BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 960786A-TL

In the Matter of

CONSIDERATION OF BELLSOUTH TELECOMMUNICATIONS, INC.'S ENTRY INTO INTERLATA SERVICES PURSUANT TO SECTION 271 OF THE FEDERAL TELE-COMMUNICATIONS ACT OF 1996.
_____/

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VOLUME 4

Pages 390 through 546

PROCEEDINGS:	HEARING
BEFORE:	CHAIRMAN E. LEON JACOBS, JR. COMMISSIONER J. TERRY DEASON COMMISSIONER LILA A. JABER COMMISSIONER BRAULIO L. BAEZ COMMISSIONER MICHAEL A. PALECKI
DATE:	Thursday, October 11, 20001
TIME:	Commenced at 9:30 a.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	JANE FAUROT, RPR Chief, Office of Hearing Reporter Services FPSC Division of Commission Clerk and Administrative Services (850) 413-6732
APPEARANCES:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

PROCEEDINGS

(Transcript follows in sequence from Volume 3.)

MS. WHITE: BellSouth would call Daonne Caldwell.

D. DAONNE CALDWELL

was called as a witness on behalf of BellSouth Telecommunications, Inc., and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. WHITE:

Q Ms. Caldwell, would you please state your name and address for the record?

A Yes. My name is Doris Daonne Caldwell.

Q And your address?

A Sorry. My address is 675 West Peachtree Street, Atlanta, Georgia.

Q By whom are you employed and in what capacity?

A I am employed by BellSouth Telecommunications and I am a Director in the Finance Department.

Q Have you previously caused to be prepared and prefiled in this case direct testimony consisting of 56 pages?

A Yes, I did.

Q Do you have any changes or corrections to make to that direct testimony at this time?

A I do not.

Q If I were to ask you the questions contained in your

direct testimony today, would your answers to those questions be the same?

A Yes, they would.

MS. WHITE: Mr. Chairman, I would like to have the direct testimony of Ms. Caldwell inserted into the record as if read.

COMMISSIONER DEASON: Without objection, show it inserted.

BY MS. WHITE:

Q And, Ms. Caldwell, did you have one exhibit attached to your direct testimony labelled DDC-1?

A Yes, I did.

Q Do you have any changes to that exhibit at this time?

A I do not.

MS. WHITE: I would like to have the exhibit -- well, let me do the rebuttal.

BY MS. WHITE:

Q Ms. Caldwell, did you cause to be prefiled in this case rebuttal testimony consisting of 23 pages?

A Yes, I did.

Q And do you have any corrections or changes to make to your rebuttal testimony -- I mean, your surrebuttal testimony?

A I have one correction to be made. It is on Page 12. On Line 11, I inadvertently left the port rate out of the combination rate. So on Line 11 -- again, Page 12, Line 11,

where it says Zone 1, 11.89, that should be 13.01. Line 12, Zone 2, where it says 16.03, that should be $17.15. And then on Line 13 where it says $29.33, that should be $30.45.

Q Do you have any other changes to your testimony, your surrebuttal testimony?

A I do not.

Q If I were to ask you the questions contained in your surrebuttal testimony today, would your answers be the same?

A Yes, they would.

MS. WHITE: I would like to have the surrebuttal testimony of Ms. Caldwell inserted into the record as though read.

COMMISSIONER DEASON: Without objection it will be so inserted.

BY MS. WHITE:

Q Did you cause to prepare Exhibits DDC-2 through DDC-4 for your surrebuttal testimony?

A Yes, I did.

Q Do you have any changes to those exhibits?

A I do not.

MS. WHITE: I would like to have the exhibits attached to Ms. Caldwell's direct and surrebuttal marked as the next exhibit.

COMMISSIONER DEASON: Exhibit 18.

(Composite Exhibit 18 marked for identification.)

BELLSOUTH TELECOMMUNICATIONS, INC.

DIRECT TESTIMONY OF D. DAONNE CALDWELL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 960786-TL

MAY 31, 2001

Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A. My name is D. Daonne Caldwell. My business address is 675 W. Peachtree St., N.E., Atlanta, Georgia. I am a Director in the Finance Department of BellSouth Telecommunications, Inc. ("BellSouth"). My area of responsibility relates to the development of economic costs.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I attended the University of Mississippi, graduating with a Master of Science Degree in mathematics. I have attended numerous Bell Communications Research, Inc. ("Bellcore") courses and outside seminars relating to service cost studies and economic principles.

My initial employment was with South Central Bell in 1976 in the Tupelo, Mississippi, Engineering Department where I was responsible for Outside Plant Planning. In 1983, I transferred to BellSouth Services, Inc. in Birmingham, Alabama, and was responsible for the Centralized Results System Database. I

moved to the Pricing and Economics Department in 1984 where I developed methodology for service cost studies until 1986 when I accepted a rotational assignment with Bellcore. While at Bellcore, I was responsible for development and instruction of the Service Cost Studies Curriculum including courses such as, "Concepts of Service Cost Studies", "Network Service Costs", "Nonrecurring Costs", and "Cost Studies for New Technologies". In 1990, I returned to BellSouth and was appointed to a position in the cost organization, now a part of the Finance Department, with the responsibility of managing the development of cost studies for transport facilities, both loop and interoffice. My current responsibilities encompass cost methodology development and the overall coordination of cost study and interrogatory response filings. Additionally, I participate in cost-related dockets as an expert witness on cost issues.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS?

A. Yes. I have participated in arbitration hearings, generic cost dockets, and Universal Service Fund proceedings, providing evidence on cost-related issues. I have testified before the state public service commissions in Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, and South Carolina, the Tennessee Regulatory Authority, and the Utilities Commission in North Carolina.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe the cost studies BellSouth submitted to

the Florida Public Service Commission ("Commission") in support of its rates for unbundled network elements, interconnection, transport and termination, and collocation. In doing so, I will demonstrate that the BellSouth cost studies are consistent with both the Telecommunications Act of 1996 ("Act") and the Federal Communications Commission's ("FCC") pricing rules. Specifically, I discuss the requirements that should be imposed on recurring and nonrecurring cost preparation for unbundled network elements ("UNEs"), combinations of network elements, and deaveraged offerings. I also will address the underlying cost methodology, the models, and the major inputs BellSouth utilized in the cost studies filed with this Commission. While the Commission has voted on the Staff Recommendation, the Commission had not issued a written order as of the time this testimony was prepared. When the Commission issues a written order, BellSouth will revise its cost studies, to the extent necessary, and will true-up the rates set forth in Attachment A to the SGAT.

