BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of	**DOCKET NO. 990649-TP**
INVESTIGATION INTO PRICING OF UNBUNDLED NETWORK ELEMENTS.	

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PROCEEDINGS:	HEARING
BEFORE:	CHAIRMAN J. TERRY DEASON COMMISSIONER E. LEON JACOBS, JR. COMMISSIONER LILA A. JABER
DATE:	Friday, October 20, 2000
TIME:	Commenced at 10:00 a.m. Concluded at 10:40 a.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	JANE FAUROT, RPR FPSC Division of Records & Reporting Chief, Bureau of Reporting (850) 413-6732

APPEARANCES:

(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

P R O C E E D I N G S

MR. FONS: Finally, Sprint has offered the testimony of Talmage O. Cox, III, consisting of refiled direct testimony of 15 pages dated August 21st, 2000, and we would ask that that refiled direct testimony be inserted into the record as though read.

CHAIRMAN DEASON: Without objection it shall be so inserted.

MR. FONS: Associated with Mr. Cox's refiled direct testimony were four exhibits, TOC-1, 2, 3, and 4, and we would ask that those be marked for identification purposes at this time.

CHAIRMAN DEASON: Yes, Exhibit 158.

MR. FONS: And Sprint would ask that Exhibit 158 be admitted into the record.

CHAIRMAN DEASON: Without objection, Exhibit 158 shall be admitted.

(Exhibit 158 marked for identification and admitted into the record.)

MR. FONS: Mr. Cox also prefiled refiled rebuttal testimony dated August 21st, 2000, consisting of 13 pages. Sprint would ask that that be inserted into the record as though read.

CHAIRMAN DEASON: Without objection it shall be so inserted.

MR. FONS: And, finally, Mr. Cox prefiled additionally rebuttal testimony dated August 28th, 2000, consisting of three pages, and Sprint would ask that Mr. Cox's additional rebuttal testimony be inserted in the record as though read.

CHAIRMAN DEASON: Without objection, it shall be so inserted.

SPRINT
DOCKET NO. 990649-TP
FILED AUGUST 21, 2000

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REFILED DIRECT TESTIMONY

OF

TALMAGE O. COX, III

Q. Please state your name, business address, employer and current position.

A. My name is Talmage O. Cox, III. My business address is 901 East 104th Street, Kansas City, Missouri, 64131. I am employed as Manager of Service Cost for Sprint/United Management Company. I am testifying on behalf of Sprint-Florida, Inc. and Sprint Communications L.P. (hereafter referred to as "Sprint").

Q. What is your educational background?

A. I received an Associate in Arts Degree from National Business College, Roanoke, Virginia, in 1977 with a major in Business Administration -- Accounting. Subsequently, I received a Bachelor of Science Degree from, Tusculum College - Greeneville, Tennessee, in 1986 with a major in Business Administration.

Q. What is your work experience?

A. I have worked for Sprint since 1978. Prior to my current position, I have held several positions with Sprint in costing. I developed cost studies and methodology associated with various services and special projects for state jurisdictional filings in Tennessee, and Virginia. While working in this position I was the Telecordia Switching Cost Information System (SCIS) Administrator for ten years responsible for coordinating model questions with Telecordia and assisting other users when needed. For the past four years, in my current position I have primary responsibility for developing the costing methodology and the module for interoffice transport associated with Sprint's Unbundled Network Element (UNE) transport cost module as well as the transport module contained in proxy cost models.

Q. Have you previously testified before other Public Utility Commissions?

A. Yes. I have previously testified before state regulatory commissions in Kansas and Texas.

Q. What is the purpose of your Testimony?

A. To respond to the following Tentative List of Issues (Appendix A) from the second revised order on procedure in reference to the Investigation Into Pricing of Unbundled Network Elements in Docket No. 990649-TP: Issues 7(n) and 7(r).

Q. What does the FCC say about unbundled interoffice transmission facilities?

A. FCC Rule 51.319 (d) defines unbundled Interoffice Transmission Facilities "… as incumbent LEC transmission facilities dedicated to a particular customer or carrier, that provide telecommunications between wire centers owned by incumbent LECs or requesting telecommunications carriers, or between switches owned by incumbent LECs or requesting telecommunications carriers."

The unbundled Interoffice Transmission Facilities element, or simply "transport", is composed of the two basic network components: terminals and fiber cable. Terminals are the equipment housed at the central office locations, which serve as entry and exit points for telecommunications traffic to be moved between

interoffice points in the network. In the majority of today's transport networks and certainly in a forward-looking network, these interoffice terminals will be optically capable. Additionally, the fiber transport routes in a forward-looking network are constructed in ring design, which provides diverse routing capability in the event of a fiber cable cut, or terminal node failure. This forward-looking transport network design is commonly referred to as survivable SONET ring technology.

Q. What does the FCC 96-325 First Report and Order say about the unbundling of transmission facilities?

A. FCC 96-325, First Report and Order, Paragraph 440, States,

> "We require incumbent LECs to provide unbundled access to shared transmission facilities between end offices and the tandem switch. Further, incumbent LECs must provide unbundled access to dedicated transmission facilities between LEC central offices or between such offices and those of competing carriers. This includes, at a minimum, interoffice facilities between end

offices and serving wire centers (SWCs), SWCs and IXC POPs, tandem switches and SWCs, end offices or tandems of the incumbent LEC, and the wire centers of incumbent LECs and requesting carriers. The incumbent LEC must also provide, to the extent discussed below, all technically feasible transmission capabilities, such as DS1, DS3, and Optical Carrier levels (e.g. OC-3/12/48/96) that the competing provider could use to provide telecommunications services. We conclude that an incumbent LEC may not limit the facilities to which such interoffice facilities are connected, provided such interconnection is technically feasible, or the use of such facilities. In general, this means that incumbent LECs must provide interoffice facilities between wire centers owned by incumbent LECs or requesting carriers, or between switches owned by incumbent LECs or requesting carriers. For example, an interoffice facility could be used by a competitor to connect to the incumbent LEC's switch or to the competitor's collocated equipment."

ISSUE 7: What are the appropriate assumptions and inputs for the following items to be used in the forward-looking recurring UNE Cost Studies?

(n) Terminal Costs;

Q. What are the appropriate assumptions associated with the development of terminal cost inputs?

A. The terminal cost inputs should recognize the following key assumption items:

- Terminal Cost Based on ILEC Specific Data
- Utilize Forward Looking Technology
- Optical Based Transmission Equipment Costs Only
- Capable of Costing OC3, OC12, and OC48 Transport Rings Individually
- Reflect the Use of LEC's Existing Wire Centers
- Include the Cost Associated with Survivability

More specific the terminal cost should be developed by terminal bandwidth (OC3, OC12, OC48) and should include all of the common components required to make it operational. This would include the following components; relay racks, shelves, line interface,

common shelf processor, trib shelf processor, receive/transmit access module, tributary transceiver, line shelf power supply, common shelf power supply, ring controller, synchronizer card, USI-LAN interface, software, cables, cover, DS3 switch, transmitters, craft interface equipment and software, and common complement of spare equipment. In addition to the above common equipment, additional line or drop interface equipment will be required for the hand off of DS1's, DS3's, OC3's and OC12's.

(r) Transport System Costs and Associated Variables;

Q. What network components should be included in the development of transport system costs?

A. The development of interoffice transport system costs for UNE's should include all of the direct cost components required for the service to be fully functional. The transport system cost inputs should utilize/recognize the following items:

- Fiber optic cable
- Fiber tip cable
- Fiber patch panel

- Fiber optic terminals (OC-3, OC-12, and OC-48)
- OC-3 cards
- OC-12 cards
- DS-3 cards
- DS-1 cards
- Installation cost
- Capacity
- Utilization factors
- Pole and conduit factors
- Annual charge factors
- Aerial, buried, underground mix

Q. Should traffic volume (Associated Variables) be considered in the development of transport costs?

A. Yes. The largest single determinant in the unit cost of a DS1, DS3, OC3 or OC12 transport circuit, is the volume of telecommunications traffic transmitted over a specific transport route. This volume of traffic, or demand, determines both the appropriate capacity sizing of the terminal equipment and fiber cable. Additionally, it defines the units over which these costs are spread. In cost determination, this basic

principle is referred to as utilization. As volumes of traffic vary across specific transport routes, so does the sizing and utilization of terminals and fiber cable, and ultimately the resulting unit costs. This concept is illustrated in a series of Exhibits to this testimony.

Q. Should terminal bandwidth OC3, OC12, OC48 (Associated Variables) be considered in the development of transport costs?

A. Yes. Looking first at Exhibit TOC-1, it shows the decrease in DS1 unit costs as larger terminals are deployed. This analysis indicates that as traffic volumes or demand increases, larger terminals with increased capacity are used. Use of larger terminals associated with increased traffic volume results in greater economies and lower unit costs. This same relationship of increased demand driving down unit costs is also illustrated in Exhibit TOC-2, which shows the decreases in DS1 unit costs as demand, and therefore terminal utilization, increases.

A basic characteristic of fiber cable is that the volume of traffic that can be carried over fiber is a

function of the optical terminal's bandwidth/capacity (OC3, OC12, OC48) placed on the fiber ring. From this basic principle, it follows that the same traffic volume that drives the unit cost of the terminals is also a major determinant in the transport unit cost of the fiber. The same relationship exists for fiber as terminals, in that the more traffic that a specific transport route carries, the lower the unit cost of DS0, DS1, DS3, OC3 or OC12 on that route.

Q. Should distance (Associated Variables) be considered in the development transport costs?

A. Yes. It is obvious that as the distance around a transport ring increases, more fiber cable must be placed, thereby increasing the cost of bandwidth on that ring. The impact of increasing distance on DS1 unit cost is illustrated on Exhibit TOC-3. Related to the impacts of distance on transport unit costs is the fact that as distance increases the likelihood for needing multiple survivable SONET rings to connect the two network end points increases. Exhibit TOC-4 illustrates the increases in unit cost that result from using multiple rings to transport traffic between two points. The potential use of multiple rings to

transport traffic between certain end offices is unavoidable due to ultimate capacity constraints of terminal equipment and the need to construct fiber rings that link the predominant communities which originate and terminate the largest volumes of traffic on any given ring. Two communities with a relatively smaller need (i.e. volume) for transporting traffic between themselves would normally not exist on the same ring. Therefore, in order to transport the relatively lower volumes of traffic between these two communities, multiple ring connections are required.

