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March 3, 1998

Ms. Blanca S. Bayó
Director, Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 960833-TP, 960846-TP & 960757-TP

Dear Ms. Bayó:

Enclosed for filing on behalf of MCI Telecommunications Corporation and MCImetro Access Transmission Services, Inc., in the above dockets, are the original and 15 copies of MCI's Post Hearing Brief.

By copy of this letter, this document has been provided to the parties on the attached service list.

Very truly yours,

Richard D. Melson

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petitions by AT&T Communications of the Southern States, Inc.; MCI Telecommunications Corporation; MCI Metro Access Transmission Services, Inc. for arbitration of 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 Docket No. 960846-TP
In the Matter of MFS Communications Company, Inc. Petition For Arbitration Pursuant To 47 U.S.C. Sec. 252(b) of Interconnection Rates, Terms, and Conditions with BellSouth Telecommunications, Inc.	Docket No. 960757-TP Filed: March 3, 1998

BRIEF OF MCI TELECOMMUNICATIONS CORPORATION AND MCIMETRO ACCESS TRANSMISSION SERVICES, INC.

Come Now MCI Telecommunications Corporation and MCI Metro Access Transmission Services, Inc. ("MCI") and hereby submit this post-hearing brief to the Florida Public Service Commission ("PSC" or "Commission") requesting that the Commission set rates based on costs for certain network elements in accordance with the pricing standards set forth in Section 252(d) of the Telecommunications Act of 1996 ("Act").

As more fully explained below, MCI urges this Commission to adopt the rates for unbundled network elements ("UNEs") proposed by the witnesses sponsored by MCI and AT&T Communications of the Southern States, Inc. ("AT&T") and to expressly reject BellSouth Telecommunications, Inc.'s ("BellSouth's") proposed rates. The rates proposed by MCI and

AT&T meet the pricing standards set forth in Section 252(d) of the Act and will facilitate competition in Florida's local exchange market. The rates put forward by MCI and AT&T reflect truly forward looking economic costs without reference to past rate of return proceedings and thus are consistent with the Act and the Federal Communications Commission's ("FCC") First Report and Order,[1] and the regulations promulgated therein ("FCC Rules"), as upheld by the United States Court of Appeals for the Eighth Circuit.[2] BellSouth's proposed rates are not "based on the cost (determined without reference to a rate-of-return or other rate-based proceeding) of providing the interconnection or network element" and are "discriminatory." As such, BellSouth's proposal violates the Act and will act as a barrier to local competition in Florida.

The central issue presented to the Commission in this docket is clear. The Commission must decide whether to adopt BellSouth's rates which are based on theories and cost models that incorporate embedded costs and rely on rate of return principles **or** adopt the MCI/ATT rates for UNEs which based on the costs of forward-looking, efficient procedures and technologies. The Non-Recurring Cost Model sponsored by MCI and AT&T establishes forward-looking nonrecurring rates for UNEs. The Collocation Model sponsored by MCI and AT&T establishes forward looking rates for physical and virtual collocation. Recommended recurring rates for the remaining unbundled elements are based on adjustments and corrections to BellSouth's studies. Based on fundamental economic principles, the models and adjustments sponsored by MCI and AT&T will promote efficiency and thus further competitive forces in Florida's local exchange

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[1] *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, CC Docket No. 96-98, First Report & Order, FCC 96-325 (Rel. August 8, 1996).

[2] *See, Iowa Utilities Board v. Federal Communications Commission*, 120 F.3d 753, (8th Cir. 1997).

market, and the models sponsored by BellSouth will continue the inefficiencies which result from monopoly markets.

The benefits of competition will be realized in Florida only if the Commission sets rates for UNEs and interconnection services based on the Total Element Long Run Incremental Costs ("TELRIC") of those features and services. TELRIC costs, plus a reasonable contribution to forward-looking common costs, reflect the most efficient telecommunications technology and operating practices available, the lowest cost network configuration based on existing wire center locations, the forward-looking cost of capital and economic depreciation rates, geographic cost differences, and efficient fill and/or utilization factors. Such rates must not include retail, embedded, and opportunity costs.

The rates proposed by MCI are TELRIC-based rates and meet the pricing standards set forth in Section 252(d) of the Act. The rates proposed by MCI are "based on cost (without reference to rate-of-return or other rate-based proceedings)" and are "nondiscriminatory." BellSouth's proposed rates must be rejected because they violate the pricing standards of Section 252(d) of the Act and would thwart and impede competition in Florida's local exchange markets.

I. DISCUSSION AND CITATION TO RECORD AND AUTHORITY

ISSUE 1: **What are the appropriate recurring and non-recurring rates for the following unbundled network elements: (a) Network interface device; (b) 2-wire/4-wire loop distribution; (c) virtual collocation; (d) physical collocation; (e) directory assistance; (f) dedicated transport (NRC only); (g) 4-wire analog port; (h) 2-wire ADSL-compatible loop; and (i) 2-wire/4-wire HDSL-compatible loop?**

****MCI Position:** **The Commission should adopt the MCI/ATT rates for UNEs. These proposed rate are based on the cost of forward-looking, efficient procedures and technologies. The Non-Recurring Cost Model establishes forward-looking nonrecurring rates. The Collocation**

Model establishes forward looking rates for physical and virtual collocation. The recommendations for recurring rates for the remaining elements are based on adjustments and corrections to BellSouth's studies recommended by MCI and AT&T witnesses. **

A. The Pricing Standard Required By The Act

1. Sections 251(c) and 252(d)

The provisions of the Act which are the subject of this proceeding are simple and straightforward. Section 251(c)(3) of the Act requires BellSouth to provide to any requesting telecommunications carrier "non-discriminatory access to network elements at rates, terms, and conditions that are just, reasonable, and non-discriminatory," so that such carrier may provide telecommunications services.

With regard to those rates, Congress provided clear "Pricing Standards" which must be applied by the Commission in this proceeding for purposes of determining rates for UNEs and other capabilities. Section 252(d)(1) of the Act provides that just and reasonable rates for network elements "shall be based on the cost (determined without reference to a rate-of-return or other rate-based proceeding) of providing the interconnection or network element," "shall be nondiscriminatory," and "may include a reasonable profit."

It is a well-established principle of statutory construction that words generally bear their usual and common meaning and that the words in a statute should be given their ordinary meaning. Although the evidence presented in this docket is quite voluminous, the application of the law to that evidence is not difficult. The pricing standards contained in the Act require that rates be based on cost without reference to historical or embedded factors. If set pursuant to this basic standard, such rates will act to promote competition in Florida's local exchange market and thus satisfy the intent of Congress in enacting, and of the President in signing, the Act.