Q. HOW IS YOUR TESTIMONY STRUCTURED?

A. My testimony is organized as follows:

Section 1

- ▶ Cost Methodology
- ▶ Cost Development Process
  - ▪ Recurring Cost Development
  - ▪ Nonrecurring Cost Development
- ▶ Models

- Loop Model
- Switch-related Cost Models
- BellSouth Cost Calculator©
- Capital Cost Calculator©
- Price Calculators

▶ Inputs

- General
- Inflation Adjustment Factor
- Loadings
- Annual Cost Factors
- Operating Expense Factor
- Tax Factors
- Shared and Common Factors
- Labor Rates
- Disconnect Inflation Factor
- Element Specific Inputs
  - →Loop
  - →Switching
  - →Transport & Signaling
- Nonrecurring Cost Inputs

Section 2

▶ Unbundled Copper Loop – Non-designed ("UCL-ND"), Line Sharing, Line Splitting and Collocation

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Q. WHERE HAS BELLSOUTH SET FORTH ITS COST-BASED RATES?

A. Attachment A to the Statement of Generally Available Terms and Conditions ("SGAT"), Exhibit CKC-5 to Ms. Cox's testimony, provides the cost-based rates that were either the result of previous filings made by BellSouth to this Commission or studies that are attached to my current testimony.

Q. PLEASE PROVIDE A BRIEF HISTORY OF THE COST PROCEEDINGS FOR UNBUNDLED ELEMENTS AND COMBINATIONS IN FLORIDA.

A. In my opinion, there have been three major proceedings in which the Commission either has established or will establish permanent, cost-based rates for UNEs and combinations of UNEs. The first major proceeding that tackled UNE rates was a proceeding that combined Docket Nos. 960833-TP, 960846-TP and 960916-TP. As a result of that proceeding, the Commission issued Order No. PSC-96-1579-FOF-TP on December 31,1996 establishing rates for a number of unbundled network elements. In 1998, the Commission consolidated several dockets, namely 960575-TP, 960833-TP and 960846-TP, to address permanent rates for additional UNEs for which rates had not previously been established. Order No. PSC-98-0604-FOF-TP (April 29, 1998) outlines the decisions reached by the Commission in that proceeding. This order specifically set Virtual Collocation rates, among others. Most recently, this Commission conducted a proceeding (Docket No. 990649-TP) designed both to revisit existing cost-based rates for UNEs, and to address cost-based rates for the additional network elements and combinations

BellSouth is obligated to provide as a result of the FCC's UNE Remand Order ("319 Order"). Further, Docket No. 990649-TP addressed geographic deaveraging of rates.

BellSouth's cost study in Docket No. 990649-TP includes the majority of the UNEs and combinations BellSouth provides to ALECs. To avoid duplication of the Commission's records, BellSouth did not refile this study in this proceeding. There are, however, certain elements that the cost study did not include: collocation, line sharing and UCL-ND. With respect to line sharing, Docket No. 990649-TP specifically excluded line sharing from consideration. Although the Commission indicated that line sharing costs would be considered in a later proceeding, the Commission has yet to establish such a docket. Consequently, BellSouth has filed cost support for line sharing in this docket.

The Commission is considering collocation in a two-phase docket, Docket Nos. 981834-TP/990321-TP. The first phase addressed provisioning methods and procedures and terms and conditions for collocation. The second phase will determine collocation rates. As of yet, the procedural schedule for the second phase of the collocation docket has not been set. Thus, BellSouth filed costs for collocation elements in this docket.

With respect to the UCL-ND, BellSouth has only recently developed this product and thus it could not be considered in Docket No. 990649-TP. Hence, BellSouth has filed its costs here.

Exhibit DDC-1, attached to this testimony, is BellSouth's cost studies for line sharing, collocation and UCL-ND. A cost summary, which lists the specific elements, is provided in Section 2 of Exhibit DDC-1. Some of these elements, in conjunction with elements being considered in Docket No. 990649-TP, will be used for line splitting. The cost development for the elements contained in Exhibit DDC-1 followed the same cost methodology used in Docket No. 990649-TP. Once the Commission issues a written order in Docket No. 990649-TP, BellSouth will true-up all of the rates in Attachment A to the SGAT based on the Commission's modifications to BellSouth's cost studies.

SECTION 1

COST METHODOLOGY

Q. HAS THIS COMMISSION PREVIOUSLY ADDRESSED COST METHODOLOGY?

A. Yes. This Commission's first venture into establishing cost methodology, Docket No. 900633-TL (1990), dealt with cost support for retail services. The Commission conducted an exhaustive investigation into cost methodology to be used by local exchange companies when pricing retail services and established Total Service Long Run Incremental Cost ("TSLRIC") as the appropriate methodology to be used for cost support for tariff filings. TSLRIC uses incremental costing techniques to identify the additional costs associated with providing services. Incremental cost is based on cost causation and, in general, includes all of the costs directly caused by expanding production of a service, or alternatively, costs that are saved by reducing production levels of a service. For

TSLRIC, incremental cost is calculated for the entire volume of a service. Specifically, TSLRIC includes all volume sensitive and volume insensitive costs directly caused by and associated with that service. Long run incremental cost studies (such as for TSLRIC) ensure that the time period studied is sufficient to capture all forward-looking costs affected by the business decision being studied.

In 1996, in Docket Nos. 960833-Tp; 960846-TP; and 960916-TP, the Commission again addressed cost methodology, i.e., the underlying economic principles to be utilized when developing cost support, this time for UNEs. In its Order, the Commission first discussed the FCC's rules regarding cost and then outlined its interpretation of those cost methodology directives. In this interpretation, the Commission specifically recognized the underlying similarities between two methodologies, TSLRIC plus shared and common and Total Element Long Run Incremental Cost ("TELRIC") economic cost once consideration was given to the object studied – a UNE, rather than a service. On page 24 of Order No. PSC-96-1579-FOF-TP, this Commission stated, "...we do not believe there is a substantial difference between the TSLRIC cost of a network element and the TELRIC cost of a network element."

Q. IN §51.505 OF THE *LOCAL COMPETITION ORDER*, THE FCC OUTLINES A NUMBER OF CRITERIA REGARDING TELRIC ECONOMIC COST DEVELOPMENT FOR UNES. PLEASE EXPLAIN HOW BELLSOUTH'S COST STUDIES ADHERE TO EACH OF THESE CRITERIA.

A. The FCC begins by defining the forward-looking economic cost of an element as the sum of the TELRIC of the element and a reasonable allocation of forward-looking common costs. (§51.505(a)) As I mentioned previously, this Commission recognized the similarities between TSLRIC and TELRIC methodology. Thus, the same fundamental principles hold for developing TELRIC economic costs as apply to TSLRIC: the costs should be directly caused by the offering; volume sensitive and volume insensitive costs are both appropriate; and the cost should reflect a long-run perspective such that all forward-looking costs are considered. BellSouth is well-versed in the use of these principles because it has utilized them since the 1990 ruling in Docket No. 900633-TL that established TSLRIC as the appropriate methodology for retail service cost studies.