In summary, unbundled transport unit costs vary between specific geographic points due to the underlying variances in the traffic volumes, distances and ring designs that commonly occur in the network. In order to properly estimate the geographic-specific forward-looking cost of unbundled transport facilities, the impact of these geographic-specific factors must be considered.

Q. What is the difference between point-to-point and fiber ring transmission systems?

A. Fiber ring technology represents the current state-of-the-art transport design. The most significant characteristic is the use of fiber rings, rather than point-to-point connections, which provide route diversity. Should the cable making up part of the ring be broken, traffic is automatically rerouted over the remainder of the ring. Ring technology has become the industry standard technology, such that asynchronous point-to-point systems can no longer be purchased from vendors.

Q. What does the FCC Order say about fill factors?

A. FCC 96-325, First Report and Order, Paragraph 682 states,

> "Per-unit costs shall be derived from total costs using reasonably accurate "fill factors" (estimates of the proportion of a facility that will be "filled" with network usage); that is, the per-unit costs associated with the element must be derived by dividing the total cost associated with the element by a reasonable projection of the actual total usage of the element."

Q. Please describe what is meant by "reasonably accurate fill factors" (FCC Order Paragraph 682).

A. Fill or utilization factors are the percentage of available network capacity actually used. Utilization is due to three factors.

1. When engineering and building telecommunications facilities, LECs attempt to anticipate future needs. For example, it is more cost-effective to dig a trench once and install additional facilities, than to dig up the trench and install new facilities every time a new loop is required.

2. It is the nature of the telecommunications industry that capacity is acquired in large blocks. Additional capacity will exist while demand grows into the available capacity.

3. An engineering interval, a period of time necessary to plan and construct facilities, is required when replacing or expanding capacity.

Efficient deployment balances the cost-benefit relationship of unused capacity and the cost of installation. Not enough capacity results in inefficient rework (e.g. digging new trenches every month); too much capacity is an inefficient use of resources (e.g., burying plant that will never be used).

Q. Is the use of a theoretically high, optimal utilization factor appropriate for telephone companies?

A. No. This is in large part due to the nature of transmission capacity. For example, an OC-3 system has the capacity of 3 DS3s. An OC-12 system has the capacity of 12 DS3s. When an OC-3 system is exhausted and replaced with the larger OC-12 system, its maximum utilization at the time of cutover is only 25% (3 DS3s / 12 DS3s). In reality, the cutover takes place prior to absolute exhaustion, so the actual utilization at cutover must be less than 25%.

The same phenomenon occurs when cutting over from an OC-12 to an OC-48 system.

Q. Does this conclude your testimony?

A. Yes.

SPRINT
DOCKET NO. 990649-TP
Filed: AUGUST 21, 2000

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REFILED REBUTTAL TESTIMONY

OF

TALMAGE O. COX, III

Q. Please state your name, business address, employer and current position.

A. My name is Talmage O. Cox, III. My business address is 6360 Sprint Parkway, Overland Park, Kansas, 66251 I am employed as Manager of Service Cost for Sprint/United Management Company. I am testifying on behalf of Sprint-Florida, Inc. and Sprint Communications L.P. (hereafter referred to as "Sprint").

Q. Are you the same Talmage O. Cox, III that submitted direct testimony on behalf of Sprint?

A. Yes, I am.

Q. What is the purpose of your Testimony?

A. To clarify the deficiency of the interoffice transport costing process that BellSouth Telecommunications, Inc. (hereafter referred to as "BellSouth") utilized

in the completion of their interoffice transport cost studies. I will also make recommendations on how the interoffice transport cost study process should be corrected.

Q. What position have BellSouth witnesses D. Daonne Caldwell and Alphonso J. Varner proposed concerning the geographic deaveraging of transport?

A. BellSouth's witnesses have proposed that it is not necessary to deaverage interoffice transport cost studies and that a per mile cost structure reflects geographic deaveraging.

Q. Please display and discuss the cost structure proposed by BellSouth for interoffice transport.

A. The following is the cost structure as shown on Ms. Caldwell's exhibit, DDC-4, Page 4 of 14.

	Description	**Statewide Average**
D.4.1	Interoffice Transport Dedicated DS1 Per Mile	$ 0.2035
D.4.2	Interoffice Transport Dedicated DS1 Facility Termination	$ 93.31

Certainly looking at these results one can see that they are statewide averages and do not reflect deaveraged cost study results. Studies clearly indicate that a mile of cable that has an OC48 terminal attached to it would produce a significantly cheaper per unit cost of the fiber than if it had an OC3 terminal attached. The primary cost drivers for interoffice transport are the bandwidth of the terminal and utilization/demand on the SONET Ring, both of which BellSouth has averaged in their proposed prices.

Q. Will a per mile cost structure adequately deaverage costs for geographic differences, as asserted by BellSouth witnesses Ms. Caldwell and Mr. Varner?

A. No. While distance is a variable in the cost of transport, distance is not one of the primary cost drivers. The two primary drivers of the cost of transport are the following:

- bandwidth of the terminal utilized (OC3, OC12, OC48)
- utilization/demand on the SONET RING

Q. Has BellSouth adequately reflected traffic volume (Associated Variables) in the development of its interoffice transport costs?

A. No. While BellSouth did utilize different ring designs with different size terminals, these studies were completed for each individual ring design. Then a probability factor (percentage) was applied to the cost of each ring design to develop a single, weighted average. The entire process simply resulted in a single statewide average, not in compliance with the FCC's mandate to reflect geographic deaveraging.

The largest single determinant in the unit cost of a DS1, DS3, OC3 or OC12 transport circuit, is the volume of telecommunications traffic transmitted over a specific transport route. This volume of traffic, or demand, determines both the appropriate capacity sizing of the terminal equipment and fiber cable. Additionally, it defines the units over which these costs are spread. In cost determination, this basic principle is referred to as utilization. As volumes of traffic vary across specific transport routes, so does the sizing and utilization of terminals and fiber cable, and ultimately the resulting unit costs. This

concept is illustrated in a series of exhibits, which were submitted with my direct testimony.

Q. Please illustrate the effects of terminal bandwidth OC3, OC12, OC48 (Associated Variables) in the development of transport costs.

A. The following table shows the results from an exhibit (Exhibit TOC-1 T. Cox Direct Testimony) that was filed with my direct testimony. This table illustrates the effects on cost when different size terminals are utilized.

Terminal Size	# of Terminals	Terminal Utilization	Total Ring Miles	DS1 Unit Costs	Percent Decrease
OC3	3	.67	30	$ 132.51	
OC12	3	.67	30	$ 71.47	46.06%
OC48L	3	.67	30	$ 61.86	53.32%
OC48A	3	.67	30	$ 48.09	63.71%

Please note how the DS1 unit costs decrease as larger terminals are deployed. The percent decrease is calculated in relation to the item shown with a OC3 terminal size. This analysis indicates that as traffic volumes or demand increases, larger terminals with increased capacity are used. Use of larger terminals associated with increased traffic volume results in greater economies and lower unit costs.

Q. Please illustrate the effects of utilization (Associated Variables) on a SONET ring in the development of transport costs.

A. The following table shows the results from an exhibit (Exhibit TOC-2 T. Cox Direct Testimony) that was filed with my direct testimony. This table illustrates the relationship of increased demand driving down unit costs.

Terminal Size	# of Terminals	Terminal Utilization	Total Ring Miles	DS1 Unit Costs	Percent Decrease
OC48A	3	**30%**	30	$ 91.23	
OC48A	3	**40%**	30	$ 71.71	21.40%
OC48A	3	**50%**	30	$ 59.97	34.27%
OC48A	3	**60%**	30	$ 52.16	42.83%
OC48A	3	**70%**	30	$ 46.58	48.94%
OC48A	3	**80%**	30	$ 42.39	53.54%

Please note how the DS1 unit costs decrease as utilization increases. The percent decrease is calculated in relation to the item shown with 30% utilization. This analysis indicates that as traffic volumes or demand increases, with the same bandwidth terminals the increased traffic volume results in greater economies and lower unit costs.

Q. Please illustrate the effects of distance (Associated Variables) in the development of transport costs?

A. The following table shows the results from an exhibit (Exhibit TOC-3 T. Cox Direct Testimony) that was filed with my direct testimony. This table illustrates the relationship of increased distance and the effect on unit costs.

Terminal Size	# of Terminals	Terminal Utilization	Total Ring Miles	DS1 Unit Costs	Percent Increase
OC48A	3	67%	30	$ 48.09	
OC48A	4	67%	40	$ 50.17	4.33%
OC48A	5	67%	50	$ 52.25	8.65%
OC48A	6	67%	60	$ 54.34	13.00%
OC48A	7	67%	70	$ 56.42	17.32%
OC48A	8	67%	80	$ 58.50	21.65%

It is obvious that as the distance around a transport ring increases, more fiber cable must be placed, thereby increasing the cost of bandwidth on that ring.

In summary, unbundled transport unit costs vary between specific geographic points due to the underlying variances in the traffic volumes, distances and ring designs that commonly occur in the network. In order to properly estimate the geographic-specific forward-looking cost of unbundled transport

facilities, the impact of these geographic-specific factors must be considered.

Q. Please describe some of the BellSouth exchanges and what kind of transport systems probably exist.

A. The following displays a count of wire centers by exchange name. A list of these wire centers can be found in the BellSouth cost calculator under the state deaveraged results.

Ft. Lauderdale	10 wire centers
Jacksonville	13 wire centers
Miami	24 wire centers
Orlando	6 wire centers

Based on my experience with transport networks (ring designs), I would expect there to be multiple OC48 SONET rings in these exchanges. These rings would most likely have utilizations in the range of 60 - 80 %. Based on the way a statewide average was developed in the BellSouth cost study, the per unit DS1 cost for BellSouth in these exchanges should be substantially less than the current mid-nineties cost results as proposed by BellSouth. In reviewing the utilization table contained in the BellSouth cost model, the utilization factors for the OC48 terminals are in the

range of 20% - 40%, depending on what type of OC48 terminal being used.

