But space
5 preparation would be a part of it to the extent there
6 was any.

7 Q Do you know, does BellSouth customarily
8 charge an application fee to end-user customers to
9 prepare an individual case basis proposal, for
10 example, large control systems?

11 A For -- I'm not -- I'm not familiar with what
12 you're talking about.

13 Q For an end user customer, and it wants a
14 particular system set up by BellSouth,
15 telecommunications system. And BellSouth is going to
16 price that on an individual case basis, does BellSouth
17 typically charge that end user an application fee?

18 A I'm going to have to search my memory
19 because it's been a while since I dealt with that.
20 But when we give a firm quote on something like a
21 special assembly, for example, we do charge for a firm
22 quote.

23 Q Last question, Mr. Varner. Would you agree
24 with me that competition in the local exchange market
25 will benefit all consumers of local exchange services?

1 **A** I hope it will.

2 **Q** Do you think it will?

3 **A** I believe it will. I think it will.

4 **MR. LAMOUREUX:** I have no further questions.

5 **CHAIRMAN JOHNSON:** We're going to take a
6 30-minute lunch break. We'll reconvene at 1:00.

7 (Lunch recess.)

8 **CHAIRMAN JOHNSON:** We are going to go back
9 on the record. Do we have a preliminary matter?

10 **MR. PELLEGRINI:** Chairman Johnson, before
11 resuming with Mr. Varner, I'd like to make a
12 clarification with respect to the exhibit marked 8.
13 That's the confidential materials. It contains
14 documents labeled A through G and actually only
15 documents C and D should be made a part of Exhibit 8.
16 That is BellSouth's Stip-Con 2 and BellSouth
17 Stip-Con 1. Only those two exhibits should be
18 considered as part of 8. That may not have been as
19 clear as it needed to be earlier in the day.

20 **CHAIRMAN JOHNSON:** You stated that only --
21 which ones?

22 **MR. PELLEGRINI:** C and D.

23 **CHAIRMAN JOHNSON:** Will be a part of this
24 particular exhibit?

25 **MR. PELLEGRINI:** Yes. The others we'll deal

1 with later.

2 **CHAIRMAN JOHNSON:** Okay. I'll mark that for
3 the record. Thank you for the clarification.

4 Any other preliminary matters? Seeing none,
5 Mr. Melson.

6 **CROSS EXAMINATION**

7 **BY MR. MELSON:**

8 **Q** Thank you. Mr. Varner, I'm Rick Melson
9 representing MCI.

10 Let me start with a general proposition.
11 Mr. Klick's testimony states that an appropriate cost
12 model must be publicly available in a format that
13 allows interested parties to review and rerun it using
14 different input values. I believe that you agree with
15 that statement; is that correct?

16 **A** Generally, yes.

17 **Q** Now, I want to compare for a minute the
18 costing methodology proposed by BellSouth in this case
19 with the costing methodology that the Commission used
20 to set the permanent prices in the arbitration
21 proceeding. In both cases incremental cost, or
22 TSLRIC, is a part of that costing methodology; is that
23 correct?

24 **A** They are both -- yes, they are TSLRIC-type
25 studies.

1 Q And would you agree with me that when the
2 Commission relied on BellSouth's study in the earlier
3 proceedings that it did so because they approximated
4 TSLRIC and because in the Commission's judgment they
5 reflected BellSouth's sufficient forward-looking
6 costs?

7 A I don't recall. They were TSLRIC studies
8 and they based their prices on TSLRIC studies. That's
9 all I really recall from it.

10 Q So you don't know -- you don't recall
11 whether the order that approved the use of those
12 studies indicated that the reason for their use was
13 because they reflected BellSouth's, quote, "efficient
14 forward-looking costs"?

15 A I don't recall that language from the order.

16 Q All right. And do you recall that in that
17 order the Commission required BellSouth to file in
18 this proceeding TSLRIC studies for the various
19 elements for which interim rates were set in the first
20 proceeding?

21 A Yes.

22 Q Now, beyond TSLRIC, both in the prior
23 proceeding and in this proceeding, the prices that are
24 proposed include some contribution to shared and
25 common costs; is that correct?

1 **A** If you're talking about unbundled network
2 elements, yes.

3 **Q** I'm talking on network elements.

4 **A** Yes, that's correct.

5 **Q** And in the arbitration proceeding the
6 Commission didn't make any specific finding about a
7 level of shared and common costs that was allocable to
8 UNEs, did it?

9 **A** I don't think so. I'm taking from that you
10 mean did they determine some percentage ought to be
11 added to the TSLRIC to reflect shared and common
12 costs. No, they didn't do that. They established
13 prices and recognized that to the extent that prices
14 exceeded the TSLRIC cost, they were making a
15 contribution towards the recovery of the shared and
16 common cost.