To the greatest possible extent, BellSouth also directly assigned costs based on the particular materials, equipment, and installation requirements associated with and necessary to provision a specific UNE. Thus, the costs were complete, reflecting the full costs of installation as required by §51.505(b).

The FCC went further to specify additional aspects of cost development. In particular, §51.505 (b)(1) discussed the attributes of the network that must be considered in developing TELRIC economic costs: "[t]he total element long-run incremental cost of an element should be measured based on the use of the most efficient telecommunications technology currently available and the lowest cost network technology currently available and the lowest cost network configuration, given the existing location of the incumbent LEC's wire centers."

This paragraph has generated the most controversy in all of the past proceedings in Florida. Opposing parties tend to ignore the FCC's statement, also contained within the *Local Competition Order*, that the "benchmark of forward-looking cost and existing network design most closely represents the incremental costs incumbents actually expect to incur in making network elements available to new entrants." (*Local Competition Order*, ¶ 685) Instead, opposing parties advocate network architectures, provisioning processes, and expense reductions that are unattainable within the foreseeable future in order to meet their interpretation of 51.505(b)(1). BellSouth's cost studies, on the other hand, reflect a network architecture that is forward-looking, efficient and least-cost. However, the costs are constrained somewhat by a realistic acknowledgement of BellSouth's equipment selections, material prices, network deployment guidelines, and provisioning processes. Additionally, costs were developed based on Florida-specific characteristics and data. Although not specifically required by the TELRIC methodology, BellSouth believes that it could not model the costs actually incurred in provisioning network capabilities to competitors unless it used data specific to the particular jurisdiction.

§51.505 (b)(1) is also the focal point of the Eighth Circuit's July 2000 Ruling. Specifically, the Eighth Circuit vacated this rule and remanded it back to the FCC. I will discuss the Eighth Circuit Ruling in more detail later in my testimony.

Sections 51.505(b)(2) and 51.505(b)(3) address cost of capital and depreciation, respectively. BellSouth utilized input assumptions that conform to the FCC's TELRIC methodology regarding cost of capital and depreciation. In accordance

with §51.505(b)(2), which mandates a forward-looking cost of capital, BellSouth submitted studies that used an 11.25% cost of capital. BellSouth found that this value reflected a conservative estimate of the risk characteristics. With respect to depreciation, BellSouth submitted costs based upon "economic depreciation rates" in accordance with §51.505 (b)(3).

Section 51.505 (c) allows for the "reasonable allocation of forward-looking common costs". BellSouth used its most recent historical costs as the starting point and projected into the future in order to develop its forward-looking shared and common costs. These historical costs were adjusted to exclude retail costs and the portion of any executive, planning, general, and administrative costs that arguably could be attributed to retail costs.

BellSouth utilized an allocative ratio (allocator), developed through a two-step process, to calculate common costs. First, BellSouth defined total wholesale common costs as the sum of the directly assigned wholesale common costs and the allocated wholesale common costs. Then, by dividing the total wholesale common costs by the total wholesale costs, excluding the common portion, BellSouth developed the common cost allocator. To determine the attributable common costs for each network element, BellSouth multiplied the directly assigned costs by this common cost allocator.

The FCC rules not only describe the costs that should be considered, but also contain factors that should not be included. Specifically, embedded, retail, and opportunity costs must be excluded. Additionally, revenues from other services

may not be considered in the cost analysis (§51.505 (d)). BellSouth's cost studies did not reflect any of the aforementioned items. In fact, BellSouth's methodology does not support an embedded perspective with respect to cost development. However, BellSouth recognizes that past results may be judged as an indication of future trends and thus, should provide some input into the cost analysis, at least as a starting point. For example, year-end expense and investment data are utilized as starting points in developing some cost factors. Thus, in some cases, certain historical data, such as investments and expenses by account, field reporting code, Cost Pool, and/or Cost Sub-Pool, were used to develop factors that predict future relationships with respect to forward-looking investments and expenses. In all such cases, the historical relationships were only used if they were accurate representations of the future.

Q. YOU MENTIONED THE EIGHTH CIRCUIT'S RECENT RULING. PLEASE COMMENT ON THE IMPACT OF THIS DECISION ON COST METHODOLOGY.

A. On July 18, 2000, the United States Court of Appeals for the Eighth Circuit issued an opinion that struck down the FCC's TELRIC pricing rule. The Court held that UNE costs should be determined using forward-looking costs of the incumbent local exchange company's ("ILEC's") existing network rather than on the costs of a hypothetical network of an imaginary carrier.

BellSouth has not fully evaluated the impacts of the Court's decision on the cost methodology for UNEs; further, the full impact of that decision will not be known

until the appeal process is concluded. On September 25, 2000, the Eighth Circuit granted a stay of the TELRIC decision stating that its decision "is stayed pending the filing and ultimate disposition of a petition for certiorari with the Supreme Court." The Supreme Court granted the petition for certiorari on January 22, 2001. The final ruling is still pending. Therefore, BellSouth has not made any changes to the underlying TELRIC methodology submitted in Docket Number 990649-TP or to the cost studies filed in this docket to address the Eighth Circuit Court's decision. There is no doubt, however, that BellSouth's costs are forward-looking, but are conservative (low) based on the Eighth Circuit's opinion.

Q. ARE THERE OTHER DIRECTIVES IN THE FCC'S *LOCAL COMPETITION ORDER* THAT IMPACT COST METHODOLOGY?

A. Yes. Section 51.511 (a) discusses the "forward-looking economic per unit" by stating that the economic cost developed based on §51.505, which I have previously discussed, should be "divided by a reasonable projection of the sum of the total number of units of the element." The FCC also discussed per-unit costs elsewhere in the *Local Competition Order*, indicating that per-unit costs should be derived "by dividing total costs associated with the element by a reasonable projection of the actual total usage of the element." (*Local Competition Order*, ¶ 682). BellSouth developed its "projection of actual total usage", i.e., expected utilization, based on subject matter experts' views of future utilization. Those views were generally that historic patterns of utilization would continue in the future. In future studies, BellSouth will update, if necessary, its utilization projections if the impact of competition changes the expected utilization of an

element. However, it is unclear whether the impact of competitors' demand will alter BellSouth's overall network utilization at all. Requests for additional elements do not necessarily increase the utilization within BellSouth's network, it merely reflects a change in ownership of an existing item of plant. I will discuss the development of the loop utilization in more detail later in my testimony. Briefly, BellSouth's loop model actually models the appropriately sized cables to meet existing customer locations, i.e., to meet existing demand. Thus, the resulting utilization is dependent on the clustering of customers, the number of cable pairs per location, and the cable size and type placed to serve the demand. BellSouth is compliant with the FCC's direction as to the development and application of utilization; they are a "reasonable projection of the actual total usage."