Q. How should the transport cost be developed for a UNE proceeding?

A. To correctly recognize the cost characteristics for deaveraging purposes, the cost should recognize the following key items:

- Reflect geographic-specific characteristics.
- Reflect geographic-specific terminal bandwidth.
- Reflect geographic-specific utilization.
- Reflect geographic, forward-looking ring designs.
- Reflect the cost on a route-specific basis by geographic area.

Q. Does BellSouth's cost study reflect geographic-specific cost results?

A. No. While they do have forward-looking ring designs (with the exception of the low utilizations), their results are based on a statewide average, as shown on BellSouth witness D. Daonne Caldwell's exhibit DDC-4.

Q. What kinds of variation in cost can be seen with data from BellSouth's interoffice transport cost study?

A. The following is a summary of cost results for ring designs 1, 4 and 6, excluding the application of a probability factor and reprocessing individually through BellSouth's cost calculator.

	Description	Ring Design #1	Ring Design #4	Ring Design #6	Statewide Average
D.4.1	I.O. Ded. DS1 Per Mile	$ 0.1194	$ 0.1194	$ 0.3237	$ 0.2035
D.4.2	I.O. Ded. DS1 Facility Term.	$72.09	$ 171.01	$ 58.36	$ 93.31

Design #1 consists of a single OC48 ring design that resulted in cost for both elements below the statewide average. Design #4 consists of three OC48 rings that resulted in cost lower for the per mile element, but higher for the termination element when compared to the statewide average. Design #6 consists of a single OC12 ring design that resulted in a higher cost per mile and a lower cost per termination.

This clearly indicates, when utilizing the data provided by BellSouth, that there are variations in the cost of interoffice transport. While these results do show variations, they still do not reflect

geographic-specific factors, such as specific ring designs and utilization.

Q. Could changes be made in BellSouth's costing process to reflect geographic-specific cost results?

A. Yes. The first step of the process should consist of identifying the forward-looking ring design characteristics on a ring-specific basis by geographic area. The ring design characteristics would consist of the following:

- Ring-Specific Bandwidth (OC3, OC12, OC48)
- Ring-Specific Quantity of Nodes
- Ring-Specific Quantity of Miles (Utilizing existing Wire Center Locations)
- Ring-Specific Utilization

The second step would be to produce route-specific cost results by geographic area reflecting the ring-specific cost characteristics that were identified in step one.

Q. Should the Florida Public Service Commission approve BellSouth's interoffice transport costs presented in Docket No. 990649-TP?

A. No. BellSouth has not met some of the core requirements associated with the development of cost support for unbundled network elements. The core requirements being that cost have to be deaveraged, at the minimum, into three zones per the FCC.

In Section 51.507(f) of its Rules, the FCC requires that unbundled network elements be geographically deaveraged into at least three cost-related zones. These can be either the zones established for the deaveraging of interstate transport rates, or zones determined by the state commission.

Certainly the per unit cost of a DS1 would be lower for the large, urban, high bandwidth areas of Ft. Lauderdale, Jacksonville, Miami and Orlando versus some of the more rural, lower bandwidth areas of Florida. With higher bandwidth demands being one of the fastest growing markets for ILEC's, this UNE should be deaveraged to reflect geographic cost differences caused by placing higher bandwidth SONET

terminals and higher utilization/demand on these SONET rings.

Q. Does this conclude your testimony?

A. Yes.

SPRINT
DOCKET NO. 990649-TP
Filed: AUGUST 28, 2000

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

SPRINT'S REBUTTAL TO BELLSOUTH'S REVISED DIRECT TESTIMONY

OF

TALMAGE O. COX, III

Q. Please state your name, business address, employer and current position.

A. My name is Talmage O. Cox, III. My business address is 6360 Sprint Parkway, Overland Park, Kansas, 66251 I am employed as Manager of Service Cost for Sprint/United Management Company. I am testifying on behalf of Sprint-Florida, Inc. and Sprint Communications L.P. (hereafter referred to as "Sprint").

Q. Are you the same Talmage O. Cox, III that submitted direct and rebuttal testimony on behalf of Sprint?

A. Yes, I am.

Q. What is the purpose of your Testimony?

A. To clarify the deficiency of the interoffice transport costing process that BellSouth Telecommunications, Inc. (hereafter referred to as "BellSouth") utilized

in the completion of their interoffice transport cost studies filed August 18, 2000.

Q. Has BellSouth's position proposed by witnesses D. Daonne Caldwell and Alphonso J. Varner concerning the geographic deaveraging of transport changed with the revised interoffice transport cost study filed August 18, 2000?

A. No. BellSouth's witnesses have proposed that it is not necessary to deaverage interoffice transport cost studies and that a per mile cost structure reflects geographic deaveraging.

Q. Would the same conclusions put forth in your refiled rebuttal testimony (filed August 21, 2000) still be applicable with BellSouth's revised cost studies and direct testimony filed August 18, 2000?

A. Yes. In reviewing BellSouth's August 18, 2000 filing, the same conclusions apply as stated in my refiled rebuttal testimony filed August 21, 2000.

Q. What are the conclusions from your refiled rebuttal testimony filed August 21, 2000?

A. The following conclusions were identified as deficiencies in BellSouth's interoffice transport cost model.

- Does not reflect geographic-specific characteristics.
- Does not reflect geographic-specific terminal bandwidth.
- Does not reflect geographic-specific utilization.
- Does not reflect the cost on a route-specific basis by geographic area.
- Not in compliance with the FCC's requirement that unbundled network elements be geographically deaveraged into at least three cost-related zones.

Based upon the above deficiencies the Florida Public Service Commission should not approve the interoffice transport cost results provided by BellSouth.

Q. Does this conclude your testimony?

A. Yes.

MR. FONS: And that concludes Sprint's case.

CHAIRMAN DEASON: Okay. Witness Barta.

MR. GROSS: Mr. Chairman, members of the Commission. The FCTA offered prefiled testimony, rebuttal testimony of William J. Barta, dated July 31st, 2000, consisting of 35 pages. And we would ask that that testimony be inserted into the record as though read.

CHAIRMAN DEASON: Without objection it shall be so inserted.

MR. GROSS: In connection with that testimony, Mr. Barta filed Exhibits WJB-1, 2 and 3. We would like those exhibits marked for identification.

CHAIRMAN DEASON: Exhibit 159.

MR. GROSS: We would request and move that those exhibits be admitted into the record.

CHAIRMAN DEASON: Without objection, Exhibit 159 shall be admitted.

MR. GROSS: Additionally, William J. Barta offered supplemental rebuttal testimony date August 28th, 2000, consisting of eight pages. We would offer that testimony to be inserted into the record as though read.

CHAIRMAN DEASON: Without objection, it shall be so inserted.

MR. GROSS: In connection with that testimony, there were Exhibits WJB-1, 2, 3, 4 and 5. We would

request that those exhibits be marked for identification.

CHAIRMAN DEASON: Exhibit 160.

MR. GROSS: And we would move those exhibits into the record.

CHAIRMAN DEASON: Without objection, Exhibit 160 shall be admitted.

MR. GROSS: Thank you.

(Exhibits 159 and 160 marked for identification and admitted into the record.)

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

TALLAHASSEE, FLORIDA

REBUTTAL TESTIMONY OF

WILLIAM J. BARTA

DOCKET NO. 990649-TP

JULY 31, 2000

Q. Please state your name and business address.

A. My name is William Barta, and my business address is 7170 Meadow Brook Court, Cumming, Georgia 30040.

Q. Have you previously submitted testimony in this proceeding?

A. Yes. I submitted prefiled testimony on June 8, 2000 in this proceeding.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of the Florida Cable Telecommunications Association ("the FCTA").

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address the issues outlined by the Commission in its Order dated March 16, 2000. Specifically, my testimony responds to the incumbent carriers' prefiled testimony and cost filings with respect to Issue nos. 1, 2(a), 2(b), 7(e), 7(g), 7(k), 7(s), 7(t), 7(u), and 8(e).

Q. Please summarize your testimony.

A. GTE, BellSouth, and Sprint have submitted recurring and nonrecurring cost studies in response to the Commission's list of issues outlined in its March 16, 2000 Order. The companies have also advanced their proposals for geographically deaveraging UNEs. GTE and BellSouth, in particular, argue that the geographic deaveraging of UNE rates should be accompanied by rate rebalancing and the establishment of a State universal service fund.

GTE's and BellSouth's urgency to establish a state universal service fund in conjunction with the geographic deaveraging of UNEs strays from the purpose of the instant proceeding. There is no mention of rate rebalancing or the establishment of a universal service fund in the Commission's list of issues to address in this phase of the proceeding. Furthermore, GTE and BellSouth have yet to substantiate the pressure on universal service that they maintain will result in response to the implementation of deaveraged UNE rates. In this proceeding, the Commission's attention and resources should be focused on implementing fair and reasonable permanent rates for unbundled network elements. The more appropriate forum to determine the need, if any, for a universal service support mechanism is in a separate docket.

GTE's proposal to deaverage UNE rates based upon the previously approved statewide average rates of each ILEC does not capture the significant variation in the average costs of its Florida wire centers. In the same manner, BellSouth's "rate group to zone mapping" methodology blurs the distinction of cost differences among wire centers and between geographic zones. In order to send the correct pricing and investment signals to CLECs, the companies should

geographically deaverage UNE rates upon a methodology that logically groups wire centers with similar cost characteristics together.

GTE asserts that its Nonrecurring Cost Studies are forward-looking. A closer review, however, indicates that many of the nonrecurring charges to be assessed CLECs are premised on less efficient, manual ordering and provisioning practices. For instance, as part of the ordering function, GTE projects that it will take nearly 8 hours to establish a single CLEC account. The provisioning practices are also dependent upon manual procedures; GTE states that the Facility Assignment Center will require manual assignment for most of the UNEs offered by the Company. These may be the embedded ordering and provisioning practices of GTE but they are not representative of a forward-looking cost study.

Issue 1: What factors should the Commission consider in establishing rates and charges for UNEs (including deaveraged UNEs and UNE combinations)?

Q. What factors do you believe the Commission should consider in establishing permanent rates for unbundled network elements and UNE combinations?