17 **Q** So essentially -- and tell me if this is a
18 fair characterization -- that case the Commission had
19 TSLRIC cost studies, they set prices that were
20 somewhat above TSLRIC, and said to the extent they are
21 above TSLRIC the prices will be making a contribution
22 towards shared and common costs?

23 **A** Yes.

24 **Q** Would you agree that the level of
25 contribution towards shared and common costs in the

1 rates the Commission set in the first part of this
2 proceeding is less than the percentage of shared and
3 common costs that BellSouth allocates to the elements
4 in this phase of the proceeding?

5 A I don't know. From my recollection it
6 varied in the previous proceeding from one element to
7 the other. In this proceeding we're proposing a
8 constant value of 5. -- 5.3 something. Mr. Reid has
9 that in his testimony but it's the same amount for
10 each one.

11 Q Let me approach it this way: Would you
12 agree that in the prior proceeding the Commission set
13 a rate for 2-wire analog loops at \$17?

14 A Yes.

15 Q And would you agree with me that the TSLRIC
16 cost studies -- and I believe there were several
17 different vintages -- but that those cost studies that
18 supported that rate were all in the range of \$15.50 or
19 greater per loop?

20 A I don't remember what the cost numbers use
21 were.

22 Q Assume with me hypothetically that the
23 TSLRIC cost studies in the prior proceedings for
24 2-wire loop were all 15.50 or greater and the price
25 was set at \$17. If that's the case, then the price of

1 the 2-wire loop would have been -- about 10% of that
2 TSLRIC cost would have represented a contribution to
3 shared and common costs?

4 A 15.50 and \$17, about 10% of the price would
5 be contribution towards shared and common costs.

6 Q Okay. And looking at AJV-1 which is your --
7 revised AJV-1 which is part of Exhibit 9, would you
8 agree with me that the shared and common cost, which I
9 guess -- let me make sure I understand this correctly.
10 Let's look, if we might on Page 1 of AJV-1 for the
11 2-wire ADSL loops which is at line A.6.1.

12 A I have to find the exhibit.

13 A Okay. I have it now.

14 Q Are you with me now? Page 1, Line A.6.1
15 which is at 2-wire ADSL loop?

16 A I see it.

17 Q If I wanted to calculate the shared and
18 common cost component, would I take the difference
19 between the 15.69 TSLRIC cost in the first column and
20 the 18.96 TSLRIC plus shared and common over in the
21 fourth column?

22 A Yes. What you do is take 18.96 divide it by
23 the 15.69. That would give it to you.

24 Q And would you agree with me that that
25 produces a contribution shared of common costs on the

1 order of 21 to 23%?

2 A I don't know. I haven't done the
3 arithmetic.

4 Q Would you accept, subject to check, that
5 18.96 is 121% of 15.69?

6 A It sounds reasonable.

7 Q All right. And that relationship is
8 constant for the various loops that you're pricing
9 here; is that correct?

10 A I believe it is. You have to ask Mr. Reid.
11 He actually calculated the shared and common cost
12 amounts.

13 Q Let me ask this: Is it safe to say that if
14 they are all in that range of 21%, that the
15 contribution to shared and common costs proposed in
16 the prices in this proceeding is greater than the
17 contribution to shared and common costs that the
18 Commission approved in the prior proceeding for the
19 2-wire analog loop?

20 A It's greater than it is for a 2-wire analog
21 loop but that doesn't mean it's greater than the
22 contribution that was proposed in the last proceeding.
23 Some elements could have been higher than the 2-wire
24 analog loop and some lower.

25 The way the Commission set them is they

1 established a price that the Commission felt was
2 reasonable, and whatever the relationship was of that
3 price to the cost became the contribution towards
4 shared and common, as opposed to using a constant
5 percentage applicable to all of the costs and having
6 them all contribute the same percentage. So some of
7 them could have been higher, so could have been lower.

8 Q All right. Moving away for a minute from
9 the shared and common costs to your residual recovery
10 requirement, or RRR, that is designed to recover
11 historical cost rather than forward-looking costs; is
12 that correct?

13 A The difference between forward-looking and
14 actual, which, for purposes of labeling it in my
15 testimony I call it historical, but it's the
16 difference between the forward-looking and the actual
17 costs that we incur to provide those items to you
18 today.

19 Q Now, in terms of actual cost, I believe
20 Chairman Johnson asked you a question this morning
21 whether the actual costs were taken from the Company's
22 books and records. My recollection is you said, no,
23 because we're using forward-looking depreciation
24 factors and forward-looking cost of capital. Am I
25 remembering that correctly?

1 A Those are two items, yes. Ms. Caldwell can
2 give you the details of exactly how it's calculated.
3 But those were two items I know that were different
4 between if you were looking at embedded cost and
5 looking at the actual cost calculation that was used.