Also, as required by §51.511 (b), BellSouth used the discrete number of network elements as the relevant unit for flat-rate services, and the usage of each element for usage-based services.

Q. PLEASE PROVIDE A SYNOPSIS OF THE COST METHODOLOGY BELLSOUTH UTILIZED TO SUPPORT THE COST-BASED RATES CONTAINED IN BELLSOUTH'S SGAT.

A. Whether termed TELRIC economic costs or TSLRIC plus shared and common costs, BellSouth utilized a methodology that reflects the costs BellSouth expects to incur in providing UNEs to competitors on a going-forward basis in the state of Florida. These costs are based on an efficient network, designed to incorporate

currently available forward-looking technology, but recognize BellSouth's provisioning practices and network guidelines, as well. Additionally, shared and common costs were considered. The shared and common costs are based on a projection of BellSouth's anticipated expenses, partitioned based on a reasonable allocation method.

Q. WHAT METHODOLOGY DID BELLSOUTH USE TO DEVELOP THE COSTS OF COMBINATIONS IN THE SGAT?

A. The cost methodology for combinations does not differ from the cost methodology used for UNEs. However, some of the inputs into a combination study may differ from individual UNE inputs. For example, for a combined loop and port, integrated digital loop carrier is considered in the mix of technologies providing that existing combination. In the UNE study, integration is not an option since each element is unbundled and provided separately. Thus, integrated digital loop carrier technology is not appropriate for developing the cost of individual UNEs. This distinction results from the cost object being studied rather than the underlying methodology. Additionally, depending on how a "combination" is defined, nonrecurring inputs may differ. For example, a combination of UNEs on a "switch-as-is" basis, i.e., one that currently exists in BellSouth's network, basically involves a billing change and thus has substantially shorter work times than the work times required either to provide individual UNEs or to combine two UNEs.

Q. WHAT COST METHODOLOGY DID BELLSOUTH USE TO

DETERMINE THE GEOGRAPHICALLY DEAVERAGED COST-BASED RATES CONTAINED IN THE SGAT?

A. The same cost methodology is applicable for geographic deaveraging as was used for UNEs and combinations. Geographic deaveraging is merely a finer breakdown of costs into separate subsets based on geographic differences. An example of a geographic difference is customer dispersion.

Q. HOW DID BELLSOUTH AGGREGATE THE WIRE CENTER LEVEL COSTS INTO ZONES?

A. The first step is to partition the wire centers in Florida into rate groups based upon the General Subscriber Tariff. Next, the rate groups were classified into one of three zone designations. The final step in calculating the average monthly cost in each zone is to weight the wire-center level costs by wire center line counts.

COST DEVELOPMENT PROCESS

Q. PLEASE PROVIDE AN OVERVIEW OF THE COST DEVELOPMENT PROCESS.

A. BellSouth determined recurring costs and nonrecurring costs separately, with each category reflecting the manner in which particular costs were incurred. Recurring costs reflect the capital and operating expenses associated with BellSouth's network investment. Capital costs include depreciation, cost of money, and income tax. Operating expenses include plant specific expenses (such as

maintenance), ad valorem taxes, and gross receipts tax.

Nonrecurring costs are one-time expenses generally associated with provisioning, installing, and disconnecting the unbundled network element. The nonrecurring costs contained in BellSouth's studies reflect five major categories of activity: service order inquiry, service order processing, engineering, connect and test, and technician travel time.

BellSouth systematically used the TELRIC methodology throughout the cost development process. Accordingly, BellSouth's cost study process is composed of five basic steps. These steps, while generally pertinent to the overall cost study development, are directly applicable to the recurring costs associated with the provision of UNEs. Nonrecurring cost development will be discussed in more detail later in this testimony.

RECURRING COST DEVELOPMENT PROCESS

Q. WHAT IS BELLSOUTH'S RECURRING COST DEVELOPMENT PROCESS?

A. First, BellSouth defined the UNEs based on requests by Alternate Local Exchange Companies ("ALECs") and requirements imposed by regulators. BellSouth also included elements it anticipated ALECs might potentially need, although no requests had yet been made.

Second, BellSouth determined the forward-looking architecture, engineering, and

provisioning procedures required to provide the functionality for each of the identified UNEs through the use of models, special studies, and the integrated involvement of necessary BellSouth personnel, such as cost analysts, product managers, and network engineers.

Third, BellSouth determined the material and equipment required for each unbundled network element, as well as the associated cost.

Fourth, BellSouth considered the costs associated with installing the material or equipment. Thus, capitalized labor and miscellaneous costs associated with the installation of plant were appropriately added to the material/equipment cost to determine the installed investment. Additionally, costs associated with support structures (such as land, buildings, poles, and conduit) were determined.

Fifth, BellSouth determined the economic cost of each unbundled network element by calculating the carrying charges and operating expenses associated with the installed investment. BellSouth then included the forward-looking shared and common costs, and took the impact of taxes into account.

Q. THE SECOND STEP IN THE RECURRING COST PROCESS INVOLVES DETERMINING "THE FORWARD-LOOKING ARCHITECTURE." WHAT ARE THE APPROPRIATE ASSUMPTIONS FOR NETWORK DESIGN?

A. As I have mentioned previously, the network design or architecture must reflect

not only a forward-looking perspective, but must also be based upon BellSouth's practices and guidelines. In this manner, the resulting costs will reflect costs BellSouth will incur in providing UNEs and combinations on a going-forward basis. The network design not only impacts the recurring cost development, but also provides a foundation for the development of nonrecurring costs since provisioning practices are based on the type and the design of the equipment being installed. In general, the network design should:

(1) Be forward-looking, yet attainable.
(2) Reflect equipment utilized in BellSouth's network on a going-forward basis.
(3) Reflect BellSouth's Network Guidelines.
(4) Incorporate efficiencies projected to improve provisioning practices.

NONRECURRING COSTS DEVELOPMENT PROCESS

Q. PLEASE DESCRIBE THE PROCESS BELLSOUTH USED TO DETERMINE NONRECURRING COSTS.

A. Each cost analyst is responsible for obtaining estimates of the activities required to provision the element under study. The generic process used for developing nonrecurring costs (i.e., one-time costs typically associated with provisioning or disconnecting an unbundled network element) is as follows:

- Determine the cost elements to be deployed;
- Define the work functions;
- Establish work flows;

- Quantify work times for each work function;
- Develop TELRIC labor costs for each work function (labor rate x work time);
- Accumulate work function costs and add gross receipts tax which results in TELRIC; and
- Apply the common cost allocation factor, which results in economic cost.