A. The primary consideration of the Commission in its efforts to establish permanent rates for unbundled network elements and UNE combinations is to base the rates upon fully supported cost studies that closely follow the appropriate costing methodology. If appropriate cost-based rates are developed, then the attendant concerns of regulators, the incumbent local exchange carriers, and other parties should be satisfied. Appropriate cost-based rates will promote

fair and responsible competitive entry under the requirements of the Telecommunications Act of 1996 and will protect the incumbent local exchange carriers as the providers of the facilities necessary to provision the unbundled network elements and UNE combinations.

Q. In developing rates for an incumbent local exchange carrier's unbundled network elements, what costing methodology best furthers the pro-competitive objectives of this Commission?

A. A forward-looking economic cost study is the most appropriate methodology to adopt when the study's objective is to replicate the conditions of a competitive market. If unbundled network elements are priced at the incumbent carrier's forward-looking economic costs, then competing telecommunications service providers should have the opportunity to capture the same types of economies of scale and scope that the incumbent local exchange carrier benefits from. As a result, the telecommunications carriers requesting unbundled network elements should be able to produce more efficiently and compete more effectively – all to the ultimate benefit of the consumer of telecommunications services. In addition, prices based upon a forward–looking costing methodology reduce the ability of the incumbent local exchange carrier to engage in anti-competitive pricing behavior.

Q. Do the incumbent local exchange carriers under the jurisdiction of the FPSC support the implementation of UNE and UNE combination rates based upon a forward-looking cost methodology?

A. BellSouth and GTE are opposed to the establishment of UNE rates based upon forward-looking, economic costs while Sprint appears willing to base its rates upon such pricing standards.

Q. What aspects of forward-looking, economic cost principles do BellSouth and GTE disagree with?

A. The witnesses on behalf of BellSouth and GTE state that a forward-looking, economic cost methodology will not provide for the full recovery of the carriers' costs in the provision of UNEs. Mr. Dennis B. Trimble, on behalf of GTE, states that "GTE has long maintained that UNE prices must, in the aggregate, reflect an ILEC's actual costs" (Direct Testimony, page 4, lines 16 and 17).

Mr. Alphonso J. Varner, on behalf of BellSouth, states "[O]ptimizing competitive development would require prices to be set, at a minimum, to cover the actual costs incurred by the Incumbent Local Exchange Carrier ('ILEC')" (Direct Testimony, page 5, lines 8 through 10). In addition, Mr. Varner apparently believes that a forward-looking, economic cost methodology prevents BellSouth from recovering its shared and common costs:

> "A consequence of pricing that insufficiently recovers shared cost is that it inappropriately encourages the ILEC to invest in technology that involves low shared cost (which reduces economies of scope) and high incremental costs, even if that is not the lowest cost technology" (Direct Testimony, page 10, lines 19 through 22).

and

"Since ALECs benefit from the use of facilities that generate the costs in question, those ALECs should contribute to the recovery of the shared and common costs that result from economically efficient provisioning of those facilities" (Direct Testimony, page 12, lines 5 through 8).

Finally, it is Mr. Varner's perception that a forward-looking, economic cost methodology does not provide BellSouth the opportunity to earn a reasonable profit as permitted by the 1996 Act:

"Q. Does pricing at economic cost provide for a reasonable profit as permitted by the Act?

B. It certainly does not. Proponents of this theory equate economic profit with cost of capital, which is not an appropriate comparison. Cost of capital is a cost of doing business. It is well accepted that an economic profit cannot be realized until all costs, including the cost of capital, have been recovered" (Direct Testimony, page 18, line 21 through page 19, line 2).

Q. Why is it improper to include the actual costs of the ILEC in the development of UNE rates?

A. The embedded costs of BellSouth and GTE represent their historical or embedded costs and not forward-looking, economic costs. By definition, embedded costs reflect historical purchase prices, network configurations, and

operating procedures. To the extent that these cost areas reflect any past inefficiencies, prices based upon embedded costs will lead to inappropriate cost recovery and would not be recovered in a competitive market. On the other hand, prices based upon forward-looking, economic costs give the appropriate signals to producers and consumers and ensure efficient entry and utilization of the telecommunications infrastructure.

Q. Is Mr. Varner's concern that the forward-looking, economic cost methodology prevents the recovery of BellSouth's shared and common costs valid?

A. No. The incumbent carriers can recover a reasonable share of their forward-looking joint and common costs under the forward-looking, economic cost methodology. Most parties, including CLECs, acknowledge that the incumbent local exchange carriers are entitled to recover an appropriate portion of their forward-looking joint (i.e. shared) and common costs. Perhaps Mr. Varner is reaching the misguided conclusion that any challenge to the level of joint and common costs included in the Company's cost studies is equivalent to a denial of recovery through the costing methodology.

Q. Should the incumbent carriers be allowed to include "an economic profit," in their proposed UNE rates that is over and above the fair and reasonable cost of capital as advocated by Mr. Varner?

A. No. Mr. Varner treats BellSouth's recovery of its fair and reasonable cost of capital "as a cost of doing business" (Direct Testimony, page 19, line 1). As a result of earning its cost of capital, BellSouth will ensure it continues to attract

capital at reasonable terms, thereby allowing the company to maintain an efficient capital structure and a sound dividend policy. The company should have the financial flexibility to innovate and expand yet still meet its operating expenses provided its financial results are sufficient to recover its cost of capital.

On the other hand, profits in excess of the fair and reasonable cost of capital should not be construed as "economic." Mr. Varner's assertion that this is a well-accepted definition of "economic profit" is rather broad unless, of course, the audience is the ILEC community. A more reasonable view with respect to profits that exceed a company's cost of capital holds that such profits are considered supra-normal and temporary. Absent artificial barriers to entry (e.g. monopoly status of the market provider) in the marketplace, the firm will only realize the supra-normal profits in the short-term because other capable firms will be attracted to the prospect of earning supra-normal profits. As more firms enter and compete in the marketplace, prices will be driven back towards the level where only the fair and reasonable cost of capital is being recovered.

Q. What are the consequences of establishing forward-looking, economic cost-based rates for unbundled network elements according to Mr. Varner?

A. Mr. Varner's dire outlook for the local exchange marketplace is premised on his belief that the rates based upon economic costs do not permit full cost recovery and that inadequate UNE rates will result from its application. According to Mr. Varner, the inadequate UNE prices will reduce the ILECs' incentives to invest in new technology and will promote inefficient market entry as CLECs will choose to consume the ILECs' facilities instead of making their own investments (Direct

Testimony, page 10, line 4 through page 11, line 5). Mr. Varner concludes that forward-looking, economic cost-based rates for unbundled network elements will result in "the marginalization of the ILEC."

> "Another troublesome outcome of setting prices too low would be the marginalization of the ILEC. Setting UNE and interconnection services prices at unreasonably low levels will hinder BellSouth's ability to compete because the ALECs will have an artificial pricing advantage over BellSouth. The ALEC will, therefore, be in a better position to 'cherry pick' the more profitable, mainly business customers, and the ILEC will lose the low cost, high margin urban customers to competition" (Direct Testimony, page 12, line 20 through page 13, line 1).

Q. Do you agree with Mr. Varner's assessment that forward-looking, economic cost-based rates for unbundled network elements will foster "cherry picking" by CLECs of the company's most attractive customers?

A. No, reasonable, forward-looking rates for unbundled network elements should make it possible for CLECs to reach a wider range of consumers because the economies of scale and scope that were referred to earlier will be available on competitive terms. With reasonable, economic cost-based rates, CLECs will be in a better position to profitably serve the average consumer, not just the high revenue-high margin subscriber.

Ironically, the very threats to market stability that Mr. Varner discusses in his testimony are more likely to manifest themselves under the costing approach advocated by him. When the cost studies prepared by BellSouth result in such high rates for unbundled network elements that it becomes unprofitable to serve any consumers but those with the highest margins, then CLECs will have no recourse but to seek out those high margin customers. Mr. Varner's may label this market strategy "cherry picking" but it is nothing more than a competitive reality.

Q. What remedies does Mr. Varner propose to cure the market deficiencies he perceives will surface in the event forward-looking, economic cost-based rates for unbundled network elements are established?

A. First, Mr. Varner recommends that BellSouth be permitted full recovery of its actual costs and that the Company be able to design rates based upon other considerations, such as market forces. Furthermore, Mr. Varner states that the rates for unbundled network elements should include a level of profit over and above its fair and reasonable cost of capital.

Mr. Varner also claims that "geographically deaveraged pricing places an additional burden on universal service" (Direct Testimony, page 7, lines 21 and 22). In response to this pressure on universal service (which the Company has yet to substantiate), Mr. Varner maintains that geographic deaveraging of UNE rates must be concurrent with "the implementation of an appropriate universal service support mechanism and/or the implementation of adequate rate rebalancing" (Direct Testimony, page 7, lines 22 through 25). Indeed, Mr.

Varner emphasizes his desire for universal service support: "the most important issue is to immediately address the implementation of an appropriate state universal service fund" (Direct Testimony, page 9, lines 7 through 9).

Q. Do you believe that Mr. Varner's "remedies" represent sound, regulatory policy?

A. No. The pitfalls associated with Mr. Varner's recommended costing scheme have already been pointed out. Full recovery of actual costs, built-in "economic profits," and market-based pricing will only serve to retard the development of efficient, local exchange competition.

Mr. Varner's urgency to establish a State universal service fund strays from the purpose of the instant proceeding. This proceeding is intended to establish permanent rates for unbundled network elements, deaveraged UNEs, and UNE combinations. The more appropriate forum to determine the need, if any, for an interim universal service support mechanism is in a separate docket. In fact, the Commission has already considered the need for an interim universal service fund in a prior docket. At this point, the Commission's attention and resources are more appropriately focused on implementing fair and reasonable permanent rates for unbundled network elements. There is no reason to further delay the widespread availability of UNEs or unduly complicate this undertaking with other issues that may be relevant but can be better addressed in a separate proceeding.

Q. So far the discussion of prices for unbundled network elements has been centered on rates that are perceived to be too low. Is Mr. Varner equally concerned with rates that are set for unbundled network elements that are set too high?