2. Application of the Pricing Standard

The pricing standards of the Act mean that prices should recover efficient economic costs, and nothing more. To do otherwise would create a barrier to entry in Florida for companies who would compete in the local exchange markets. Indeed, the uncontradicted evidence in this case is that rates which recover TELRIC plus a reasonable share of forward-looking common cost will allow BellSouth a full recovery of costs associated with providing UNEs and interconnection services, and a reasonable profit, and will facilitate competition in Florida's local exchange markets. More importantly, rate-setting at long run incremental costs plus a reasonable profit is the only plausible explanation of the Act's express prohibition of any reference to "rate of return or other rate-based proceedings."

BellSouth, however, takes the position that the "without reference to" language in the Act merely prohibits the Commission from conducting a traditional rate of return proceeding in this docket. Incredibly, BellSouth argues that "implicit in the language" of the Act is the requirement that "full actual costs" – BellSouth's euphemism for embedded costs – may be recovered. (Varner, Tr. 68). Ultimately, BellSouth is asking this Commission to render a rate case decision without first conducting a rate case investigation: BellSouth is asking the Commission to establish rates for UNEs based on BellSouth's books of account as if it were rate of return regulated, and asking it to simply take BellSouth's word that those booked costs are not excessive. Such an absurd reading defies the plain meaning of the "without reference to" language and certainly could not be a result consistent with the intent of Congress.

BellSouth's distorted reading of the Act is the underpinning of its proposal to recover all of its embedded and historical costs as well as its forward looking costs from would-be competitors through rates charged for UNEs. Put simply, BellSouth's proposal in this case urges

the Commission to include in rates for UNEs costs associated with embedded and historical investments and to not only refer to but actually rely on rate of return proceedings for support that such investments were prudently incurred. The Act requires prices be based on economic cost which will promote competition in Florida's local exchange market, providing consumers with the fruits of competition, lower prices and innovative services. Prices based on historic costs which rely on rate-based determinations will impede competition, leaving Florida consumers no better than they were. As more fully discussed below, BellSouth's embedded cost studies begin with embedded or historical investments and network design, and carry forward the embedded characteristics of the network, resulting in costs that are constrained by the characteristics of the embedded network, a result which violates the Act.

B. Recurring Rates

1. General Description

BellSouth's proposal to the Commission in this docket ignores the critical requirement of the Act that rates be based on cost "determined without reference to a rate of return or other rate-based proceeding." The "without reference to" language of the Act is the critical element of the pricing standards which are at the heart of the controversy in this proceeding. Nonetheless, in the face of the "without reference to" language, BellSouth would have the Commission refer to **and rely on** its embedded network as the starting point for all rates charged to would-be competitors in Florida's local exchange markets. (Varner, Tr. 127).

The basis for the rates proposed by BellSouth in this proceeding is a cost study that is anchored to rate-of-return and rate-based proceedings. BellSouth uses its existing network (which was developed pursuant to rate-of-return and rate-based principles) as the starting point

for its cost of service studies, makes minor adjustments to the characteristics of the embedded network, and labels the exercise as a forward-looking cost study. (Wood, Tr. 1677, 1718) To further compound its flaws, in addition to the use of embedded network investments, BellSouth's methodology uses historical levels of operating costs, which were developed in a rate-of-return environment. (Wood, Tr. 1681-82) BellSouth makes some superficial adjustments and urges this Commission to find that the resulting level of operating costs is forward looking. Much of the confusion during the hearings in this docket results from BellSouth's use of the right words, such as "long-run costs" or "forward looking", but application of the wrong principles which refer to rate-of-return or rate-based proceedings. BellSouth's approach to shared and common costs is a good example of saying one thing and doing another. Indeed, when the smoke clears, it is obvious that confusion created in this case is a result of BellSouth's simple and disingenuous labeling of its proposed rates as being based on "forward-looking economic costs." BellSouth's approach is not forward-looking, and is in fact the same basic approach that the Commission would employ (and under the pre-Act regime did employ) in traditional rate of return regulation environment.

2. Residual Recovery Requirement

The most blatant example of BellSouth's attempt to recover costs of its embedded network is its inclusion of a residual recovery requirement for local loop and switch port elements. This added cost to recover historical/embedded costs is perhaps the most obvious, but by no means the only, violation of the Act and the TELRIC principles.

The intended effect of the residual recovery requirement is to assure that BellSouth is made whole as if it were setting rates in a rate of return (not competitive) context. In fact, no matter what the TELRIC cost of a local loop is, the residual recovery requirement assures that the

cost of BellSouth's rate of return tendencies are imposed on Florida's consumers – if the TELRIC loop rate goes down, the RRR goes up. (Caldwell, Tr. 379-83) As a result, the RRR renders all the loop and port studies presented by Ms. Caldwell in this case entirely irrelevant to the rates recommended by Mr. Varner. (Wood, Tr. 1692) Indeed, the residual recovery requirement component of BellSouth's rates is such a blatant violation of the pricing provisions of the Act that one might speculate that it was included as a way to distract the Commission from the embedded characteristics contained in the other components of BellSouth's proposal. Of course, the Commission cannot eliminate the embedded characteristics which underlie the BellSouth proposal by simply subtracting the preposterous residual recovery requirement. BellSouth's proposal disguises other embedded costs within its cost studies.

3. Embedded and Historical Costs

The residual recovery requirement aside, BellSouth still bases its cost studies on its historic operations. (Wood, Tr. 1681-82) BellSouth claims that it has made the adjustments to make its proposed rates based on forward-looking costs. Again, BellSouth uses the right words, but its proposal is fatally flawed. In essence, BellSouth wants both the freedom from the limitations on its earnings afforded by price cap regulation and the protections on its earnings afforded by rate of return regulation. (Wood, Tr. 1707)

Embedded and historical costs cannot be extracted from BellSouth's proposal to make it consistent with the Act. Once the inefficiencies of the embedded network and the historic level of operating costs are incorporated into a cost study, that study cannot be used to produce forward-looking results. The embedded investments and the historic operating costs are inputs that have their genesis in the inefficient world of monopoly markets. Those inputs can never be repackaged in a way that will emulate competitive market forces. The recommended adjustments to this

studies made by MCI and AT&T witnesses at least address some of the more obvious flaws in BellSouth's studies.

A true forward-looking cost study should be based on a network that would be constructed by an efficient carrier in a competitive market. As posed by AT&T/MCI witness, Don Wood, the question to be answered by this Commission is "What is the cost that an efficient provider would incur to provide the network element or service within this specific geographic area being studied?" (Wood, Tr. 1680-81) BellSouth's proposed rates, however, are based on the costs of BellSouth's network, not the network of an efficient provider serving BellSouth's Florida territory.[3] *Id.* The Act requires that Florida consumers should be able to choose from competing suppliers of local exchange service that pay wholesale rates consistent with those that would be obtained if the market for UNEs and interconnection services had historically been competitive (without being forced to fund any inefficiencies in BellSouth's embedded network or methods of operation).