BellSouth personnel familiar with the provisioning process evaluated the tasks required to provide unbundled elements and combinations to ALECs, and determined the amount of time needed to complete each task. These network experts factored future process improvement, technological improvements, and movement along the learning curve into their inputs. Thus, these inputs were forward-looking, yet attainable, estimates. Nonrecurring cost studies also reflected productivity gains.

BellSouth's nonrecurring cost development therefore accords with the FCC's adopted methodology, as it reflects forward-looking, yet attainable, work activities directly associated with provisioning UNEs to ALECs.

As I have discussed previously, personnel familiar with the provisioning process provide input into the nonrecurring cost development. Specifically, they provide the process flow, the work centers involved, any probabilities that may be required, and the time required by work center. Provisioning activities can be desegregated into five basic categories: Service Inquiry, Service Order Processing, Engineering, Connect & Test, and Travel. (Every category is not applicable to every UNE). Service Inquiry reflects an up-front process by which the availability/suitability of

facilities is determined. Service Order Processing considers activities incremental to normal service order processing. Let me note that the only work center considered in normal service order processing is the Local Carrier Service Center ("LCSC"). However, other work centers may be involved in service processing for certain elements. Engineering times reflect activities such as, the work required to construct design lay-out records, review of pending jobs, and confirmation of network design standards. Connect & Test considers the physical activities required to provision the requested element and to ensure the transmission quality of the element. Forces involved with Connect & Test include such groups as Installation and Maintenance, Special Services Installation and Maintenance, Circuit Provisioning Group, and Recent Change Memory Administration Group. The Travel category reflects the amount of time needed by technicians to get to the work location. Travel times consider accomplishing more than one task per trip.

Q. YOU MENTIONED SERVICE ORDER PROCESSING COSTS. PLEASE DESCRIBE THESE COSTS IN MORE DETAIL.

A. BellSouth developed interfaces that allow ALECs access to BellSouth's existing legacy systems, as directed by the FCC. Paragraph 523 of the FCC's *Local Competition Order* states:

"We thus conclude that an incumbent LEC must provide nondiscriminatory access to their operations support systems functions for pre-ordering, ordering, provisioning, maintenance and repair, and billing available to the LEC itself."

BellSouth provides ALECs access via mechanized interfaces to certain operational support systems ("OSSs"). The interactive pre-order activities revolve around telephone number reservation, address validation, switch feature and service verification, and due date calculation. ALEC access to Customer Service Records allows ALECs to increase the accuracy of orders by using existing name, address, directory, and line features and service options information.

The ordering processes facilitate interactive order entry, order status inquiry, and supplemental order entry. The ALECs are allowed to access the BellSouth's internal network legacy systems with a single log-on. The ALEC is then authorized to access the electronic interfaces to perform interactive pre-ordering and ordering functions. The electronic interfaces manage the sending and receiving of data to and from the BellSouth OSSs.

BellSouth also provides the ALECs the option of submitting Local Service Requests ("LSRs") manually. LSRs not submitted through a BellSouth Electronic Interface, as described earlier, will be considered a manual LSR. A service representative in the LCSC manually enters the LSR information into BellSouth's legacy (existing) service order systems. Once the Firm Order Confirmation ("FOC") status is returned from the systems, this notification is faxed to the ALEC.

The costs utilized by BellSouth to support the rates do not include the cost of the OSS interfaces developed to allow competitors access to BellSouth's provisioning systems. In its Order in Docket Nos. 960757-TP, 960833-TP, and 960846-TP the

Commission stated "we strongly encourage the parties to negotiate in good faith to establish rates for OSS functions." (Order at Page 165) However, a resolution has never occurred and BellSouth has not recovered either the cost it incurred to develop the interfaces or the ongoing costs associated with these interfaces that are utilized by the ALECs in Florida.

However, BellSouth did reflect the labor costs associated with the tasks required to fill an order. Two cost elements encompass these costs: Electronic Service Order per LSR and Manual Service Order per LSR. The Electronic Service Order costs were developed based upon projected fall-out rates for orders placed electronically and include fall-out generated by ALEC errors and "by design." Experts familiar with ALEC order processing provided the distribution of the different types of UNE orders, e.g., individual UNEs, combinations, and complex orders, the time required to handle the different types of orders, and the amount of fall-out that occurs for electronic orders.

Q. WHAT NETWORK DESIGN SHOULD BE ASSUMED TO DEVELOP NONRECURRING COSTS?

A. As I mentioned previously, the same network design assumptions that provide the foundation for recurring costs should be utilized when developing nonrecurring costs. Thus, the network should be forward-looking, reflect BellSouth's guidelines and practices, should consider potential process improvements, and should be attainable.

MODELS

Q. PLEASE EXPLAIN BELLSOUTH'S USE OF MODELS IN THE DEVELOPMENT OF COSTS.

A. Modeling is an important step in developing costs for UNEs and combinations. BellSouth has utilized several models in developing UNE costs. There are different levels of complexity in the models depending on the component of the network being studied. Within its models, BellSouth utilized the projected vendor prices for each of the components identified as engineering requirements, taking into account the on-going discount levels that BellSouth negotiated with its vendors. BellSouth additionally adjusted material prices to reflect a projection of actual utilization as defined in the *Local Competition Order*, ¶682. As directed by that Order, BellSouth derived per-unit costs "by dividing total costs associated with the element by a reasonable projection of the actual total usage of the element."

Following is a discussion of each of the models BellSouth utilizes in determining the cost of UNEs, combinations, and deaveraged costs.

LOOP MODEL

Q. PLEASE DESCRIBE THE MODEL USED BY BELLSOUTH TO DETERMINE THE RECURRING COSTS OF THE LOOPS CONTAINED IN ATTACHMENT A TO THE SGAT.

A. BellSouth, in conjunction with INDETEC International, Inc., CostQuest Associates, and Stopwatch Maps, has developed a BellSouth model for loop

investment calculations that replaces the loop sample approach BellSouth relied on in early UNE proceedings. The BellSouth Telecommunications Loop Model© ("BSTLM") is designed to support the cost development for both unbundled loop elements and service-specific loops. Furthermore, the BSTLM is the only model currently available that distinguishes between the different types of loops, 2-wire, 4-wire, Integrated Services Digital Network ("ISDN"), Asymmetrical Digital Subscriber Line ("ADSL")-compatible, High Bit Rate Digital Subscriber Line ("HDSL")-compatible, etc. Other proxy models are capable only of producing costs for a 2-wire local loop. Even though the model has the capability to develop costs for high capacity loops, BellSouth currently has confined the use of the BSTLM to loops with transmission rates up to DS1. BellSouth felt the limited customer demand for high capacity loops and high capacity local channels would create unrealistic results. Thus, BellSouth developed the costs for high capacity (DS3 and higher) facilities on spreadsheets outside the BSTLM.