A. Mr. Varner acknowledges that "[P]rices that are set either too high or too low will not, in the long run, benefit the consumer" (Direct Testimony, page 5, lines 2 and 3). But Mr. Varner is far less concerned with prices that are set too high than those that are set too low. In Mr. Varner's view, excessive rates for unbundled network elements do not pose any of the market disruptions that stem from reasonable, economic cost-based UNE rates: "[O]f course, setting prices too high will give ALECs the maximum incentive to construct their own facilities and, in the long run, infrastructure competition will develop sooner" (Direct Testimony, page 14, lines 15 through 17).

Q. Do you agree with Mr. Varner that the only downside to setting UNE rates too high is that CLECs will invest in their own infrastructure sooner than they would have absent appropriate cost-based rates?

A. No. Mr. Varner's cavalier dismissal of above-cost UNE rates ignores the fact that CLECs are financially unable to develop a ubiquitous telecommunications infrastructure from scratch. As Mr. Varner well knows, the costs of investing in duplicative facilities are prohibitive. The undertaking to construct duplicative loops and switching facilities is massive, time-consuming, and in many instances, uneconomical given the need to reach individual subscribers over wide areas. BellSouth had the luxury of growing its network to meet demand over a period of more than a hundred years as a monopoly utility with ample funding

available from its ratepayers. Those privileges cannot and will not be extended to CLECs.

Issue 2: (a) **What is the appropriate methodology to deaverage UNEs and what is the appropriate rate structure for deaveraged UNEs?**

(b) **For which of the following UNEs should the Commission set deaveraged rates?**

(1) **loops (all);**

(2) **local switching;**

(3) **interoffice transport (dedicated and shared);**

(4) **other (including combinations).**

Q. On what basis should unbundled network elements be deaveraged (Issue 2(a))?

A. The FCC requires that incumbent local exchange carriers deaverage rates for those unbundled network elements that exhibit significant geographical cost differences. The FCC specifies that UNE rates deaveraged across three geographic zones is presumptively sufficient. The deaveraging of unbundled network elements and UNE combinations should be based upon a rationale assignment where the underlying costs of providing the UNE are consistent within the geographic zone. For instance, the average cost of a loop can be determined on a wire center basis. Wire centers with similar cost characteristics should be grouped together in order to develop more accurate cost-based rates for each geographic zone.

Q. How do the ILECs propose to deaverage unbundled network elements across three geographic zones?

A. BellSouth advocates that the wire centers within its existing rate groups be classified into one of three zone designations.

GTE proposes a cafeteria plan for the Commission's consideration: (1) establish a single rate for each of the three non-rural incumbent local exchange carriers in an attempt to comply with the FCC's three geographic zone requirement; (2) establish three new zones for the entire state after examining the cost filings of all the ILECs; or (3) establish geographic zones based upon wire center cost differences.

Sprint recommends that geographic zones be constructed such that "the average rate in each zone is no more than 20% higher or 20% less than the forward-looking cost of providing that element" (Direct Testimony of Mr. James W. Sichter, page 16, line 4 through line 6).

Q. Do you agree with BellSouth's proposal to deaverage unbundled network elements into three geographic zones?

A. No. BellSouth's rate group to zone mapping approach results in geographic zones that include wire centers with wide-ranging average monthly loop costs. The extent of the low cost/high cost wire center combination within each proposed geographic zone is material and blurs the distinction of cost differences among wire centers and between geographic zones. There should be a more

homogenous classification of wire centers to geographic zones based upon the cost characteristics of the individual wire centers.

Q. Do you believe that GTE's proposals to deaverage unbundled network elements will result in cost-based rates?

A. No, except for possibly the third menu item. GTE's first proposal is an oversimplistic attempt to satisfy the FCC's deaveraging requirements. Under the proposal, "deaveraged rates" would mirror each non-rural ILECs' statewide average costs. Such a high level of aggregation of costs does little to capture the significant cost variations in the provision of unbundled network elements that exist within the carriers' service territories. Thus, competing carriers will continue to be charged statewide average rates for unbundled loops when the costs of providing those loops may be far below the carriers' statewide average.

In contrast to its first proposal, GTE's second plan for deaveraging unbundled network elements burdens the effort with unnecessary complexity. GTE requests that the Commission examine all ILEC cost submissions in the state, presumably those of the rural as well as the non-rural carriers, in its determination of the appropriate geographic zones. It is unclear whether the GTE proposal would assign the unbundled network elements of different carriers to the same geographic zone or whether company-specific geographic zones would prevail. But it does seem certain that such an exercise would introduce further delay into the implementation of geographic deaveraged rates for unbundled network elements.

GTE's third alternative is to base geographic deaveraging upon wire center cost differences. The proposal has merit but the exact methodology has yet to be fully presented by the Company. Thus, it is premature to embrace the wire center cost difference approach at this time.

Q. Do you find Sprint's proposal to deaverage unbundled network elements reasonable?

A. No. As a matter of consistency, the deaveraging methodology should be the same for all of the ILECs and based upon three geographic zones. A three geographic zone rate plan is also consistent with the methodology that the Federal Communications Commission has declared to be presumptively sufficient. The use of more than three geographic zones for Sprint's unbundled network elements introduces unnecessary planning, marketing, and administrative burdens upon CLECs. The competitive carriers will have to commit more resources to developing network and marketing plans to serve specific geographic areas. If the Commission approves the Company's methodology, it should limit its approval to Sprint and not impose the methodology upon GTE or BellSouth.

Q. What is your recommendation with respect to assigning UNEs to geographic zones?

A. I recommend that the methodology adopted as part of the stipulation reached among the parties in support of interim UNE rates in Florida be used for permanent pricing purposes. In the stipulation methodology, the deaveraging of the unbundled loop is based upon the ratio of an individual wire center's average

monthly loop cost to the statewide average monthly loop cost. All wire centers with costs of 0% to 100% of the statewide average loop cost are assigned to Zone 1. All wire centers with average loop costs ranging from 101% to 200% of the statewide average are classified to Zone 2. Finally, all wire centers with average loop costs in excess of 200% of the statewide average cost are placed in Zone 3.

Q. What is the appropriate rate structure for deaveraged UNEs (Issue 2(a))?

A. The rates for unbundled network elements and UNE combinations should be structured to recover the ILECs costs in the manner in which they are incurred. In general, recurring costs should be recovered through monthly recurring rates while reasonable, nonrecurring charges should be assessed to recover nonrecurring costs.

By adhering to these general principles of rate design, the appropriate pricing signals will be sent to requesting carriers and assist in their decision to lease or construct their own network facilities. The development of competition should also be encouraged by allowing the competing carriers to incur costs in a manner similar to those incurred by the ILECs.

Q. For which unbundled network elements and UNE combinations should deaveraged rates be established (Issue 2(b))?

A. The rates for an unbundled network element should be deaveraged where significant cost variations are present. For instance, the cost attributes of a loop reflect geographic differences. In highly concentrated urban areas, loop lengths

tend to be shorter than in the more sparsely populated rural areas. Since loop length is considered to be a major cost driver in the provision of a loop, it is reasonable for the Commission to geographically deaverage the rates for an unbundled loop.

On the other hand, one would not expect switching costs to differ materially between similarly configured switches whether they are deployed in an urban market or a rural wire center. Other UNEs, such as interoffice transport, already have rate structures (i.e. on a per mile basis) that account for geographic cost variations.

The deaveraging of rates for UNE combinations should be based upon the cost characteristics of the underlying network components. Thus, the rate for a UNE combination that depends upon a loop (e.g. unbundled loop and transport) should reflect the deaveraged rate for an unbundled loop.

Issue 7: **What are the appropriate assumptions and inputs for the following items to be used in the forward-looking recurring UNE cost studies?**

(a) network design (including customer location assumptions);

(b) depreciation;

(c) cost of capital;

(d) tax rates;

(e) structure sharing;

(f) structure costs;

(g) fill factors;

(h) manholes;

(i) fiber cable;

(j) copper cable;

(k) drops;

(l) network interface device;

(m) digital loop carrier costs;

(n) terminal costs;

(o) switching costs and associated variables;

(p) traffic data;

(q) signaling system costs;

(r) transport system costs and associated variables;

(s) loadings;

(t) expenses;

(u) common costs;

(v) other.

Q. What assumptions and input values have you reviewed that determine the network configuration designed by each of the cost proxy models (Issue 7(a))?

A. Although I have reviewed the documentation submitted in support of each of the cost proxy models' design of outside plant facilities, my recommendation is limited to the copper/fiber crossover point. Other parties to the proceeding, however, are likely to raise valid concerns challenging additional assumptions and input values that are fundamental to the network configuration design of the ILECs' cost proxy models. A more efficient and cost-effective network

configuration may very well be realized from their recommendations. Presumably, the model enhancements resulting from these recommendations will produce lower overall UNE rates.

Q. What does the copper/fiber crossover point refer to in the ILECs' cost proxy model?

A. The copper/fiber crossover point is a user-adjustable input value in each of the ILECs' cost proxy models. The copper/fiber crossover point refers to the threshold where fiber facilities are used in lieu of copper facilities. Each of the ILECs' cost proxy models adopt a default input value of 12,000 feet for the copper/fiber crossover threshold.

Q. What is the appropriate copper/fiber crossover point to use as an input value in the cost proxy models' design of the network?

A. The copper/fiber crossover point should be adjusted to 18,000 feet. A model platform that uses 18,000 foot copper loop lengths will support appropriate quality levels of services in most cases. The 12,000 foot constraint may ensure the provision of all services, including video services, but it burdens the majority of UNE rates with additional and unnecessary costs.

Q. What is meant by the sharing of support structures (Issue 7(e))?

A. Structure sharing refers to the practice of sharing investments in poles, trenches, and conduits with other utilities and/or carriers.

Q. What level of structure sharing is assumed in each of the ILECs' cost proxy models?

A. It is difficult to separately identify the extent of structure sharing assumed in the BellSouth cost proxy model. As explained by the Company's witness:

> "BellSouth utilizes loading factors to identify the amount of pole and conduit investment required to support the associated aerial and underground cable. During the development of these factors, anticipated net rents (expenses paid to other parties for attaching to their structures less revenues received from others for attaching to BellSouth's structures) from sharing arrangements are considered. Thus, implicitly structure sharing is reflected in the calculation. . . Sharing of trenching is reflected in the in-plant factor associated with buried cable. Since this factor is developed by analyzing the relationship between total installed investments and material prices, any savings gleaned from sharing of placement costs has been considered" (Direct Testimony of D. Daonne Caldwell, page 42, line 24 through page 43, line 12).