The so-called common costs proposed by BellSouth are based on its common costs levels on historic data derived from its operations in a rate of return environment. Rather than undertake an effort to determine what a sufficient level of shared and common costs should be, BellSouth has taken its total accounting costs (subject to minor adjustments) as they are (or were, as of the date of the data used in the study) and has implicitly assumed, without justification of any kind, that its historic levels of these costs are equal to the costs that would be incurred by an

3 In contrast to Mr. Wood's proposed question, BellSouth's rate proposal seeks an answer to the following question: "How can BellSouth be 'made whole,' including the recovery of all embedded costs – as if it were rate of return regulated but while retaining the regulatory freedom of price caps regulation – while preventing the development of local exchange competition and seeking the further freedom of interLATA authority." (Wood, Tr. 1681)

efficient carrier on a forward-looking basis.[4] (Wood, Tr. 1721) The Commission should not assume business as usual for BellSouth. The reason: if the promise of the Act is fulfilled in Florida, telecommunications consumers will no longer be subjected to the same old "business as usual." (See Lerma, Tr. 1537-38)

4. Inefficient Technology

In addition to BellSouth's flawed starting point for its cost model, BellSouth's inputs to its cost model greatly overstate the cost of providing UNEs to potential competitors. BellSouth's inputs do not reflect the most efficient telecommunications technology and operating practices available, the lowest cost network configuration based on existing wire center locations, the forward-looking cost of capital and economic depreciation rates, geographic cost differences, or efficient fill and utilization factors.

In deriving forward-looking costs, it is necessary to reflect the most efficient telecommunications technology available, because such technology would be used in a competitive environment due to its efficiencies and cost savings or because such technology would result in better services for customers. However, BellSouth does not include the most efficient telecommunications technology in its cost studies. For example, it is undisputed that integrated digital loop carrier ("IDLC") technology, based on the BellCore GR-303 requirement, represents the forward-looking, least cost, most efficient technology that is currently available. Despite the above, BellSouth still uses Universal DLC in its cost study. BellSouth pretends IDLC

[4] As described by Mr. Wood, BellSouth's process is flawed for at least 4 reasons: (1) BellSouth's methodology is based on an allocation of costs, not a determination of costs in violation of Section 252(d) of the Act; (2) BellSouth is basing the study on the cost information and its book of account or historic level of costs; (3) BellSouth attempts to utilize the provisions of its Cost Allocation Manual to ultimately develop shared and common cost factors to be applied to UNEs. However, the cost attribution rules underlying CAM methods were not developed for use in determining the most cost-causative way for assigning forward-looking costs to unbundled elements. (Wood, Tr. 1721-24).

technology does not exist for UNE purposes. (Lynott, Tr. 1242)

BellSouth, in support of its "begin with embedded" methodology for calculating its cost, argues that its embedded facilities have been "redesigned" to reflect forward-looking, most efficient technology. (Wood, Tr. 1718) For its loop study, BellSouth "redesigned" its network as follows: BellSouth changed the cross over point for copper feeder versus fiber feeder with digital loop carrier, it changed copper distribution cable size from 24 gauge to 26 gauge; it eliminated load coils and it limited bridged tap. (Wood, Tr. 1718) However, after applying these minor adjustments, BellSouth's embedded loop plan is not equivalent to the loop plan that would be deployed by an efficient provider on a forward-looking bases for at least two reasons. First, as stated above, the change to the cross over point with Universal DLC is not the forward-looking standard. Second, BellSouth has omitted adjustments to other embedded characteristics that would be different in a forward-looking environment. For example, BellSouth has not re-sized cables to reflect scale economies, for example (one 1800 pair cable is less costly than three 600 pair cables). (Wood, Tr. 1718-19)

5. Excessive (Not Reasonable) Profit

As stated above, Section 252 (d) of the Act provides that a state commission shall determine just and reasonable rates for network elements based on the cost (determined without referenced to a rate-of-return or other rate-based proceeding) of providing the interconnection or network element. The rates may also include a **reasonable** profit.

A utility's reasonable profit is essentially a true economic return commensurate with the risk of its business. (Cornell, Tr. 1420) The business for which the cost of capital is being estimated in this case is essentially the business of "leasing" local exchange telephone network elements to retail providers. The FCC believes that unbundled network elements and

interconnection services are bottleneck, monopoly services that do not now face significant competition. See FCC First Report and Order, ¶702. Further, increased demands for network elements in a competitive market may result in a more extensive use of ILEC's networks.

Compared to other investments made by BellSouth, the leasing of network facilities should have relatively low risk. AT&T/MCI witness, Professor Brad Cornell, using well accepted methodologies calculated a forward-looking "upwardly biased" economic cost of capital of 9.43%. (Cornell, Tr. 1455) This calculation is confirmed by other publicly available information from sources such as Dow Jones News Retrieval and Value Line, Inc. *See* Exhibit 51 (BC-2).

In addition to the many other non-economic components of the rates BellSouth proposed in this docket, it also proposes a grossly overestimated cost of capital of 11.25%. Such an excess profit should be expressly rejected by the Commission consistent with the return proposed by Mr. Cornell.

6. Depreciation Lives

The Commission should reject the unrealistically short lives incorporated in the rates proposed by BellSouth, which would cause UNEs to be priced above TELRIC. Excessive depreciation rates result in overstated prices for UNEs and unwarranted contribution to BellSouth shareholders by CLEC customers. The effect of using lives and salvage values which are designed to recover past investments as quickly as possible in the context of developing unbundled network elements is essentially to assign this cost to the purchasing CLEC. This is inconsistent with developing unbundled network element prices based upon the least-cost most efficient forward-looking technology. Clearly, BellSouth's proposed depreciation lives should be rejected by the Commission.

AT&T/MCI witness Majoris recommended the use of regional economic lives consistent

with depreciation lives used for public reporting purposes. It is noteworthy that these financial book lives are conservatively biased to protect shareholders, not the interest of ratepayers. Mr. Majoris uses projection lives and future net salvage percent prescribed for BellSouth in Florida in 1995 by the FCC. The FCC's projection lives are of a forward-looking nature as confirmed by empirical tests. (Majoris, Tr. 1521-24) These depreciation rates are also specific to Florida. The FCC delegated the responsibility for selecting the depreciation lives to be used in TELRIC calculations to the FPSC. FCC First Report and Order, ¶ 29. The Commission should discharge that duty by adopting the depreciation lives sponsored by AT&T/MCI witness Majoris.