6 Q To the extent you're looking at actual cost,
7 isn't it true that you are looking to the company's
8 books and records for the investment value that you
9 then translate into a monthly carrying charge?

10 A You need to ask Ms. Caldwell.

11 Q So you don't know then what actual -- you
12 don't know whether the actual cost you're seeking to
13 recover is grounded in your books and records or not?

14 A You say grounded in the books and records.
15 The intent is to identify the actual cost of providing
16 these things today. It's not embedded cost to go back
17 and balance back historical books of the company.
18 We're not trying to do that.

19 Q I think, Mr. Varner, you're asking something
20 I'm -- you're answering a question I'm not asking.
21 Let me try one more time, because -- are the
22 investment figures -- do you know whether the
23 investment figures that BellSouth used to develop its,
24 quote, "actual cost" are investment figures that come
25 from the books and records of the company?

1 A You will have to ask Caldwell exactly where
2 she pulled those numbers from.

3 Q And if we wanted to see what percentage of
4 the price -- and let's go back to this Line A.6.1 on
5 Exhibit 9, the proposed price for that 2-wire ADSL
6 loop is \$23.28; is that correct?

7 A Yes.

8 Q If I wanted to find what percentage of that
9 was represented by the residual recovery requirement,
10 would I divide the \$4.32 in the fifth column by the
11 23.28?

12 A Yes.

13 Q And would you agree with me that's for that
14 particular item about is 19%?

15 A Yes. I'd say about 20.

16 Q In the initial arbitration proceedings
17 BellSouth did not propose a separate residual recovery
18 requirement, did you?

19 A That's correct. And I think I went through
20 Mr. Lamoureux why it was not separately identified.

21 We proposed the TSLRIC cost, and to the
22 extent prices were above those costs, they went to
23 cover shared common and a residual recovery
24 requirement to the extent that there was one. But we
25 didn't separately identify an item.

1 Q And to the extent, though, that the shared
2 and common cost component that you're proposing in
3 this proceeding is higher than the shared and common
4 cost component that was included in your rates in the
5 prior proceeding, there wouldn't have been anything
6 left over to apply to the residual recovery
7 requirement?

8 A Would you repeat that? There were a couple
9 of negatives in there somewhere and I'm not sure where
10 I ended up.

11 Q Let me try again.

12 I believe you said, in essence, in the first
13 proceeding, the difference between price and TSLRIC
14 cost was a contribution. Is that correct?

15 A Yes.

16 Q And that contribution would go first toward
17 covering shared and common cost, and to the extent
18 there was anything left over, it would have been
19 similar to this residual recovery requirement?

20 A It would go towards covering that residual
21 recovery requirement.

22 Q And I guess my question is to the extent to
23 about -- in the case of the loops 10% -- there was a
24 10% markup over TSLRIC on the first proceeding, and to
25 the extent BellSouth is proposing roughly twice that

1 in this proceeding, there would not have been any
2 contribution left in the earlier rates to go toward
3 any residual recovery requirement. You wouldn't have
4 even covered shared and common cost?

5 A No, that's not necessarily the case.
6 Because, remember, they said a number of different
7 rates by a number of different elements. In fact, the
8 elements that are remaining here is a relatively small
9 number compared to the number that prices have already
10 been set for. But when they set those prices, those
11 prices have varying relationships to the TSLRIC. For
12 example, they could have set prices for an item for
13 which there really is no residual recovery
14 requirement, and it has a contribution that goes high
15 enough to cover the TSLRIC plus the shared and common.
16 What happens then is the contribution remaining in
17 that item may be going to cover the residual recovery
18 requirement for another item.

19 So the prices and -- the only way you would
20 be able to make that determination is to make this
21 type of a comparison for all of the prices. They may
22 not have done it for one particular item, but you
23 could have contribution from another item wherein a
24 price was set above cost that's providing contribution
25 to the prices for some other item. That's typically

1 the way rate setting works. I mean that's how you end
2 up with residential rates as low as they are, is you
3 have other services that make a contribution towards
4 covering the cost of the resident's basic exchange
5 service so the rates for that are below cost.

6 Q Let me ask this: I believe you said in your
7 summary that you believe recovery of actual costs is
8 not only permitted, but, in fact, is required by the
9 Telecommunications Act of 1996?

10 A Yes.

11 Q If that is the case, then why did BellSouth
12 not identify and quantify this residual recovery
13 requirement in the prior proceedings?

14 A Because we had to use at that time the cost
15 studies we had available to us. The cost studies that
16 we had were TSLRIC cost studies. We had not gone
17 through an analysis to know what this difference was.
18 We knew that there was probably a difference but we
19 had no way of being able to quantify it or determine
20 what it was or make a proposal with respect to that at
21 that time.

22 Q Is it true that BellSouth has proposed a
23 residual recovery requirement in other states in the
24 past few months?