The BSTLM has the ability to geographically deaverage costs for UNEs. The new model incorporates geocoded BellSouth customer serving addresses and the types and quantities of services at each location. When combined with BellSouth-specific input values, the model produces loop investments that accurately reflect the forward-looking, most efficient costs of providing service in BellSouth's territory in Florida at a more detailed level than a statewide average.

Q. PLEASE PROVIDE AN OVERVIEW OF HOW THE BSTLM FUNCTIONS.

A. I will discuss the fundamental process the BSTLM utilizes in developing material prices associated with the various loop offerings. The foundation of the model is customer service records, addresses, as well as services purchased by the customer. The BSTLM determines where customers are located and "lays" cable along the roads of the wire center. A cable path can literally be traced from each customer's premises to the serving central office, a path that follows actual roads in the wire center. The model then determines serving areas for a wire center based on a Minimum Spanning Road Tree ("MSRT") algorithm. The MSRT is the shortest path that connects customer locations assuming that cables follow roads. Appropriate components, such as digital loop carrier ("DLC") and Feeder Distribution Interfaces ("FDIs"), are then located within each serving area.

Once the layout of the network is determined, the BSTLM's configuration process connects the network components. This procedure entails the determination of cable sizes, cable types (copper/fiber, aerial/buried/underground), and selection of DLC type. Once the network is configured, the BSTLM calculates the material price of each network component, not only by component type, but also by component location. Thus, the granularity required to deaverage costs is available through the model.

I will discuss the major input values entered into the BSTLM later in my testimony, but let me mention here that it is critical that the inputs used in any model reflect the costs BellSouth will incur on a going-forward basis. Thus, the BSTLM inputs are BellSouth-specific and reflect BellSouth's operations in the

state of Florida.

SWITCH-RELATED MODELS

Q. PLEASE EXPLAIN IN GENERAL THE PROCESS BELLSOUTH USED TO DEVELOP MATERIAL PRICES FOR EXCHANGE PORTS, FEATURES, UNBUNDLED SWITCHING, AND COMMON TRANSPORT.

A. Switching material prices are generally developed in two stages. The first stage of the process is to develop fundamental studies that identify material prices for basic switching functions. The basic switching functions include non-traffic sensitive line termination, call setup, and line and trunk usage. The second stage of the process is to identify, for each network element or retail service, which of the basic switching functions are used, along with material prices unique to that element or service.

Q. HOW DID BELLSOUTH DEVELOP BASIC SWITCHING MATERIAL PRICES?

A. BellSouth used the model office module out of Telcordia's Switching Cost Information System ("SCIS") program, Switching Cost Information System/ Model Office ("SCIS/MO"), in order to determine the fundamental investments associated with switching. The switch is a multi-faceted entity that performs a number of functions, from establishing a call to providing vertical features, such as three-way calling. To accurately identify the fundamental unit switch investments necessary for these individual functions, a sophisticated model, like SCIS/MO, is

required.

By essentially replicating the actual switch engineering rules provided by the switch vendors, the SCIS/MO model uses a "bottoms-up" approach to establish the fundamental switching material prices for each central office switch included in the cost study. The individual switch architecture and the switch vendors' engineering rules are used to identify the material price drivers. The material price drivers are reflected as SCIS/MO user input data, such as originating plus terminating ("O+T") usage expressed in CCS (one hundred call seconds), quantity of analog lines, quantity of digital lines, processor utilization, etc. Using this input data in conjunction with the switch vendor engineering rules, material price tables, vendor discount tables, and other miscellaneous tables within the model, SCIS/MO employs equations to determine the material prices associated with the various central office functions. The functional categories express switching equipment components or groups of components on a fundamental unit basis, e.g., per line, per CCS, per call, per millisecond, etc.

Q. HOW DID BELLSOUTH ACCOMPLISH THE SECOND PART OF THE PROCESS, I.E., THE APPLICATION OF THE SCIS/MO FUNDAMENTALS TO DEVELOP SWITCH-RELATED COSTS FOR UNES?

A. BellSouth used an internally developed cost model for service and element-specific

switching costs, the Simplified Switching Tool© ("SST"). The SST is comprised of two separate Microsoft Excel workbooks, the SST-Usage ("SST-U") and the SST-Ports ("SST-P"). In general, the SST-U covers the UNE elements Local Switching, Common Transport and Features. SST-P develops Exchange Port material prices.

Both SST modules are provided with a mechanized user interface that allows the user to import study results from the SCIS/MO and to generate a material price sheet for further processing.

BELLSOUTH COST CALCULATOR©

Q. PLEASE DESCRIBE THE FUNCTIONS OF THE BELLSOUTH COST CALCULATOR.

A. The BellSouth Cost Calculator converts input data (material prices/investments by field reporting code ("FRC"), recurring additives, nonrecurring additives, and work times by job function code ("JFC")) into cost. The type of cost (i.e., Long Run Incremental Cost ("LRIC"), TSLRIC, or TELRIC) developed is dependent upon the inputs and the selections made by the user. (LRIC cost methodology considers only the volume sensitive direct costs.)

Section 1, Page 2, of Exhibit DDC-1 pictorially displays the interrelationships

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between the BellSouth Cost Calculator and the other models and price calculators BellSouth used to determine costs. The BellSouth Cost Calculator is the mechanism that performs the mathematical exercise that appropriately applies the correct inflation factors, support loadings, annual cost factors, labor rates, tax factors, and shared and common factors to the inputs. Additionally, to ensure consistency between studies, the BellSouth Cost Calculator serves as the warehouse for annual cost factors, labor rates, loading factors, and inflation factors.

CAPITAL COST CALCULATOR©

Q. HOW DID BELLSOUTH DETERMINE THE CAPITAL COST FACTORS THAT ARE UTILIZED IN THE BELLSOUTH COST CALCULATOR?

A. BellSouth used the Capital Cost Calculator, an internal model designed by BellSouth. BellSouth utilized the Benchmark Cost Proxy Model's ("BCPM's") capital cost module as the foundation for its development of the Capital Cost Calculator. The model produces depreciation, cost of money, and income tax factors that are applied to investments to calculate capital costs. The user has the ability to modify a set of variables: debt ratio, cost of money, debt interest rate, net salvage ratio and economic life of assets.