According to the input values of the ICM, GTE assumes the level of structure sharing to be one additional utility and/or carrier on poles and no other parties and/or carriers sharing trenches or conduits.

In the Sprint TELRIC studies: "The structure sharing inputs are expressed in terms of the percent of costs assigned to telephone, which equates to the percentage of the structure cost that is borne by the ILEC. The reciprocal of this

input factor represents the portion of the structure cost that is borne by companies other than the ILEC, such as power and/or cable companies. The model inputs are segregated between feeder and distribution sub-loop components, by aerial, buried and underground plant mix and by each of the nine customer density zones" (Direct Testimony of Kent R. Dickerson, page 12, line 15 through line 24). In his Direct Testimony, Mr. Dickerson explains that the structure sharing inputs for underground and buried feeder and distribution cable were set at 85% and 80% for the majority of customers served by Sprint. The structure sharing input for poles was set at 27% for all density zones.

Q. What level of structure sharing is appropriate for the ILECs to assume in the cost proxy models?

A. I recommend that the structure sharing model values for BellSouth and GTE be modified to include at least two additional parties sharing pole facilities. The percentage of structure sharing among utilities and other users should increase in the future as more parties require space on a limited number of facilities and right-of-ways. My recommended structure sharing level recognizes that although there will be more carriers seeking the economic benefits of structure sharing, the opportunities for such sharing may be constrained for a number of reasons, including engineering limitations.

Q. What is a fill factor (Issue 7(g))?

A. A fill factor represents the percentage of the network facility that is being used. The network facilities of telecommunications common carriers are engineered with an appropriate amount of spare capacity in mind. The spare capacity can

take the form of administrative spare, spare capacity attributed to modularity, and demand related spare.

Q. How do the fill factors adopted for feeder and distribution facilities affect the cost estimates developed by the models?

A. The fill factors used in the ILECs' cost proxy models affect the level of investment required to provide services to customers. Lower than necessary utilization rates increase total loop investment because the increase in required capacity associated with lower fill factors increases the amount of loop plant used to deliver telecommunications services. Optimistically robust fill factors may jeopardize the quality of service.

The appropriate fill factor used in the cost proxy models should balance current and expected demand levels as well as accommodate the requirements for administrative and modular related spare capacity over the economic life of the feeder and distribution facilities. Deploying facilities to satisfy demand that is not expected to materialize until after the facilities have been retired represents poor management judgment. A competitive firm would not be able to overcome such errors of judgment by passing on the higher costs to its customers.

The economic lives that the incumbent carriers have assigned to distribution and feeder facilities for capital recovery purposes should be consistent with the fill factors developed as part of the efficient network configured by the cost proxy models. For instance, if the incumbent carriers assign an economic life of 14 years for metallic distribution facilities, then it is not reasonable to size these

facilities to satisfy demand levels that may not emerge for 25 to 30 years in the future, long after the facilities are projected to be retired.

Q. Have you commented previously upon the level of operating expenses and common costs that the incumbent carriers seek to recover through the proposed UNE rates?

A. Yes. In the prefiled testimony that I submitted on June 8, 2000, I commented upon the level of total operating expenses, including common costs, that the incumbent carriers project will be incurred on a forward-looking basis in the provision of unbundled network elements. At an earlier point in this proceeding, the Commission had ordered that the issues of operating expenses and common costs be addressed by the intervenors in their June 8, 2000 prefiled testimony. The Commission subsequently deferred the review of these issues until the current round of testimony. Although my initial comments with respect to the ILECs' operating expenses and common costs appear in my June 8, 2000 prefiled testimony, they are further discussed here as a matter of convenience.

Q. How are the operating expenses developed in the ILECs' cost proxy models (Issue 7(t))?

A. The operating expenses proposed to be recovered by the ILECs are estimated by massaging base period expense levels through a series of adjustments and factors. The base year expenses may then be adjusted through inflation factors and productivity offsets as well as "normalization" adjustments in an effort to make the baseline data representative of forward-looking conditions. Other adjustments may also be proposed such as an avoided retail expense adjustment,

activity based cost adjustments, special study adjustments, and shared and common cost adjustments. Annual charge factors are also developed under a costing pool methodology that assigns individual plant and expense account activity to one or more cost pools.

Q. What conclusions did you reach regarding the reasonableness of the level of operating expenses included in the ILECs' cost studies?

A. The results of my analyses suggest that the operating expenses included in BellSouth's and GTE's cost studies appear overstated and not representative of forward-looking conditions. For instance, the inflation factor of 3.2% to 3.5% assumed by BellSouth exceeds the productivity offset of 3.1% resulting in a growing level of expenses each year during the forecast period. GTE has made an initial series of adjustments to its base year expenses (i.e. 1998 ARMIS data) that actually increase the operating expenses prior to other adjustments.

One would expect lower levels of operating expenses to be projected on a forward-looking basis assuming the network configurations of the cost proxy models embrace the most efficient, least cost technology and the engineering and operating practices of the carrier reflect productivity enhancements. As presented in Exhibit__(WJB-1), the trend of BellSouth's and GTE's operations indicate declining expense levels on a per access line basis over the last several years. Therefore, an ILEC's proposal to recover a level of operating expenses that exceeds its incurred costs should undergo rigorous scrutiny.

Q. What are common costs (Issue 7(u))?

A. Common costs refer to those costs that are common to all products and services of the ILECs. These costs cannot be identified with the provision of any specific service or group of services.

Q. How do the ILECs propose to recover the common costs that have been identified?

A. The carriers propose to recover their projected common costs through a uniform mark-up applied to the unbundled network elements and UNE combinations. BellSouth proposes a mark-up of 6.24%, GTE advocates a "fixed allocator" of 18.1%, and Sprint caps the common cost mark-up at 15.00%.

Q. What adjustment do you recommend to modify the level of common costs the carriers seek to recover?

A. As part of their effort to develop forward-looking expenses subject to recovery through UNE rates, the carriers have made an adjustment to exclude the retail costs that will be avoided in the wholesale environment. The avoided retail cost adjustment, however, appears to understate the level of costs that should be excluded from the cost studies. BellSouth claims that the percentage of retail costs to be excluded on a forward-looking basis is 11.20%. The results of the GTE cost studies indicate that only 8.30% of its forward-looking expenses are attributed to retail costs.

The avoided retail cost adjustment should reflect the wholesale percentage discount ordered by the Florida Public Service Commission for each carrier. In the case of BellSouth, the FPSC ordered a resale discount of 21.83% for

residential customers and 16.30% for business customers. The avoided retail cost discount ordered for GTE is 13.04%. The impact of substituting the Commission-ordered wholesale percentage discount for each carrier's proposed avoided retail costs can be found in Exhibit__(WJB-2).

Issue 8: What are the appropriate assumptions and inputs for the following items to be used in the forward-looking non-recurring UNE cost studies?

(a) network design;

(b) OSS design;

(c) labor rates;

(d) required activities;

(e) mix of manual versus electronic activities;

(f) other.

Q. Did your review of GTE's Wholesale Non-Recurring Cost Study ("NRC Study") find it to be based upon forward-looking practices (Issue 8(e))?

A. No, not in all areas. The Company asserts that "[T]he UNE NRC Study is a forward-looking study that accounts for the activities required to pre-order, order, provision, and install products and services for Competitive Local Exchange Carriers (CLECs)" (NRC Study, page 13-FL 1). A closer review of the NRC Study, however, indicates that many of the nonrecurring charges to be assessed CLECs requesting unbundled network elements are premised on less efficient, manual ordering and provisioning practices.

Q. Please provide an example where you have found the Company's procedures to be overly reliant on manual processes?

A. GTE claims in its NRC Study that CLECs can transmit their Local Service Requests ("LSR") to the Company via a Manual Order, Semi-mechanized Order, or a Mechanized Order "depending on the CLEC's systems, processes, and level of mechanization" (NRC Study, page 13-FL 2). In actual practice, however, the Mechanized Order process is not available as an option but GTE "will in the future develop costs for the fully Mechanized Order process scenario" (NRC Study, page 13-FL 2).

Q. Is this the extent of the Company's reliance upon manual procedures in the determination of its nonrecurring costs to provide UNEs and UNE combinations?

A. No. In the explanation of ordering function activities, GTE discusses the involvement of a Service Representative at its National Open Market Centers ("NOMC") for each of the ordering processing modes (i.e. Manual Mode, Semi-mechanized Mode, and Mechanized Mode). The National Open Market Centers serve as the single point of contact for pre-ordering and ordering local network UNEs. In a parenthetical reference, the Company notes that:

> "(For Exchange – Complex and Advanced/Special UNE services all order entry is currently done manually by the NOMC personnel regardless of the order receipt mode. For these types of orders, a GTE Service Representative inputs the order and, if applicable, the

Data Gathering Form (DGF) into the system)" (NRC Study, page 14-FL 2).

Most the Company's proposed UNEs fall into the Exchange – Complex and the Advanced/Special categories. Thus, CLECs will be assessed nonrecurring charges based upon manual ordering procedures for the majority of UNEs. Exhibit__(WJB-3) reproduces the matrix prepared by GTE of UNE categories and associated UNEs and highlights those UNEs that are subject to the manual order processing procedures.

Q. Are the provisioning practices of the Company based upon more efficient processes than the ordering function activities?

A. No, not necessarily. In an explanation of the provisioning function, GTE states:

> "Provisioning activities include facility assignment and switch translations (if required). Exchange UNEs require manual provisioning. For the Exchange – Basic UNE-Ps much of the provisioning is automated. The Exchange – Basic services can be provisioned using standard network components maintained in inventory without specialized switch translations. The Facility Assignment Center (FAC) consists of the Select, Special Products Assignment Group (SPAG), and Provisioning Support groups. These groups are involved only when there is system fall-out requiring manual assignment and switch updates.

> The Exchange – Complex UNE/UNE-Ps require more manual provisioning due to switch translations, routing instructions, and service arrangements" (NRC Study, page 15-FL 1).