25 A You're saying proposed?

1 Q Yes, sir.

2 A Yes, we have.

3 Q Isn't it true that in the only two states
4 that have reached a final commission decision, being
5 Georgia and Louisiana, that the residual recovery
6 requirement has been rejected by the Commission?

7 A I believe that's correct. The final prices
8 did not include the residual recovery requirement.
9 Now, whether they said they rejected it or not I just
10 don't remember. But I do know that the final prices
11 were below the level that would be necessary to
12 include the residual recovery requirement.

13 Q Okay. Let me move away from cost
14 methodology for a minute. I guess it's not entirely
15 away.

16 BellSouth is proposing rates for loops in
17 this proceeding that are not geographically
18 deaveraged; is that correct?

19 A That's correct.

20 Q And I believe you would agree with me that
21 the cost of loops does vary by density?

22 A Yes.

23 Q Let me turn, now, to the proposed prices for
24 virtual collocation, which are shown on Page 6 of your
25 Exhibit AJV-1. I guess actually Pages 5 and 6?

1 A I see it.

2 Q I believe you've testified those are set
3 equal to existing tariffed rates; is that correct?

4 A Yes.

5 Q And BellSouth has not sponsored in this
6 proceeding the cost studies that underlie those rates,
7 have you?

8 A Yes, we have. The cost studies have been
9 provided and the results of them are shown on my
10 exhibit.

11 Q Okay. Let me ask the question again,
12 because I think I may have asked a different question
13 than you answered.

14 BellSouth has not sponsored in this
15 proceeding the cost studies that were used as the
16 basis for setting the tariffed rates; is that correct?

17 A That's correct. We've provided the cost
18 studies that were recently done when we did all of the
19 other cost studies that are provided here.

20 Q So, for example, let's look at Page 6, if we
21 could, at Line H.2.8 DS-1 cross-connects. Is it fair
22 to say that the \$1.16 that appears in the fourth
23 column is the recurring cost for a DS-1 cross-connect
24 that is based on BellSouth's current TSLRIC studies
25 plus shared and common costs?

1 A Yes, that's correct.

2 Q And the \$7.50 in the proposed rate column is
3 the tariffed rate that Bell is proposing to be
4 established in this proceeding; is that correct?

5 A Yes. Well, not established, but utilized.
6 The tariff rate already exists for virtual
7 collocation. People who purchase virtual collocation
8 can already purchase it out of the tariff, and some
9 already have.

10 Q And that \$7.50 rate I believe you told us
11 this morning was supported at some time by a cost
12 study submitted to the FCC?

13 A At the time it was approved. And cost
14 studies would have been submitted to the Florida
15 Commission. You know, they require cost studies with
16 their tariff filings as well.

17 Q But BellSouth has not submitted the cost
18 studies that supports that \$7.50 as a BellSouth
19 sponsored exhibit in this proceeding; is that correct?

20 A That's correct. As I said, the prices for
21 virtual collocation vary. That one is higher under
22 the tariff, but the floor space rental, for example,
23 if we were to go to the current cost study, the floor
24 space rental would be higher under the cost study than
25 it is in the tariff. Also the application fee would

1 be higher under the cost study than it is in the
2 tariff. So there were some higher, some lower.

3 The determining factor here is what could
4 you actually implement? Collocators have already
5 brought collocation out of the tariff. If they were
6 to come in now and say "I want to," I guess, "put CLEC
7 equipment in that virtual collocation space," I don't
8 know what they'd do.

9 **MR. MELSON:** Chairman Johnson, I'm going to
10 object to this answer. I asked him as to whether the
11 \$7.50 was sponsored -- was supported by a BellSouth
12 study sponsored in this proceeding. He answered the
13 question. He's now giving us a lecture on other rate
14 elements I've not asked about. If his counsel wants
15 to ask him on redirect, that's fine, but that's not
16 what I'm asking him.

17 **MR. LACKEY:** I will ask him on redirect,
18 Madam Chairman, if that's necessary, but I think all
19 he was doing was pointing out that there was some that
20 were higher and some that were lower, and Mr. Melson
21 focused on the one that was lower.

22 **CHAIRMAN JOHNSON:** Mr. Varner, I'd ask you
23 to answer the question that's directly asked, and to
24 the extent that the answer needs clarification, you
25 can clarify it, but don't go off into gratuitous

1 additional information.

2 Q (By Mr. Melson) Mr. Varner, focusing back
3 again on line H.2.8 is it fair to say that the
4 proposed rate for DS-1 cross-connect is about 6.5
5 times what BellSouth currently estimates the cost to
6 be?

7 A The TSLRIC plus shared and common, that
8 would be correct.

9 Q Would it also be correct on the next line
10 for DS-3 cross-connects, the proposed price is about
11 3.8 times the sum of the TSLRIC plus the shared and
12 common cost?