PRICE CALCULATORS

Q. PLEASE DESCRIBE THE FUNCTION OF THE PRICE CALCULATORS

UTILIZED TO DEVELOP COSTS.

A. Price calculators develop the material price of specialized components used in the provisioning of various network capabilities. These calculators take vendor prices for various pieces of equipment and express the prices on a per circuit level. In essence, the process involves (1) determining the appropriate types and quantities of equipment required; (2) utilizing vendor-furnished price lists; (3) applying a discount rate (if applicable); and (4) dividing by the capacity of the equipment. The price calculators reflect the latest prices, discount rates, and technology applicable to BellSouth. A vendor-provided "configuration" file that details the manner in which the equipment is assembled may aid the first step. Section 1, Page 2, of Exhibit DDC-1 contains a diagram that shows the Price Calculators used by BellSouth.

INPUTS

GENERAL INPUTS

Q. PLEASE DISCUSS INPUTS IN GENERAL.

A. There are several overriding considerations that must be taken into account when developing inputs. First, the inputs should be forward-looking, realistic, and achievable. Second, since the objective is to determine the costs BellSouth will incur on a going-forward basis, it is imperative that BellSouth-specific inputs be utilized in the calculations. The use of BellSouth-specific inputs does not violate any of the cost characteristics I listed previously. BellSouth has been a large, efficient provider of telecommunications services in Florida for many years. Thus,

economies of scale, negotiated volume discounts, and experience obtained from designing and provisioning an advanced telecommunications network are reflected in values based on BellSouth results.

INFLATION ADJUSTMENT FACTOR

Q. PLEASE DESCRIBE THE INFLATION ADJUSTMENT FACTOR AND DESCRIBE HOW IT IS DEVELOPED.

A. Over the life of an investment, inflation causes fluctuations in the forward-looking investment amount. Thus, the investment must be averaged over the study period. Investment inflation factors, by FRC, are used to trend plant investment in base year dollars to a levelized amount that is valid for a three year planning period, i.e., the study period (in this case 2000-2002). The investment inflation factors are the cumulative average of three years' projected inflation rates based on BellSouth telephone plant indices ("TPIs").

The TPIs are price indices that measure the relative changes in prices BellSouth pays for the construction of telephone plant between specific periods of time. The development of TPIs uses econometric techniques to establish mathematical relationships between the historical movement in each of the labor and material components that make up the TPIs and the historical movement in explanatory variables. Explanatory variables are usually aggregate measures of the U. S. economy, e.g., price deflators from the national income and product accounts, union wage rates, copper prices, and other macroeconomic variables. Joel Popkin and Company, a BellSouth consultant, assists BellSouth with the calculation of

TPIs.

LOADINGS

Q. WHAT IS MEANT BY THE TERM "LOADINGS"?

A. These factors are designed to augment calculated material prices to account for additional costs that are difficult to ascertain on an individual, element-specific basis. Thus, BellSouth develops mathematical relationships between the material prices and the additional labor expense, miscellaneous material, and support structures to capture the total cost BellSouth will incur on a going-forward basis.

Q. PLEASE DESCRIBE THE DIFFERENT TYPES OF LOADING FACTORS AND THEIR DEVELOPMENT.

A. One type of loadings are In-Plant loadings ("In-Plants"). In-Plants add engineering and installation labor and miscellaneous equipment to the material price, i.e., In-Plants convert a material price to an installed investment. The installed investment is the dollar amount recorded in capital accounts.

In-Plants are account specific and are developed on the state level. There are four types of In-Plant loadings: (1) Material Loading, (2) Telco Loading, (3) Plug-in Loading, and (4) Hardwire Loading. The Material Loading is applied to a material price, the Telco Loading to the vendor-installed investment, the Plug-in Loading to the deferrable plug-in and common plug-in material prices, and the Hardwire Loading to the hardwire portion of an equipment material price.

In order to reflect the costs BellSouth will incur, the In-Plant factors are based on information that is specific to BellSouth. BellSouth used year-end reports developed from extracts of BellSouth's financial systems to develop these factors.

Q. WHAT OTHER TYPE OF LOADINGS WERE INCLUDED IN BELLSOUTH'S COST STUDIES?

A. Supporting Equipment and Power ("SE&P") Loadings were used to calculate the incremental investment required to support an additional dollar of central office and circuit investment. The SE&P Loadings were developed for the digital switch account (FRC 377C), digital subscriber pair gain account (FRC 257C), and other digital circuit equipment account (FRC 357C). Examples of the support and power equipment included in the 377C factor include power equipment, distribution frames, ladders, tools, and test sets.

The source of the data used to develop the SE&P Loading factors is the Central Office Monthly Allocation Process ("COMAP"), a year-end report extract that identifies total investment and supporting investments for FRCs 377C, 257C, and 357C. As with the In-Plant Loading factors, this is BellSouth-specific data.

In addition to the SE&P Loading factors, central office and circuit investments require loadings for land and buildings. Ratios are developed by comparing central office land and building investments to central office and circuit investments. Base year investment amounts are developed from extracts of BellSouth's financial

systems and projected plant additions are furnished by Network.

Q. ARE THERE LOADING FACTORS UNIQUE TO CABLE ACCOUNTS?

A. Yes. Poles and conduit are related only to cable placements. As in the past, BellSouth developed translators to determine the amount of investment in poles and conduit associated with aerial and underground cable investment. The Pole Loading factor was developed by comparing the investment in poles to the investment in aerial cable. Similarly, the Conduit Loading factor was determined based on the relationship between investment in conduit and investment in underground cable.

Base year investment amounts are developed from extracts of BellSouth's financial systems and projected plant additions are furnished by Network.

Q. IS THERE A LOADING FACTOR UNIQUE TO THE DIGITAL SWITCHING (377C) ACCOUNT?

A. Yes. BellSouth developed a loading factor that accounts for the Right-to-Use ("RTU") investment related to central office switching equipment. An accounting change reclassified RTU fees from expense to capital. Thus, it became necessary to develop a method of identifying this investment. The switch vendors' practice of packaging RTU fees together, the preponderance of buy-outs in effect, and the discounting structures offered to BellSouth made the direct allocation of switching RTU investment impossible. Alternatively, BellSouth calculated a ratio that

reflects the relationship between RTU capitalized investment to digital switch investment over the study period. Budget forecasts from Network were used in this calculation.