7. **Lack of Geographic Specificity**

There is little dispute among the parties that the cost of providing certain unbundled network elements varies, potentially significantly, based on the geographic area being studied. (Varner, Tr. 219) The cost of loop facilities, for example, has been shown to be geographically sensitive because the primary drivers of the cost of these facilities -- loop length and line density -- vary depending on the area being studied. (Wood, Tr. 1734) Cost-based rates, established pursuant to section 252 (d) (1), can and must reflect this demonstrated cost variability.

Loops are the single most critical element for the advent of competition. Whether new entrants build their own switching or purchase it from BellSouth, they will need loops from the incumbent if they are to serve anywhere except the most limited areas. Without geographical deaveraging, however, the Commission is engaging in little more than an academic exercise in setting loop rates. If BellSouth's use of state average loop prices is approved by the Commission, this would heavily advantage BellSouth in the competitive market by allowing the company to charge rates for loops in the more densely populated urban and suburban areas greatly in excess of the company's cost. These excessive rates would effectively establish a price floor for

BellSouth's competitors significantly above BellSouth's cost. The bottom line will be few loops will be purchased. This, in turn, will continue the status quo of no meaningful competition in Florida.

In order for the rates for unbundled network elements to be cost-based, it is necessary for those rates to reflect any significant geographic cost differences that may exist. The results of the Hatfield Model presented by AT&T and MCI in the arbitration proceedings illustrate the geographic cost differences for a 2-wire local loop. While the Commission chose not to rely on the results of this model when establishing rate levels, it can and should rely on the results of the model as a clear demonstration of the significant variations in the cost of providing a local loop in different geographic areas. BellSouth apparently agrees: in the cost proceeding established by the Georgia Commission to determine the cost of network elements and in several Universal service investigations in other states, BellSouth has presented the results of the Benchmark Cost Proxy Model ("BCPM"). BellSouth has used BCPM results to illustrate the cost differences associated with providing local loops in different geographic areas, and has used the results of the model to support its geographically deaveraged pricing proposal for local loops in Georgia. (Wood, Tr. 1734-35)

MCI/AT&T joint witness Don Wood has proffered the Hatfield Model as a means of determining how the cost of a local loop varies in different geographic areas. The results of the Hatfield Model utilizing the option to produce costs at the wire center (end office) level using inputs specific to BellSouth's territory in Florida are set forth Exhibit DJW-2. This exhibit compares the loop cost results specific to each wire center with the statewide average, and uses these values to develop a factor that, when applied to a statewide average loop cost, produces a

measure of the cost that is unique to each wire center. These factors when applied to the average loop cost would result in geographically deaveraged rates. (Wood, Tr. 1735-36)

8. Fill Factors

Current demand and the size of the network facilities necessary to serve the current demand must be correctly matched. Otherwise, current ratepayers are saddled with the cost of future growth. Where fill rates used result from a comparison of current working lines with total lines placed to serve current demand, an acceptable fill factor results. Similarly, where a fill rate results from a comparison of a projection of future working lines to total lines placed to serve current and future demand, a sound fill factor will result. In both cases, the Commission would be making an apples-to-apples comparison. However, a proposal to determine an appropriate fill rate by comparing current working lines with total lines placed to serve current and future demand is unacceptable because it would put the burden of future growth on current customers rather than allowing for rates charged to future customers to offset the costs caused by those future customers. Such a comparison would be comparing apples to oranges. (Wood, Tr. 1727-28) Such an apples to oranges comparison is exactly what BellSouth is proposing in this case. BellSouth witness Mr. Baeza explains at page 7 of his Direct Testimony that BellSouth places facilities with spare for future growth, yet calculates the fill factors used in its cost studies by simply dividing total capacity by existing demand. (See Wood, Tr. 1731-32)

In order to fully understand the distortion relating to BellSouth's use of fill factors, it is helpful to view BellSouth's methodology in a historical context. BellSouth has developed costs over the past decade in part on the following two correct principles: (1) the fill factors used in a forward-looking incremental cost study should reflect the level of fill at relief (also known as "objective fill"), and (2) a forward-looking incremental cost study should not include costs that do

not bear a causal relationship to the cost object being studied. (Wood, Tr. 1684) The above two assumptions are part of any valid TSLRIC methodology and should be applied in a forward-looking economic cost study.

In the present case, however, BellSouth has modified the principles it previously utilized. Specifically, BellSouth's modified fill factors used in its study from a projection of "fill at relief" to a level which represents the current level of fill in BellSouth's embedded network. This is an obvious attempt by BellSouth to recover the costs of its inefficient network rather than having cost be based on an efficient forward-looking network. BellSouth merely uses the actual fill of its embedded network, since, according to subject matter experts, the forward-looking fill would not change in the future, and has labeled its current embedded fill factors as forward-looking. An important principle that must be applied in the cost studies of this proceeding is the principle of cost causation. Specifically, BellSouth's studies should include those costs that are caused by the decision or requirement to offer the UNE or service being studied. (Wood, Tr. 1686, 1725) A forward-looking economic study, therefore, will include the cost that would be caused by an efficient provider to offer the UNE or service. Spare capacity must be appropriately treated in a cost study to avoid cost shifting. Although some spare capacity is unavoidable, e.g., some investments are lumpy, spare capacity that exists in a current network to serve future growth in the network is not properly included in a forward-looking economic cost study.[5] To the extent BellSouth has excess capacity in its current network, the actual fill factors will capture this excess capacity and overstate the costs of the TSLRIC/TELRIC cost of the network component. Similarly, use of actual utilization factors, which incorporate future growth expectations, will

[5] As explained in greater detail by AT&T/MCI witness, Don Wood, the inclusion of capacity which was not installed to serve existing demand, but was rather installed in anticipation of larger future demand, is not proper in a TELRIC study. (Wood, Tr. 1726-27)

result in a cost for unbundled network elements which charge current customers for future growth.