13 A That would be correct. But as I said there
14 are others that go the opposite direction.

15 Q Let's turn for a minute to the pricing for
16 the 4-wire analog port, which, I guess, is on Pages 2
17 and 3 of your Exhibit AJV-1, and let's start first on
18 Page 2 of Line B.1.2.

19 A B.1.2.

20 Q Up toward the top of the page.

21 A I see it.

22 Q If I understand correctly, looking again at
23 the middle columns, the \$10.09 is TSLRIC plus shared
24 and common costs, and the \$1.05 is what you've called
25 the RRR?

1 A That's for a port without any features, that
2 would be correct. We're not proposing a price for a
3 port without any features.

4 Q That's why the proposed rate out at the last
5 three columns is blank?

6 A Yes, that's correct.

7 Q If I wanted to determine the price for a
8 port I can buy that port only with all of the
9 features?

10 A That's correct.

11 Q And to see that proposed price, I then look,
12 I guess, at the bottom of Page 3, actually on the line
13 that doesn't have any cost reference but it's labeled
14 exchange port 4-wire analog with all of the available
15 features included.

16 A That's correct.

17 Q And there I see a TSLRIC plus shared and
18 common costs of \$16.27?

19 A Yes.

20 Q How do it get to the \$10.09 back on Page 2
21 to the \$16.27 on Page 3?

22 A You would add in the cost of all of the
23 features that are applicable to a 4-wire analog port.
24 I can't remember the number. There's about 25 of them
25 there are listed here.

1 Q Let's look --

2 A It's not all of these that are listed here.
3 It's just the ones applicable, the 4-wire analog port.

4 Q If I were to look actually on the very last
5 page, this is AJV-1, would I see indicated the
6 particular features that are included?

7 A I don't think it's attached to this one.

8 Q Page 7. Did you have a stealth exhibit,
9 Mr. Varner? (Laughter)

10 A I think I have the page you're talking
11 about.

12 Q And are the items with the Xs next to them
13 the items that are included then in the development of
14 that \$16.20 cost?

15 A Yes.

16 Q Does that assume that when a CLEC purchases
17 4-wire port that they are going to be providing their
18 customer three-way calling and customer changeable
19 speed calling and call waiting and each of the other
20 20-some odd items on this list?

21 A No. It doesn't assume anything about what
22 the CLEC there offered its customers at all.

23 Q So if the CLEC purchased the port and did
24 not activate any of these virtical features, it would
25 still, under your proposal, pay a price of \$17.32

1 that's based on the 16.27 cost?

2 A Yes. Because that's the way that the
3 unbundled port is defined. An unbundled port is
4 defined as including all of the features. The only
5 way to do that, the cost -- or the actual cost of an
6 unbundled port, 4-wire analog port including all of
7 its features, is \$17.32. Now, that means the CLEC has
8 the capability to activate one, some, none or all of
9 those features, depending on what the ALEC is able to
10 sell to the end user. But you have the capacity and
11 the capability to activate any or all of those if
12 that's what you want to do.

13 Q And is there a charge to the ALEC for
14 activating any or all of those features?

15 A Not initially, no. When you order the port
16 you tell us which features you want, activate it and
17 we activate those features. If you come along later,
18 you know, some other -- later on you change, that
19 customer moves out, another customer comes in; that
20 customer wants a different set of features than the
21 previous customer had. That's where the subsequent
22 order charge comes in. We would charge you the
23 subsequent order charge to change the features that
24 have been activated.

25 Q Let's move back to the bottom of Page 3 for

1 a minute because I want to be sure I understand what
2 you've just told me.

3 If I look in the proposed rate out in the
4 three far right-hand columns I see an electronic
5 nonrecurring charge of \$66.14.

6 A Yes.

7 Q That is the nonrecurring charge that is paid
8 up front for the port and activation of any of these
9 24, 25 features that the ALEC directs you up front to
10 activate; is that correct?

11 A That's correct.

12 Q And that 66.14 is developed by taking the
13 price essentially assuming that each feature is
14 activated?

15 A Yes -- no, wait a minute. No. Yes, that's
16 correct. Each one of the features that were listed on
17 that Page 7.

18 Q All right. So if the time the CLEC orders
19 the port, it activates two of the features, it pays a
20 no nonrecurring charge of of 66.14, correct?

21 A Yes.

22 Q If its customer comes back the following
23 month and says, "I'd like to add toll restrict
24 service," what charge applies at that point for the
25 activation of that service?

1 **A** Assuming it was an electronic order it would
2 be \$5.56.

3 **Q** Which is shown a B.2.40.