The Company subsequently discloses the degree of manual assignment in provisioning UNEs:

> "The FAC has responsibility for assignment of outside plant facilities and central office line equipment for Exchange – Basic, Exchange – Complex, and Advanced/Special – Basic UNEs. **All Exchange and Advanced/Special UNEs require manual assignment.** The Assignment, Activation, and Inventory System (AAIS) will automatically process an order for Exchange – Basic UNE-Ps whenever possible. However, when mechanized assignment does not happen, the FAC will manually provision the order" (NRC Study, page 15-FL 2, emphasis added).

As explained in the NRC Study, the Company's provisioning activities are largely dependent upon manual assignment for the majority of UNEs much like the ordering functions.

Q. Has GTE indicated what percentage of orders will fall-out and require manual intervention?

A. Yes. In a description of "Infrastructure Enhancements," the Company states that in the Mechanized Order mode a "small percent of orders fall-out of the system

and require a GTE service representative to notify the CLEC" (NRC Study, page 13-FL 2). It is revealing what GTE considers to be a small percent of fall-out orders.

The Company assumes that "[A]pproximately 22% of the New Basic Exchange UNE LSRs submitted electronically by the CLEC fall out of NOCV and require a GTE Service Representative to manually input the order" (NRC Study, page 14-FL 2). In effect, GTE projects that its electronic ordering systems will be so inefficient that more than one out of five orders will be kicked out and require manual intervention. Such a high fall out rate is not representative of forward-looking conditions and it is doubtful that GTE's own customers would tolerate such inefficiency.

Q. Have you identified any other areas of the Company's Non-Recurring Cost Study that result in excessive nonrecurring costs?

A. Yes. Although the procedures that a CLEC must undertake to establish an account with GTE appear reasonable on their surface, they seem to consume an inordinate amount of time for account set-up:

> "CLEC Account Establishment – GTE establishes the CLEC account in each state that the CLEC requests. The NOMC receives the CLEC profile from the CLEC's account manager, reviews it for completeness, and then enters the CLEC profile information and creates summary bill masters in NOCV. Once the CLEC

account has been established for a state, the CLEC may submit an LSR for processing" (NRC Study, page 13-FL 6).

In order to conduct these account establishment procedures for one CLEC, GTE estimates that it will take 462 minutes or nearly 8 hours to set-up the account (NRC Study, page 14-FL 22). Furthermore, it is unclear from the cost study documentation whether the CLEC Account Establishment charge will be assessed by individual state in which the CLEC requests UNEs from GTE or on a per carrier basis.

It should be kept in mind that while GTE is fully recovering its costs associated with establishing the CLEC account, the CLEC must not only absorb these charges but also the costs incurred in having its employees interact with GTE in the account establishment process.

Q. Have you identified any other shortcomings in the Company's NRC Study?

A. Yes. GTE asserts its UNE NRC Study is a "forward-looking study" (NRC Study, page 13-FL 1). The pre-ordering activities for Dark Fiber, however, do not appear representative of forward-looking practices as they rely upon extensive manual effort. The preordering effort for Dark Fiber – Exchange Facilities is projected to take 243.25 minutes or nearly 4 hours at a cost of $143.52. The preordering activities for Dark Fiber – Interoffice Facilities are estimated to consume a total of 474.50 minutes or nearly 8 hours at a nonrecurring charge of $282.05. These may be the embedded pre-ordering practices of GTE but they are not representative of a forward-looking cost study.

Q. What other areas of the Company's NRC Study warrant further scrutiny by the Commission?

A. The Company intends to recover the one-time costs incurred for OSS system upgrades through a "Transition Cost" charge. GTE has "identified two types of costs associated with OSS – Transition Costs and Transaction-specific Costs. Transition costs are the costs to upgrade existing OSS and the start-up costs to establish mechanized systems. These infrastructure changes were required to make GTE's OSS accessible to CLECs. The transition costs include the one-time expenses to upgrade the five categories of OSS: pre-order, order, provisioning, repair/maintenance, and billing" (NRC Study, page 13-FL 6). It would be more appropriate to recover any OSS-related "Transition Costs" through the Company's recurring rates for UNEs in order to avoid assessing CLECs even higher nonrecurring rates.

Q. Are there any other items you wish to comment upon with respect to the Company's NRC Study?

A. Yes. GTE will add an additional nonrecurring charge of $5.53 to each Local Service Request submitted by a CLEC. According to the Company, the purpose of this extra charge is to recover the shared and fixed costs of the National Open Market Centers:

> "GTE's shared/fixed costs were developed based on the costs GTE actually incurred, as described in GTE's NRC Study. GTE proposes to recover these costs through an additional amount

included in the NRC assessed on every CLEC order. Specifically, whenever a CLEC places an order or initiates an activity involving GTE's NOMCs, the CLEC's 'ordering' NRC includes $5.53 for recovery of shared/fixed NOMC costs. This amount is based on an estimate of how many times CLECs will use GTE's NOMCs in a year" (Direct Testimony of Mr. Dennis Trimble, page 26, line 1).

The magnitude of the per order charge to recover NOMC related costs requires that the Company provide full cost documentation in support of the charge. But GTE has provided scant cost documentation in support of the NOMC shared/fixed cost per order charge of $5.53. Indeed, the only support that Mr. Trimble provides is at such a high level (i.e. three line items of information) that it cannot be determined whether the per order NOMC charge is reasonable. One would expect the NOMC per order charge to be uniform across GTE's operating subsidiaries in different jurisdictions since it is based upon an estimate of how many times CLECs will use GTE's National Open Market Centers in a year. But somehow GTE has estimated the NOMC per order charge to be $5.53 in Florida while the same per order cost recovery in North Carolina is estimated to be $4.76. Based upon the Company's premise for developing the NOMC per order charge, the costs recovered on a per order basis from a CLEC should be the same whether the CLEC is requesting UNEs in North Carolina or in Florida. The Commission should order the Company to be more forthcoming concerning its investment and operating costs associated with each of its NOMCs. At this point, the Commission is not in a position to determine if such a per order charge is even necessary much less reasonable.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

TALLAHASSEE, FLORIDA

SUPPLEMENTAL REBUTTAL TESTIMONY OF

WILLIAM J. BARTA

DOCKET NO. 990649-TP

AUGUST 28, 2000

Q. Please state your name and business address.

A. My name is William Barta, and my business address is 7170 Meadow Brook Court, Cumming, Georgia, 30040.

Q. Have you previously submitted testimony in this proceeding?

Yes. I submitted prefiled testimony on June 8, 2000 and July 31, 2000 in this proceeding.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of the Florida Cable Telecommunications Association ("the FCTA").

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss certain revisions that BellSouth has incorporated in its latest cost studies submitted on August 16, 2000. Specifically, I wish to draw the attention of the Florida Public Service Commission ("the FPSC" or "the Commission") to the substantial increases in the nonrecurring rates

for certain unbundled network elements ("UNEs") that the Company has proposed from its initial cost filing in this docket.

Q. Please summarize your testimony.

A. BellSouth submitted its original cost study in this proceeding on April 17, 2000. The Company recently filed a revised cost study on August 16, 2000. In the most recent cost filing, BellSouth has proposed rates for 26 unbundled network elements that reflect increases in recurring and/or nonrecurring rates of 10% or more from the original cost study. The substantial increases in nonrecurring rates for many of the unbundled network elements are of particular concern. The nonrecurring rates that BellSouth charges alternative local exchange carriers can present formidable barriers to an ALEC's market entry depending upon their magnitude – especially in relationship to the existing market rate and customer churn for the service offering.

A comparison of the work activities and labor times underlying the nonrecurring costs for individual UNEs was conducted between the April 17, 2000 cost study and the August 16, 2000 cost filing. The results of the analysis indicate that BellSouth has expanded the work activities and/or materially increased the labor hours associated with a work activity for key unbundled network elements. One would not anticipate such significant changes in work activities and/or labor hours given that the Company relied upon studies less than six months apart. The significant percentage increases in the labor hours underlying the higher nonrecurring costs for several UNEs leads one to the conclusion that BellSouth is becoming less proficient at provisioning UNEs than it was just six months ago.

A comprehensive examination of the studies that have led to the substantial increases in the estimated nonrecurring costs should be undertaken. Absent the results of such an examination, the nonrecurring rates for unbundled network elements proposed by the Company in its April 17, 2000 cost study should be used as the basis for any Commission-ordered adjustments and/or modifications to BellSouth's proposed rates.

Q. Why did BellSouth submit revised cost studies?

A. According to BellSouth, several reasons led to the Company's decision to update its cost studies. The revised studies reflect modifications to the BellSouth Telecommunications, Inc. Loop Model ("BSTLM"). In addition, BellSouth found it necessary to revise its nonrecurring provisioning process for Digital Subscriber Line elements in order to be in conformance with the Federal Communications Commission's ("the FCC") 319 rules concerning access to loop qualification data. During its review of the Digital Subscriber Line provisioning practices, BellSouth revisited all of the nonrecurring inputs for all types of loops and, as a consequence, revised several inputs. Finally, the Company made certain corrections to the original study for such items as material prices, the gross receipts tax factor, and switching software model updates.

Q. What is the impact of the revisions on the proposed UNE rates?

A. The impact of the revisions on the proposed rates for most UNEs is negligible with only slight percentage increases or decreases from the rates developed in the original cost study. For a number of UNEs, however, there are substantial

changes in the proposed rates. Particularly troublesome is the magnitude of the percentage increases in the nonrecurring charges for UNEs that ALECs are likely to request in large volumes in their effort to become more competitive. A summary of the recurring and nonrecurring rates for UNEs that have changed by more than 10% from BellSouth's April 17, 2000 cost study is presented in Exhibit No.__(WJB-1).

Q. Why is the level of nonrecurring costs important to the alternative local exchange carriers?

A. The nonrecurring rates for UNEs charged by BellSouth are a cost of doing business to ALECs. The rates that the competitive carriers offer their retail customers must recover the nonrecurring fees paid to BellSouth. BellSouth's nonrecurring costs can present formidable barriers to an ALEC's market entry depending upon their magnitude -- especially in relationship to the existing market rate and customer churn for the service offering.