BellSouth, by using the actual fill from its embedded network, has included excess future growth capacity. (Wood, Tr. 1685, 1726-27) By applying the existing fill factors, BellSouth is in effect requiring new entrants to pay for BellSouth's investment needed to serve both current and future customers. The practical effects of this approach have serious implications: BellSouth's cost to serve the customers in the future will be paid for by its current competitors, BellSouth will be able to double recover its costs, and a significant barrier to entry will be created. *Id.*[6]

9. Vertical Features

Section 153(29) of the Act defines "network element" as not only the "facility or equipment" used in providing telecommunications services, but also the "features, functions, and capabilities that are provided by means of such facility or equipment." In its binding regulations, the FCC defined "local switching capability network element" to include, among other things, "all...features that the switch is capable of providing, including but not limited to custom calling [and] custom local area signaling service features." *See* FCC Rules 51.319(c)(1)(i)(C)(2) and Local Competition Order ¶ 413. Thus, when a CLEC purchases the local switching element at the cost-based rate set by this Commission, it is entitled to receive the vertical features of the switch as part of that cost. *See* Local Competition Order ¶¶ 412, 816. BellSouth, however,

[6] An example used by Mr. Wood makes the BellSouth flaw clear. Assume that a competitor pays $20 per month to BellSouth for an unbundled loop, based on a BellSouth calculated TELRIC study that used a fill factor based on BellSouth's embedded network. Since BellSouth is using a fill factor that includes spare for future use, the competitor is paying for the line being used and all or part of an additional line. If the end user customer wishes to purchase an additional line from a CLEC, the competitor would have to pay BellSouth an additional $20 to do so; however, no correction would be made for the fact that the competitor is now using some of the previous spare capacity for which it has already paid. In contrast, BellSouth could offer the second line for a very low price, because the competitor will have paid for the second line in the rate it paid for the first. Such an arrangement is discriminatory and in violation of the Act and the FCC Rules and should not be allowed. (Wood, Tr. 1729-30)

proposes to charge ALECs who are already purchasing local switching a separate charge every time a feature is activated, even when BellSouth does not incur any additional cost.

BellSouth used the SCIS model to develop individual and overall costs for only 28 of the more than 1,000 vertical features potentially available, separate and apart from the price of the port. While SCIS may be an appropriate model for developing individual retail source rates and features, it was designed to determine the appropriate price for lease of the capabilities of the switch. In acquiring the ability to offer vertical services, a CLEC is leasing all the features and functions of the switch, of individual vertical services. BellSouth has allocated a "getting started" cost, or form of fixed up-front overhead to the traffic sensitive minute of use element for vertical features, a practice which clearly violates cost causation principles. These "getting started" costs do not vary with the number of features ordered by an ALEC. Instead, they are driven by the computer processing time necessary to set-up the features in the switch. As long as the switch has adequate capacity, there will not be additional investments when an ALEC adds a feature. Therefore, BellSouth's use of a separate recurring charge for vertical features is inappropriate and results in over recovery of vertical features.

The Commission should reject BellSouth's attempt to overrecover processing costs associated with setting up vertical features capability through a recurring charge based on a per feature cost for vertical features.

C. AT&T's and MCI's Non-Recurring Cost Model ("NRCM")

1. General Description

The pricing standards set forth in Sections 251(c) and 252(d) of the Act apply to all rates charged for UNEs and interconnection services regardless of whether those rates are recurring or non-recurring. Accordingly, non-recurring rates must be "based on cost (without reference to

rate of return or other rate-based proceedings)" and "nondiscriminatory." Furthermore, to be consistent with the Act's pricing standards and the goal of promoting competition in Florida's local exchange markets, nonrecurring rates should be based on costs associated with the most efficient forward looking technologies and processes. AT&T and MCI's Non-Recurring Cost Model or ("NRCM") is consistent with the pricing standards of the Act and will promote competition in Florida's local exchange markets.

The importance of these principles in the context of non-recurring charges cannot be overemphasized. If they are ignored, CLECs will be saddled with inflated up-front charges which will make it very expensive to acquire new customers. Non-recurring charges are the one time cost estimates for the tasks and activities that may be performed by an ILEC when a CLEC requests wholesale services, interconnection, and/or unbundled network elements. If this Commission fails to establish the cost of non-recurring charges based on efficient, forward-looking technology and processes, CLECs will face a daunting barrier to competition in the form of prohibitively high non-recurring charges which must be paid for each new customer acquired.

Using BellSouth's non-recurring charges, a CLEC could have to pay hundreds of dollars to acquire one new customer. One only has to multiply this cost times even a small number of new customers to see that the acquisition cost can become daunting. This is especially troubling when the PIC-change fee in the long distance market, is $1.49, a sum which more than compensates BellSouth for its costs. Thus, if the Commission sets non-recurring charges too high, without regard to the standards of the Act, CLECs will be reluctant to enter Florida since these charges may be cost-prohibitive.

To arrive at what is truly the cost of non-recurring charges, MCI and AT&T developed the NRCM, which uses a forward-looking cost methodology and a "bottoms up" estimate of these

costs. (Lynott, Tr. 1242) Most of the non-recurring costs which the NRCM models involve activities associated with the pre-ordering, ordering and/or provisioning process. The NRCM assumes that pre-ordering, ordering, provisioning, repairs, maintenance, and billing processes are handled electronically through OSS in a highly automated, accurate and rapid manner with little to no human intervention. Due to the high reliance on time-consuming human intervention, a major driver of high non-recurring cost is labor time. However, advanced OSS has significantly reduced the incremental non-recurring costs associated with these functions. Of course, the same efficient OSS functions are necessary to meet the nondiscriminatory access or parity requirements of Section 271 of the Act. Put simply, the NRCM provides the Commission with the costs and rates associated with the OSS functions required by Section 271 of the Act, not the inefficient non-Section 271 compliant systems BellSouth claims to currently provide. By assuming forward-looking, efficient OSS, the NRCM properly calculates the appropriate non-recurring costs for the wholesale sale of UNEs.

2. NRCM Fallout

Before the advent of efficient operations support systems, the provisioning of a customer's service request was a manual, labor intensive effort vulnerable to human error and service delays. (Lynott, Tr. 1211) Telecommunications networks have now evolved to eliminate the manual labor component and instead rely upon efficient, high availability electronic OSS in order to minimize cost and maximize performance quality and reliability. These automated systems provide for "flow through", "meaning that the processing of a problem or request for service would flow through several computer systems and be resolved without human intervention." (Lynott, Tr. 1211) When orders do not flow through automatically, they are deemed to "fallout" out of the electronic process and require manual intervention to correct or complete the

order. (Lynott, Tr. 1214)

Fallout is important because in many instances it is the only cost driver for an otherwise seamless electronic flow-through process. (Lynott, Tr. 1210-12, 1240) With OSSs that are well managed and maintained, the rate of fallout is expected to be minimal, especially in a competitive environment. This is true because fallout affects the customer in terms of longer delivery intervals and restoration/response times, as well as higher costs of providing service, conditions a competitive company can ill afford. (Lynott, Tr. 1215) Therefore, the NRCM assumes a conservative fallout rate of 2%. (Lynott, Tr. 1215)

3. **Efficient Network Equipment**

The NRCM, as a forward-looking cost model, also incorporates the efficiencies of Local Digital Switches, Integrated DLC with a GR-303 interface, Digital Cross-Connect Systems and Synchronous Optical Network ("SONET") rings for transport, which provide for the maximum electronic flow-through for provisioning of orders. (Lynott, Tr. 1217) By contrast, even though BellSouth is deploying these architectures today (Lynott, Tr. 1242), its non-recurring cost model does not incorporate these efficiencies, resulting in an overestimation of manual intervention costs.