4 **A** Let me clear up something. When you asked
5 me about the 66.14, that is the charge it takes for us
6 to set that port up and set it up such that it has the
7 capacity for you, and capability for you to activate.
8 Tells you what you actually want activated because you
9 can't activate a nonrecurring cost; to set it up to
10 enable you to do that, to activate some or all should
11 you choose to do so.

12 **Q** Let me turn for a moment to the network
13 interface device.

14 **A** Network interface device, did you say?

15 **Q** Yes, sir. That's one of the elements we're
16 establishing a price --

17 **A** Separate NID.

18 **Q** Unbundled NID.

19 **COMMISSIONER JACOBS:** Can I ask a question
20 real quick before you have leave that? On Page 7
21 there was some small difference in those numbers at
22 the bottom there compared to the total numbers on the
23 bottom of Page 3. I assume those are different
24 calculations but meant to reflect the same totals?

25 **WITNESS VARNER:** I think the one I'm looking

1 at, it does have the same number also on it. What
2 happened is that when we revised the testimony on
3 December 9th, the bottom numbers here should have been
4 revised to reflect the actual numbers that's in the --
5 on page, I think, it's 6, of my exhibit.

6 **COMMISSIONER JACOBS:** I just wanted to
7 confirm that.

8 **MR. MELSON:** Commissioner, I've got two
9 versions of the exhibit; an original version for the
10 nonrecurring charge we're just talking about that
11 showed \$66.40 and a revised version shows 66.14.

12 **WITNESS VARNER:** I think he may be looking
13 at the 44. 66.14 is correct. Those numbers at the
14 bottom should have been revised to reflect the same
15 numbers that's on Page 3.

16 **COMMISSIONER JACOBS:** I understand. Okay.

17 **COMMISSIONER DEASON:** Before we leave that,
18 Mr. Varner, what are those numbers just below the next
19 line down? For example, the 65.32 which is just below
20 the 66.14. What does that represent?

21 **WITNESS VARNER:** Okay. Those are the -- all
22 of those numbers are the nonrecurring charges. Next
23 to it is 106 and the 76. Those are the charges if
24 they send the order to us manually. For example, call
25 us or send us a fax with the order. And we have a

1 representative actually take the order and process it
2 and handle it manually.

3 **COMMISSIONER DEASON:** I understand that. My
4 question is what's the difference between the 66.14
5 and the 65.32?

6 **WITNESS VARNER:** Okay. The 66.14 is for the
7 first port that's on an order, and the 65.32 is for
8 each additional port that's on the same order. It
9 doesn't cost us quite as much to handle the additional
10 ones on the same order.

11 **COMMISSIONER DEASON:** Thank you.

12 **Q** **(By Mr. Melson)** Mr. Varner, let's talk
13 just for a minute about the pricing of the network
14 interface device, or the NID.

15 **A** All right.

16 **Q** And that's the little gray box that goes on
17 the outside of the house where the loop is connected
18 to the inside wiring. Is that a fair description of
19 it?

20 **A** That's close enough.

21 **Q** Okay. And when BellSouth provides a NID or
22 installs a NID in connection with the provision of
23 retail service to a customer, the cost of that NID is
24 capitalized and amortized; is that correct?

25 **A** I don't know.

1 Q Let me tell you where I'm going.
2 Ms. Caldwell deferred a question to you during her
3 deposition as to the way the price applies. Let me
4 tell you what I understood her to say with regard to
5 some of the cost principles, and then ask you about
6 the price?

7 A All right.

8 Q And I believe her deposition will be in the
9 record.

10 My understanding was that in the situation
11 where BellSouth installs a NID to use in providing
12 service to its own customer, the cost of that is
13 capitalized, amortized and ultimately recovered
14 through a recurring charge. If you will accept that
15 subject to check, and if you will also accept, subject
16 to check, that when BellSouth provides a NID to an
17 ALEC, that cost is not capitalized but instead is
18 expensed, and, therefore, proposed to be recovered
19 through the nonrecurring charge. Do you understand
20 those two assumptions?

21 A Yes. You're talking about two different
22 things.

23 When we provide a network interface device
24 as part of basic local exchange service, we don't have
25 a separate charge to the end user for installing that.

1 Because by definition their basic local exchange
2 service includes the network interface device. That's
3 the way their service is defined in the tariff, so
4 there's no separate charge for that. We don't
5 necessarily have them everywhere. We didn't go back
6 to retrofit everybody's line when that requirement
7 came up. We do it as we go out to premises. So if we
8 do it, there's no separate charge for it.

9 The other item you were talking about, it
10 seems to me is the case wherein we have to go out and
11 put on a NID for an ALEC. For example, if the
12 capacity in the BellSouth -- there's no capacity in
13 the BellSouth NID. And we have to put a separate one
14 out for the ALEC, and how that's treated seems to be
15 the second item you were talking about.