For instance, if an ALEC is assessed a $350 nonrecurring charge for a UNE that is necessary to provision a service with a monthly revenue stream of $40, then the ALEC must retain the customer for a period of nearly 9 months simply to recover the nonrecurring fees paid to BellSouth. But, in actuality, the breakeven period will be much longer as the ALEC will also be charged recurring costs by BellSouth for the UNE in addition to the expenses it incurs for its internal operations (e.g. sales and marketing, customer service, corporate overhead, etc.). Higher than necessary nonrecurring charges lengthen the payback period and increase the ALEC's business risk.

Q. Why has the Company revised the proposed nonrecurring costs for UNEs from its original cost filing?

A. According to BellSouth's witness, Ms. Daonne Caldwell, the revisions to the proposed nonrecurring rates reflect changes for a number of reasons, including the dispatch rate, the extent of provisioning activities, and true-ups for certain elements:

> "All nonrecurring costs for non-loop elements decreased due to the decrease in gross receipts tax. Nonrecurring costs associated with service level ('SL') 1 and SL2 loops increased mainly as a result of an increase in the dispatch rate. The sub-loop feeder has been reclassified as a designed loop, which involves more provisioning activities and thus increased nonrecurring costs. Other elements that increased in cost include Cross Box Facility Set-up, Network Interface Device ('NID') Cross Connect, and Integrated Services Digital Network ('ISDN') loops. These increases resulted from a truing-up of the inputs and provisioning processes" (August 18, 2000 prefiled testimony, page 6, lines 9 through 17).

Q. Have you reviewed the revised rates for nonrecurring costs that the Company has proposed in its most recent cost study?

A. Yes. My review consisted of comparing the work activities and corresponding labor times underlying the nonrecurring costs for UNEs that experienced a percentage change of 10% or greater from BellSouth's original cost filing. The

work activities and associated labor times are major drivers of the Company's nonrecurring cost estimates. My analysis particularly focused on the 2-wire analog voice grade loops and sub-loop feeder unbundled network elements. In the near term, the 2-wire analog voice grade loop is likely to be a highly requested UNE by alternative carriers. As the market evolves and more infrastructure is deployed, the ALECs may begin to submit a greater number of requests for sub-loop UNEs.

Q. How many unbundled network elements were changed by 10% or more due to the Company's revisions to its original cost study?

A. The recurring and/or nonrecurring rates for 26 UNEs were changed by 10% or more as a result of the revisions to the Company's original cost study. Of this group of 26 unbundled network elements, the revisions to 20 UNEs resulted in changes in the nonrecurring costs. More importantly, the changes in the estimated nonrecurring costs for 13 unbundled network elements represented rate increases of 10% or more.

Q. What were the results of your analysis of the 2-wire analog voice grade loop and sub-loop elements?

A. Revisions to the work activities and/or estimated labor hours from the Company's original cost study produced significant increases in the estimated nonrecurring costs for a 2-wire analog voice grade loop – Service Level 1 and 2 (i.e. UNE codes A.1.1 and A.1.2, respectively). Both installation and disconnect rates for these elements experienced sharp increases.

The UNE A.1.1 labor hours for first installation and additional installation experienced an increase of 37.12% and 74.60%, respectively, from the Company's original cost study. The initial disconnect and additional disconnect labor hours rose 38.75% and 71.79%, respectively from the original cost study.

The percentage increase in the labor hours underlying the nonrecurring rates for a 2-wire analog voice grade loop – Service Level 2 (i.e. UNE code A.1.2) was more dramatic than the increase in UNE A.1.1 labor hours. First installation and additional installation labor hours for UNE A.1.2 increased 59.12% and 38.11%, respectively, from the Company's original cost study. The initial disconnect and additional disconnect labor hours rose 121.46% and 139.15%, respectively.

The Sub-Loop Feeder Per 2-Wire Analog Voice Grade Loop unbundled network element (i.e. UNE code A.2.1) also experienced significant percentage increases in installation and disconnect labor hours. First installation and additional installation labor hours rose 50.79% and 139.06%, respectively, while additional disconnect labor hours increased 39.06% from the original cost study. The Sub-Loop Distribution Per 2-Wire Analog Voice Grade Loop additional installation hours increased 13.82% from the Company's original cost study.

A comparison of the installation and disconnect labor hours between the Company's original cost study and its revised cost study for UNEs A.1.1, A.1.2, A.2.1, and A.2.2 is presented by Job Function Code ("JFC") in Exhibit No.__(WJB-2) through Exhibit No.__(WJB-5).

Q. What conclusions did you draw from the results of your analysis?

A. The sharp increase in labor hours directed towards installation and disconnect activities is surprising given the time estimates developed in the Company's original cost study. The nonrecurring cost studies supporting the April 17, 2000 cost filing were conducted in March 2000 while the August 16, 2000 cost study reflected the results of studies conducted in July 2000. One would not anticipate such significant changes in work activities and/or labor hours in such a brief time period. The significant percentage increases in the labor hours underlying the higher nonrecurring costs for several UNEs leads one to the conclusion that BellSouth is becoming less proficient at provisioning UNEs than it was just six months ago.

Q. What is your recommendation regarding the large percentage increases in the nonrecurring rates for unbundled network elements proposed by BellSouth?

A. The Commission would benefit from a comprehensive examination of the studies that have led to the substantial increases in the estimated nonrecurring costs. Absent the results of such an examination, the nonrecurring rates for unbundled network elements proposed in the Company's April 17, 2000 cost filing should be used as the basis for any adjustments and/or modifications ordered by the Commission.

Q. Does this conclude your testimony?

A. Yes.

MS. CALDWELL: Commissioner, we have already done Witness Ford.

CHAIRMAN DEASON: Ford has already been done, correct?

MS. CALDWELL: That is correct.

CHAIRMAN DEASON: I believe that Witness Barta is the last witness, is that correct? Very well.

Staff, you indicated that there was an outstanding matter about some information you requested from BellSouth.

MS. CALDWELL: Yes, Commissioner. Staff would request that BellSouth provide us with an errata sheet relating to their testimony and exhibits for Phase 1. And we would like to mark that to be provided as Exhibit 161.

CHAIRMAN DEASON: Exhibit 161. Now, this is to be a late-filed exhibit?

MS. CALDWELL: Yes, sir.

CHAIRMAN DEASON: And can you describe for the record what that exhibit will consist of.

MS. CALDWELL: BellSouth's errata sheet for testimony and exhibits for Phase 1.

CHAIRMAN DEASON: Is BellSouth aware of what staff is requesting, and is there any problem?

MR. EDENFIELD: We are aware, Chairman Deason, and there is no problem.

(Exhibit Number 161 marked for identification.)

CHAIRMAN DEASON: Very good. Do we have an anticipated filing date for Late-filed 161?

MS. CALDWELL: Commissioner, we have talked to staff down here, and they believe by next Friday they would be able to have that information to us.

CHAIRMAN DEASON: Any objection to having that exhibit filed by -- one week from today?

MR. EDENFIELD: No, sir, I think that will be fine. Ms. Caldwell is going to have to go through a lot of information. And I think they are out of their hearing today. They were in a hearing, which is my main concern about committing to time. But I think they got finished last night.

CHAIRMAN DEASON: Very well. Right now we will schedule it for one week from today. If there is a problem, just get with staff or the prehearing officer, and I'm sure an accommodation can be made for good cause shown.

MR. MELSON: Chairman Deason, could we ask for a little more explanation from staff as to what the exhibit is anticipated to be.

CHAIRMAN DEASON: Surely.

MS. CALDWELL: This is the same thing we have asked of Verizon and of Sprint, it is the errata sheet

that when BellSouth filed its late-filed -- its supplemental and revised cost studies, there was some information in Phase 1 that it superseded. And this is just to let us know so it clears up the record what is being superseded. So I think it will be a benefit to all the parties.

CHAIRMAN DEASON: Do you understand? No problem?

MR. MELSON: No problem.

CHAIRMAN DEASON: Very good. Anything else to come before the Commission?

MR. McGLOTHLIN: One thing, Chairman Deason. A moment ago staff did inquire about the status of Doctor Ford's testimony. And I am relying on my memory, my memory is that when the occasion arose I asked to receive a ruling that it be incorporated as though he were here and read it. But if there is any confusion on that, and in an abundance of caution, would you confirm that to the extent there is any ambiguity on that situation that it is to be inserted?

CHAIRMAN DEASON: We will certainly clarify that. According to my record, that testimony was inserted into the record. It was part of -- it was stipulated in. And if it were not done, just to make sure, we will include it into the record without objection. That

testimony, I think, is already part of the record. If it is not, it shall be part of the order and there were no objections to having that testimony in the record.

MR. McGLOTHLIN: I appreciate that.

CHAIRMAN DEASON: Anything else? Hearing none -- before we adjourn, just let me say one thing. We labored through this hearing, we worked at it long and hard. We worked into the evenings. We had, I think, plenty of time scheduled, but we had an unanticipated event, that being a tropical storm and the fact that it was of such severity that state offices were closed on that Friday, which was the date we were to conclude this hearing.

I want to express my appreciation to all the parties for working around that event. And I appreciate the accommodations that were made to get this hearing concluded today. I think there were some accommodations made by BellSouth in particular, and I want to express my appreciation to them for doing that.

I think that all the parties have labored hard on this as well as staff, and it is our effort to bring this matter to a conclusion. And I think we have a schedule set out, and hopefully no other tropical storms or anything will cause us to change that any further.

Anything else? Hearing none, this hearing is

adjourned thank you all.

MR. EDENFIELD: Thank you.

MR. SLOAN: Thank you, Mr. Chairman.

(The hearing concluded at 10:40 a.m.)

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

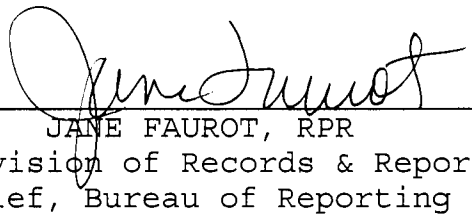
COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, FPSC Bureau of Reporting FPSC Commission Reporter, do hereby certify that the Hearing in Docket No. 990649-TP was heard by the Florida Public Service Commission at the time and place herein stated.

It is further certified that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript, consisting of 87 pages, Volume 20 constitutes a true transcription of my notes of said proceedings and the and the insertion of the prescribed prefiled testimony of the witnesses.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 24TH DAY OF OCTOBER, 2000.



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