While ILECs, including BellSouth in its model, typically model installation non-recurring charges to include the cost of disconnection, the NRCM separates installation and disconnection for costing and pricing purposes. As stated by AT&T and MCI witness, John Lynott, the rationale for this method is twofold: (1) it recognizes that BellSouth should only receive the revenue for the disconnection at the time of the actual disconnection, eliminating a "time value of money" concern inherent in most current BellSouth methodologies; and (2) the disaggregation of installation and disconnection costs and prices also allow the new entrant to benefit from the long-

standing and efficient practices with respect to Dedicated Inside Plant ("DIP") and Dedicated Outside Plant ("DOP"). (Lynott, Tr. 1230-31) The DIP and DOP processes allow for rapid activation or de-activation of services at an end user location without the need for physical disruption of the facility because a command from the OSS to the network element will either activate or de-activate the service. BellSouth's current disconnect policy adheres to this principle. Thus, by modeling the installation separately from disconnect, the new entrant would have the same benefits from the DIP and DOP processes as would BellSouth.

D. BellSouth's Non-Recurring Cost Model

1. General Description

In its NRC cost study, BellSouth attempts to identify functional activities, to assign a number of work force hours to that activity, and to multiple those hours by a labor rate to produce a non-recurring rate. Importantly, the technology and network architecture assumed impacts directly the functional activities to be performed, and the number of work force hours necessary to perform such activities. BellSouth's failure to use forward-looking, least cost, most efficient technology and network architecture results in an overstatement of necessary work functions, travel times, fallout of orders, and time necessary to complete other tasks. (Hyde, Tr. 1758, 1764-66)[7]

2. Non-Efficient Technology and Processes

To comply with TELRIC principles, BellSouth should have used (1) the most forward-looking, least cost, and most efficient OSS systems to minimize manual intervention (labor costs),

7 In his Rebuttal Testimony at pages 11 and 12, MCI/AT&T joint witness John Lynott summarizes the major distinctions between the NRC cost study presented by MCI and AT&T and the NRC study presented by BellSouth. (Lynott, Tr. 1245-46)

(2) based its fallout and time estimates on forward-looking technology rather than outdated surveys of its service centers, (3) forward-looking technologies, such as integrated DLC with a GR-303 interface, which would have eliminated unnecessary additional conditioning and multiplexing equipment that inflates the level of investment and unnecessary non-recurring processes, such as engineering and work groups. (Hyde, Tr. 1760-62) This failure to use least-cost equipment and most efficient processes renders the BellSouth proposed non-recurring costs unusable.

If BellSouth were to assume forward-looking technologies, such as integrated DLC with a GR-303 interface in its cost studies, the software based stored program technology would allow for flow-through provision and maintenance from upstream OSS systems right down to the network elements in a matter of seconds with little or no human intervention. This would eliminate the cost contained in BellSouth's studies to run manual cross connections to the main distribution frame every time a customer changes providers. (Hyde, Tr. 1762-64) Further, had BellSouth used forward-looking, least cost, most efficient technology, new entrants would be able to do ordering electronically via BellSouth's OSS, eliminating the non-recurring cost for the unnecessary activities of BellSouth's so-called Local Customer Service Center ("LCSC"). (Hyde, Tr. 1764-65) To include additional and unnecessary and manual intervention from the LCSC would delay the provisioning and increase the cost. The assumed LCSC activities are inappropriate in light of the FCC's requirement that electronic interfaces be available by January 1, 1997. By assuming manual intervention at the LCSC, BellSouth's cost studies do not reflect the least cost, most efficient OSS modeling assumptions. As a result, this Commission should require BellSouth to eliminate all unnecessary manual costs associated with service ordering.

As previously ordered by this Commission, Order PSC-96-1579-FOF-TP, page 89, BST should not be allowed to recover the incremental investment cost to put OSS interconnect systems in place for CLECs. This is a substantial barrier for entry into this business for new entrants. Each participant in this business is already establishing new and costly processes to interconnect effectively with BST. If each party is responsible for its own costs in this area, each participant will be driven to establish a least cost and efficient interface. If the new entrants are required to pay whatever cost BellSouth undertakes and any subsequent costs due to inappropriate assumptions of fallout, BellSouth will not necessarily build the most effective least cost system.

3. **Fallout Assumptions**

In its other states, BellSouth's cost studies have assumed that 80% of orders are handled electronically and 20% of orders require manual intervention. While even 20% manual is way too high, incredibly BST's NRC cost study assumes in Florida a 100% "fall-out" – or manual processing of all order. In other words, BST developed costs assuming manual order processing. To derive proposed costs for electronic orders in Florida for the elements at issue in this case, BST made a subsequent unsupported adjustment to that manual cost. (Hyde, Tr. 1759; Lynott, Tr. 1241)

A high fallout rate assumption inflates the non-recurring costs. With an efficient system, fallout of orders should be minimal, and manual intervention would not be required. No firm in a competitive environment could afford to rework even 20% of its orders. (Selwyn, Tr. 1350) BellSouth's assumption of this high level of fallout is far from the least cost, most efficient technology, and should be rejected.

4. Travel Cost Assumptions

Another example of inflated non-recurring costs are due to overestimated travel costs in BellSouth's model. BellSouth has assumed that travel time of 20 minutes to and from BellSouth's office would be required to complete particular tasks. Travel time estimates are also based on the 1990 studies from which BellSouth has drawn its other time estimates. However, travel time will rarely be necessary where the facilities are in place and provisioning functions occur remotely and electronically as would be done utilizing least cost, most efficient technology. Further, even when dispatch is required, the level of time BellSouth has assumed per order is excessive and assumes that employees are dispatched on a per order basis. But, an efficient provider would assign employees several tasks per trip. In fact, BellSouth does not send employees out on a per order basis and should not be using such an assumption in its cost studies. (Hyde, Tr. 1765-66)

In summary, BellSouth's non-recurring cost model does not assume forward-looking, least cost, most efficient technology and network architecture. As a result, BellSouth overstates necessary functions to be performed and the cost to perform the functions. Further, BellSouth's cost model overstates certain costs due to inconsistent application of methodology. Hence, BellSouth's non-recurring cost model should be rejected.