16 Q And let's focus on that second item. Are
17 those the -- that the situation where A.2.12 of AJV-1
18 applies, installation of the 2-wire/4-wire ALEC NID?

19 A Yes. We had to go out and put in a separate
20 NID for the ALEC for whatever reason. Then that would
21 be the charge.

22 Q And the proposed nonrecurring charge there
23 for an electronically placed order, if I'm reading
24 correctly is 116.68?

25 A Yes. And there's no recurring because the

1 full cost of the NID is included.

2 Q If MCI as an ALEC orders that NID, pays the
3 \$116.68, and 18 months from now the customer elects to
4 change his local service to AT&T, what charge is made
5 to AT&T for the NID?

6 A It would be A.2.6.

7 Q And what is A.2.6?

8 A It's the NID for 2-wire analog voice grade
9 loop. When we put the separate loop out for the --
10 take, for example, a BellSouth NID doesn't have any
11 capacity in it. So you have to put in a separate NID
12 and you have a jumper and it goes from the ALEC NID
13 into the BellSouth network interface division. The
14 BellSouth network interface device is there because
15 there's where the inside wire is terminated. So you
16 have a jumper that goes from one to the other. You
17 put in a ALEC interface device, charging nonrecurring
18 16.68 for the first one of those but you pay the \$1.44
19 a month for use of the BellSouth NID because you're
20 still using it.

21 Well, if AT&T comes along, a customer moves
22 from MCI to AT&T, we don't have to install another one
23 for AT&T. They would use the same one that MCI has.
24 So we wouldn't charge AT&T \$116.68, we would simply
25 charge them the cost we would incur for utilizing our

1 own NID, which is on A.2.6.

2 Q And in that situation you're saying AT&T in
3 my example would pay a then nonrecurring charge of
4 \$5.69 plus a recurring charge of \$1.49?

5 A MCI would have paid 116.68 plus \$1.44 a
6 month. AT&T would turn around and pay the \$5.59 plus
7 the \$1.44 because we don't have to install the new NID
8 for AT&T.

9 Q We have been talking about a situation for
10 MCI where a new NID was required. In the situation
11 where there is an existing BellSouth NID and that NID
12 can be -- has capacity, the capacity that MCI
13 requires, in that situation does MCI pay the amount
14 shown on line A.2.12 as a nonrecurring or do they pay
15 the nonrecurring charge on A.2.6?

16 A It's not the charge on A.2.12. I know that.
17 It would be the charge on A.2.6. The one thing I'm
18 uncertain about is if there's any travel time involved
19 to go out to the premises, what might be done about
20 that? Because I don't see that. And I'm not sure
21 whether that's already in the permanent rates that
22 were approved earlier and just not shown here for that
23 reason. That's the one item I'm not clear about. But
24 it certainly -- it's not A.2.12; it would be the
25 A.2.6. And it may be an increment for travel time

1 that's already in the permanent rates.

2 **MR. MELSON:** Give me just a moment, please.

3 **COMMISSIONER DEASON:** While he's referring
4 to his notes let me ask a question.

5 What would be an example of a situation
6 where there's a existing NID and it has inadequate
7 capacity when it's a change?

8 **WITNESS VARNER:** Some of the ones we have,
9 the design of these things have changed over time.
10 Some of the older ones don't have the four jacks that
11 newer ones have, one or two lines that the customer
12 has. That's it. You can't put anymore in there. If
13 you run into the older one, you may have to put in a
14 newer wire; you don't have capacity. If it's newer,
15 you probably do have capacity.

16 **COMMISSIONER DEASON:** If the customer is
17 getting the same identical service changing providers,
18 would there be the necessity of an additional NID?

19 **WITNESS VARNER:** There may be. Let's say if
20 he's adding lines.

21 **COMMISSIONER DEASON:** He's got one line and
22 just changing from BellSouth to MCI.

23 **WITNESS VARNER:** I'm going to suggest you
24 might ask Mr. Baeza what happens when we do this.
25 Let's say it's full. What we do, you have our NID and

1 you have theirs, and you have a jumper that goes from
2 ours to theirs. I believe you have one spare slot in
3 ours to put the jumper, one spare slot to go from ours
4 to theirs. If it's full you sometimes need the new
5 one.

6 **MR. MELSON:** That's all I've got. Thank
7 you, Mr. Varner.

8 **CHAIRMAN JOHNSON:** Do you have follow-up
9 questions?

10 **MR. SELF:** Yes, I have some questions.

11 **CROSS EXAMINATION**

12 **BY MR. SELF:**

13 **Q** Mr. Varner, Floyd Self on behalf of
14 WorldCom. I have a couple of questions I'd like to
15 ask you, please.

16 First, I'd like to go back to the issue I
17 raised at the very beginning before the cross
18 examination of you began regarding your Exhibit AJV-1
19 and whether, in fact, all of the costs associated with
20 electronic and manual interfaces have, in fact, been
21 removed.