E. Collocation

1. General

Collocation represents a critical way that a new entrant can provide competition to BellSouth. Physical collocation refers to an arrangement where would-be competitors are actually allocated designated space in a BellSouth Central Office for location of their equipment. In this docket, as well as the Commission's docket which focused on Section 271 of the Act,

BellSouth has sought to have complete control over the process of obtaining physical collocation. BellSouth has sought through its Collocation Handbook and the rates proposed in this docket to use physical collocation as a barrier to CLEC entry in Florida's local exchange markets. In this case, would-be competitors have presented an alternative to BellSouth's proposed arbitrary and onerous rates for collocation services.

2. Requirements of the Act

Section 251 (c)(6) of the Act provides that BellSouth's duties include:

> (6) COLLOCATION. -- The duty to provide, on rates, terms, and conditions that are just, reasonable, and nondiscriminatory, for physical collocation of equipment necessary for interconnection or access to unbundled network elements at the premises of the local exchange carrier, except that the carrier may provide for virtual collocation if the local exchange carrier demonstrates to the State commission that physical collocation is not practical for technical reasons or because of space limitations.

Rates for collocation, like those for recurring and non-recurring charges for unbundled network elements, should reflect the forward-looking long-run incremental costs of collocation. (Klick, Tr, 1000) Again, the pricing standards contained in Section 252(d) of the Act apply. The rates for collocation put forward by MCI and AT&T in this case are the only forward-looking rates for collocation in evidence. Put another way they are the only rates which meet the pricing standards set forth in Section 252(d) of the Act.

3. AT&T's and MCI's Collocation Cost Model

The collocation model jointly sponsored by AT&T and MCI (hereinafter "Collocation Model") uses forward-looking costs and satisfies the non-discrimination requirement of the Act by basing the cost calculations and rates for collocation services on TELRIC. (Klick, Tr. 1000-1001) As a result, prices for physical collocation will provide appropriate signals to both providers and consumers, and ensure efficient entry and utilization of the basic local exchange

infrastructure. (Klick, Tr. 1000) The Collocation Model attributes costs on a cost-causative basis.[8] Specifically, the Collocation Model uses cost-causative principles to associate forward-looking costs of capital (debt and equity) needed to support investments required to provide physical collocation efficiently. The Collocation Model estimates overhead costs by incorporating a 10.4% mark-up, and includes the required overhead costs to the extent that such costs vary with the output of a particular activity or capability. (Klick, Tr. 1001) If truly common overhead costs exist, the costs are recovered from each activity on a competitively-neutral basis in order to meet the non-discriminatory requirements of the Act.

By using investments that an efficient ILEC would need to make to provide collocation space to potential CLECs, the Collocation Model estimates the costs associated with physical collocation. The Collocation Model recognizes efficient utilization of DC Power Plant and common space as a result of locating multiple collocators together in an efficient matter. The Collocation Model also addresses ILEC security concerns by including the costs of security access cards for controlled access by CLEC representatives into the Central Office. (Bissell, Tr. 1034) These assumptions are consistent with the forward-looking, least-cost approach of the Model.

Under the Collocation Model's assumption, physical collocation primarily consists of setting up metal cages[9] to hold CLEC telecommunications equipment, and providing the

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[8] Costs are considered causally-related to the particular activity or capability when the costs are incurred as a direct result of providing the item, or can be avoided, in the long run, when a company ceases to provide that activity or capability. (Klick, Tr. 1001)

[9] BellSouth witness Dorissa Redmond attempts to use the scare tactic of electrocution to force ALECs into an unnecessary and expensive gypsum board collocation. She admits in her deposition that she is not an expert in grounding and that she has not even read the grounding practices issued by switch suppliers. (Ex. 22, Deposition of Dorissa Redmond, p. 110) In contrast, Rick Bissell has actually deployed transmission equipment using isolated grounding. He explained in detail how the metal cages are grounded and how, as a result, there is absolutely no danger associated with them. (Bissell, Tr. 1054-56, 1111-12) (continued)

following connectivity: fiber from the CLEC coming from the main hole into the cable vault and to the collocation cage; copper connections to the ILEC cross-connects to pick up unbundled loops or connect to the ILEC network; and connectivity to the –48V DC power source. This requires building the cage, installing cables on racks, and properly grounding the equipment. The Collocation Model assumed the best practices for implementing collocation (use of only as much building space, labor, and materials as needed to properly place all equipment, including the appropriate amount of space for auxiliary equipment). (Bissell, Tr. 1017-18) This assures only the inclusion of costs associated with an efficiently located collocation space. The Collocation Model also assumed a new urban Central Office designed for up to 150,000 lines, together with associated transport, power, multi-media and miscellaneous equipment space. (Bissell, Tr. 1019) The Model Central Office layout contains enough space to house all the equipment needed in the largest urban COs; and, indeed, is the general layout used over the past five years in planning new COs. (Bissell, Tr. 1022-23) Smaller urban, suburban and rural situations will require less telecommunications equipment; thus, the Model Central Office layout provides a conservatively high estimate of collocation investment costs for other areas. (Bissell, Tr. 1023-24)

Consistent with forward-looking, least cost principles, investment for the infrastructure, power delivery and consumption; construction elements associated with building and maintaining the collocation cage; manpower resources; and other investment components were estimated by identifying all the specific elements needed to provide the components and obtaining competitive

(..continued) BellSouth also attacks the wire mesh proposal by claiming that it does not meet the one-hour fire separation requirement for multi-tenant arrangements. The baselessness of this claim, however, was revealed when Ms. Redmond admitted that BellSouth's own proposal does not met this requirement. (Ex. 22, p 106) Ms. Redmond also admitted that the multi-tenant rule does not apply to collocation and that BellSouth has not even bothered to formally challenge the small number of local code officials who had opined that the rule did apply. (Ex. 22, p 106)

quotes for the engineering, furnishing, and installation of the elements. (Bissell, Tr. 1028-32)[10] Of course, the location of the Collocation space assumed in the Collocation Model is not better than the space occupied by BellSouth - but, it is also no worse.

Simply put, the Collocation Model provides for recovery of costs (including a reasonable profit) associated with a modern, secure, but somewhat spartan, collocation space. Not the kind of place where one would want to spend their vacation, but certainly a functional and safe place to house telecommunications equipment.

The AT&T/MCI Collocation Model also models virtual collocation. Virtual collocation is an arrangement that allows the ALEC to place its own equipment in an area of a CO currently used by the ILEC to house its equipment. (Bissell, Tr. 1035) Like physical collocation, virtual collocation provides a means by which new entrants can concentrate traffic from unbundled loops (and other elements) in order to transport that traffic to the ALEC's switch.

The virtual collocation portion of the model uses the same best practices approach to identify investment components and installers described above for physical collocation. (Bissell, Tr. 1036, 1038) Of course, due to the different nature of virtual collocation there are some significant differences. For example, there are no cage construction costs. (Bissell, Tr. 1036) Finally, while ALEC personnel will not normally visit virtual collocated equipment for day-to-day operations, there may be instances when it is necessary for ALEC engineering or maintenance personnel to visit the ILEC CO. Since virtual equipment areas are not segregated from ILEC equipment areas, it is reasonable to expect that an ILEC security escort be in attendance during

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10 The source used for the per square foot cost of building space was R.S. Means. Even BellSouth's witness Dorissa Redmond conceded that "the R.S. Means is perhaps the best estimating tool of its type on the market." (Redmond, Tr. 787) As Ms. Redmond pointed out, R.S. Means is based on data throughout the United States. (Id. at 788) This is hardly a criticism, however, since it actually causes the model's results to be more conservative than they would have been if state specific figures had been used. State-specific R.S. Means weighted averages for Florida are only 88 to 89 percent of the national average. (Bissell, Tr. 1109-10)

the entire time of an ALEC visit. It is also reasonable to establish maximum response times for the elapsed interval between when an ALEC requests an appropriately qualified ILEC technician at a particular CO, and when a technician arrives and makes contact with the ALEC. The response times and charging increments for both maintenance and security escort requests vary depending on the type of CO. MCI's recommended response times and charging increments are set forth on page 29 of Mr. Bissell's Direct Testimony. (Bissell, Tr. 1041)

4. BellSouth's Proposed Collocation Rates

BellSouth's proposed collocation rates are overstated and inflated, thereby creating a barrier to new entrants attempting to enter the local telecommunications market. These proposed rates result from overstated costs which is caused by BellSouth's failure to use economic materials for enclosure of collocation areas, resulting in unnecessary equipment and labor costs, inclusion of unnecessary demolition costs, arbitrary placement of ALECs in the Central Office and the excessive estimates of material costs.

First, BellSouth is proposing to recover costs to construct collocation space using stud and drywall construction with space at the top and base of each wall for ventilation. A rigid polyethylene security screen will also be applied between the top of the drywall and ceiling deck. The drywall will be wet sanded and painted. Flush hollow core steel doors complete with welded hollow metal door frames will be installed. However, as stated by AT&T and MCI witness, Richard Bissell, such construction is unnecessary for safe and secure collocation space. Rather, as provided for in the Collocation Model, the use of metal cage materials will provide a considerably less costly, flexible, more consistent ambient environment for physical collocation. Appropriate grounding requirements are met by using wire mesh which will provide increased security due to increased visibility. (Bissell, Tr. 1111-12) In fact, physical collocation areas

established in other territories incorporate the use of wire mesh cages. (Bissell, Tr. 1078)

Moreover, the use of drywall will require additional unnecessary processes. For example, the insulation of drywall will cause restriction to the overall ambient lighting and air conditioning, resulting in the need for additional lighting and air conditioning equipment. Drywall also requires joint compounding, wet sanding and painting, resulting in additional work force hours and longer preparation time. In addition, BellSouth intends to install a dust protection partition to protect telephone equipment during drywall construction. If materials such as prefabricated wire mesh was used, rather than drywall, then dust protection would not be required! (Bissell, Tr. 1053-54, 1056-57)

The most troubling aspect of BellSouth's proposal is that BellSouth alone would have the final word on where the collocation facility is placed. This is troubling because the placement can dramatically effect the costs.[11] For example, the greater the distance of the collocation from the cross connects, the more cabling costs the ALEC will have. Further, BellSouth forces ALECs to pay for the demolition of administrative space and the removal of asbestos. Thus if BellSouth selects a collocation area which requires asbestos removal, the ALEC pays the costs of removal. In other words, if there are two available spots for a collocation, one vacant and next to the cross connects, the other, on the opposite side of the building containing abandoned administrative space and asbestos, BellSouth alone would select which space would be used. (Ex. 22, p. 104, 114-15) If BellSouth selected the worst and most expensive spot in the CO, the ALEC apparently would have no recourse. BellSouth witness Dorissa Redmond's one suggestion for the ALEC who is offered an unacceptable space was that the ALEC had "the option of refusing it."

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11 The FCC recognized, for example, that if an ILEC is allowed to charge for regeneration, it would not have an incentive to locate competitors in the most efficient location available and it would be able to discriminate against them. (Hyde, Tr. 1762-63; FCC 97-208, Para. 117-20)

(Ex. 22, p. 104) Sadly, it seems that this is exactly the result which BellSouth desires.

BellSouth's proposal is clearly intended to *manufacture* considerable unnecessary costs, which will impact new entrants. Indeed, BellSouth's proposed overbuilt collocation space seems obviously designed to create entry barriers. In contrast to the spartan, but practical, collocation space proposed by MCI, BellSouth seeks to recover costs associated with a "luxury collocation condo." The high rents charged for a stay in BellSouth's "collo condo" effectively bar entry by would-be competitors and certainly violates the pricing standards of the Act. Allowing BellSouth to collect high rents resulting from their inefficient practices will retard competition, frustrate the intent of the Act, and ultimately harm Florida's consumers. For that reason, the Commission should reject the rates for collocation proposed by BellSouth and adopts the rates supported by AT&T's and MCI's Collocation Model.

For the above reasons, BellSouth's Collocation Model should be rejected. Adoption of such a model would impose excessive costs on new entrants and is inconsistent with the least cost, efficient methods that would be used in a competitive environment.

II. CONCLUSION

For the foregoing reasons, the Commission should adopt the MCI/ATT rates for UNEs. These proposed rates are based on the cost of forward-looking, efficient procedures and technologies. The Non-Recurring Cost Model sponsored by MCI and AT&T establishes forward-looking nonrecurring rates for UNEs. The Collocation Model sponsored by MCI and AT&T establishes forward looking rates for physical and virtual collocation. The recommendations for recurring rates for the remaining unbundled elements are based on adjustments and corrections to BellSouth's studies recommended by MCI and AT&T witnesses in

this proceeding. These recommended rates are set forth in the attachments to the testimony of AT&T witness Wayne Ellison.

RESPECTFULLY SUBMITTED this 3rd day of March, 1998.

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I HEREBY CERTIFY that a copy of the foregoing was furnished to the following parties by U.S. Mail or hand delivery(**) this 3rd day of March, 1998.

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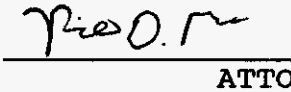

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