22 And if I could, sir, on Page 31 of your
23 direct testimony -- some of the language that has been
24 stricken, you state down on Lines 21 through 23 that
25 the nonrecurring charges on AJV-1 excluded the costs

1 of electronic and manual interfaces; is that correct?

2 A Where are you?

3 Q Page 31, Lines 21 to 23.

4 A That's not describing what's on the exhibit.
5 That's just describing how we developed what is on the
6 exhibit.

7 Q Okay. Can I conclude then that, in fact,
8 all of the electronic and manual interface costs are
9 not included in the recurring and non -- excuse me, in
10 the nonrecurring charges on AJV-1?

11 A You're talking about LENS, EDI, electronic
12 interfaces. Yes, those costs are not included in
13 these columns on AJV-1. The cost of those was in a
14 single rate element which was at the end of AJV-1 like
15 \$10.99 per order. That was covering the cost of those
16 electronic interfaces.

17 Q All right. Are any of the costs associated
18 with BellSouth's LCSC included in any of the
19 nonrecurring charges?

20 A Yes. To the extent that the LCSC is being
21 utilized to do work to install these items for the
22 CLEC.

23 Q Doesn't the LCSC constitute a manual or
24 electronic interface that's been developed for the
25 ALEC?

1 A LCSC is not an electronic, it's a manual
2 interface. And it also does other work for the CLECs
3 besides the interface function. For example, if you
4 were to look at one of these items, let's take the
5 first one, the loop distribution 29669 under
6 electronic and it's 43803 under manual. The
7 difference between those is the cost of LCSC orders
8 taking the order manually.

9 Q But did not Commissioner Clark's order
10 direct that all of the manual interface costs were to
11 be taken out?

12 A No, it did not. The order said that the
13 electronic costs were to be taken out.

14 MR. SELF: Chairman Johnson, can I get my
15 copy of the order for a moment, please?

16 CHAIRMAN JOHNSON: (Nods head.)

17 Q Mr. Varner, do you have a copy of the Motion
18 to Strike?

19 A No, I don't. I have the Prehearing Order.

20 Q For the benefit of the parties and the
21 Commission, if we could turn to Page 3 of the Order,
22 specifically the motion shall be granted with respect
23 to all testimony and exhibits relating to the costs of
24 OSS functions both manual and electronic.

25 A Yes.

1 Q End of quote.

2 A Yes. There's no such thing as a manual OSS
3 function.

4 Q I believe you've testified that the LCSC
5 constitutes a manual interface that is utilized by the
6 ALECs for the purpose of order taking; is that
7 correct?

8 A Yes. That's the cost of the individual
9 taking the order. Their time spent on the phone with
10 the CLEC taking down the information that the CLEC has
11 requested and putting that -- you know, preparing an
12 order and sending it through for processing. I think
13 on the basis of this testimony BellSouth must be able
14 to remove the cost or pro rata cost, if that's
15 appropriate, of that interface from the rates that
16 appear on AJV-1.

17 MR. LACKEY: I don't understand how Mr. Self
18 got to that position. If the ALECs want to order
19 2-wire HDSL loop and they have to go through one of
20 our employees to do it, it seems to me that the cost
21 of that employee is clearly a cost of providing that
22 2-wire HDSL loop. I mean it's not free. It's there,
23 it's necessary to do. What we took out was on Page 6,
24 which was the \$10.99 which we thought was -- the issue
25 was in this proceeding. I don't see how the ALECs can

1 maintain -- and if it's on an unbundled network
2 element, I don't see how this Commission can find that
3 the cost of our handling one of their orders and
4 providing them with service is something that we can't
5 recover the cost for. I mean that's -- you know,
6 that's got to be in violation of the statute, if
7 nothing else, since we're entitled to recover at least
8 the cost for these things.

9 But it was my understanding that it was the
10 \$10.99 that was the subject of that motion which had
11 been ruled on by Commissioner Clark. Now I perhaps
12 misunderstood, but that's what I thought the issue
13 was.

14 **MR. SELF:** I'd respectfully disagree with
15 Mr. Lackey. The issue in the motion was the fact --
16 one of the bases for the motion was the fact that the
17 Commission had previously determined that each company
18 shall bear the costs of its own OSS interfaces. And I
19 think Mr. Varner has testified now that, indeed, this
20 part of this manual interface is included in the rates
21 that are in here. And I think on the basis of the
22 Commission's prior arbitration orders, as well as the
23 order granting in part the Motion to Strike and this
24 language on Page 3 of that order, that that cost
25 should be removed from this exhibit.

1 **CHAIRMAN JOHNSON:** Could I see the order
2 that you're referring to?

3 - - - - -

4 (Transcript continues in sequence in
5 Volume 3.)

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