ANNUAL COST FACTORS

Q. WHAT ARE ANNUAL COST FACTORS AND HOW DID BELLSOUTH DEVELOP THEM?

A. Annual cost factors are translators used to determine the annual recurring cost associated with acquiring and using equipment. When an investment is multiplied by an annual cost factor, the product reflects the annual recurring cost incurred by the company. There are basically two types of cost associated with an investment, capital-related costs and operating-related costs.

An investment includes the initial purchase price of the item of plant and all engineering and installation costs required to make that item of plant ready to provide service. Capital costs associated with the investment consist of three major categories: depreciation, cost of money, and income tax. As I mentioned previously, BellSouth uses an internally developed model to calculate the capital-related annual cost factors based on user changeable inputs.

OPERATING EXPENSE FACTOR

Q. WHAT IS THE EXPENSE FACTOR AND HOW DID BELLSOUTH DEVELOP IT?

A. Plant must be maintained to provide continuing operations. Ordinary repairs and maintenance, as well as rearrangements and changes, are necessary for all categories of plant (except land) in order to maintain quality service.

Maintenance-type expenses are reflected in the Plant Specific Expense factor. The following types of operations are included:

(1) Inspecting and reporting on the condition of plant investment to determine the need for repairs, replacements, rearrangements, and changes

(2) Performing routine work to prevent trouble

(3) Replacing items of plant other than retirement units

(4) Repairing materials for reuse

(5) Restoring the condition of plant damaged by storms, floods, fire, and other casualties

(6) Inspecting after repairs have been made

(7) Salaries, wages, and expenses associated with plant craft and work reporting engineers, as well as their immediate supervision and office support.

The Plant Specific Expense factor is developed, by FRC, based on three years of projected expense and investment data. Base year expenses are pulled from the Cost Separations System ("CSS"). Projected view data is obtained from BellSouth's Finance Regulatory Group for the study period. Base year investments are determined from extracts from BellSouth's financial systems. Investment projections are obtained from BellSouth Network for the study

period. A relationship between the expenses and the investments is established by dividing the cumulative expenses by the cumulative investments for the study period. Adjustments are made for subsequent right-to-use fees, service order expense and rents. Since Plant Specific Expense factors are based on actual and projected BellSouth data, they reflect expenses BellSouth will incur in providing unbundled elements to competitors on a going-forward basis. Additionally, they reflect BellSouth's network practices, quality of service commitments, budget constraints, and process efficiencies.

TAX FACTORS

Q. HOW DID BELLSOUTH DEVELOP THE TAX FACTORS UTILIZED IN ITS COST STUDY?

A. The ad valorem and other tax factor is an effective tax factor furnished by the BellSouth Tax Department. The BellSouth Tax Department develops the factor by calculating the ratio of certain tax expenses to the telephone plant in service, as follows:

$$\frac{\text{Accounts 7240.1000 + 7240.3000 + 7240.9000}}{\text{Telephone Plant In Service (Account 2001)}}$$

Account 7240.1000 includes taxes levied upon the assessed value of property. Account 7240.3000 includes taxes levied upon the value or number of shares of outstanding capital stock, upon invested capital, upon rate of dividends paid, etc. Account 7240.9000 includes other non-income, non-revenue taxes such as

municipal license taxes, state privilege taxes, state self-insurer's tax, etc.

Some states and municipalities tax the revenues that a company receives from services provided within the state/municipality. The taxes may be Public Service Commission fees, franchise taxes, license taxes, or other similar items, but because the taxes are levied on the basis of revenues, they are commonly referred to as a gross receipts tax. Unlike some taxes that are billed to the customer and flowed through to the taxing authority, a gross receipts tax is a cost of doing business to BellSouth.

The BellSouth Tax Department provides the effective tax rate at which BellSouth is charged by the taxing authority and that rate is "grossed up" as reflected in the following formula:

$$\frac{\text{GROSS RECEIPTS TAX RATE}}{(1 - \text{GROSS RECEIPTS TAX RATE})}$$

SHARED AND COMMON FACTORS

Q. HOW DID BELLSOUTH CALCULATE SHARED AND COMMON COSTS?

A. BellSouth used an internally developed shared and common cost model. As I described previously, BellSouth used its most recent historical costs as the starting point and projected them into the future in order to develop its forward-looking shared and common costs. These historical costs were adjusted to exclude retail

costs and the portion of any executive, planning, general, and administrative costs that arguably could be attributed to retail costs. In order to develop factors that reflect a distribution of a) shared costs to distinct network elements or facilities and b) common costs that span the activities of the business, BellSouth designed a process that complies with FCC pronouncements. This process employs cost assignments, where possible, based on the cost attribution principles underlying the Cost Allocation Manual ("CAM") approved by the FCC. These principles provide a structural "cost causative" basis for assigning costs to network related plant or to non-network related groupings (Common, Non-Recurring Costs, Retail, etc.). Details of the development of shared and common cost factors are presented in Exhibit DDC-1.

LABOR RATES

Q. HOW DID BELLSOUTH DEVELOP ITS LABOR RATES?

A. Labor rates for specific work groups are developed based on extracts of the previous year's data from the Financial Front End System. This extract accumulates labor expense and hours. The actual costs for a given work group are accumulated by expenditure type (e.g., direct labor productive, premium, other employee, etc.). These actual costs are divided by the actual hours (classified productive hours for plant and engineering work groups and total productive hours for cost groups) reported by work group to determine the basic rates. The base year of labor rate data collection was the 1998 calendar year. A labor inflation factor is developed from the BellSouth Region TPIs and is applied to inflate these rates to the study period 2000-2002.

DISCONNECT INFLATION FACTORS

Q. WHAT ARE DISCONNECT INFLATION FACTORS AND HOW ARE THEY DEVELOPED?

A. Disconnect factors are translators used to determine the costs associated with disconnecting a service. These factors are developed because there is a difference in time between when a service is disconnected and when BellSouth recovers this disconnect cost. Disconnect costs are typically included in the one-time up front service establishment charges. The customer is billed now for work that will be done in the future. However, the option exists to develop disconnect costs under the assumption that these charges will apply at the time of disconnect.

If disconnect costs are to be collected at the time of disconnect, the factor reflects inflation only. The costs are not discounted to the present.

UNBUNDLED ELEMENT SPECIFIC INPUTS

LOOP

Q. THE LOOP ELEMENT IS A MAJOR COMPONENT OF THE NETWORK. WHAT INPUTS ARE THE MAIN COST DRIVERS OF LOOP COSTS AND HOW DID BELLSOUTH DETERMINE THESE INPUTS?

A. One group of inputs that significantly impacts the loop cost results is the investment (material plus engineering and installation) for feeder, distribution, and digital loop carrier. As explained earlier, investment includes the material price as

well as the cost to engineer and install (E&I) the item of plant. BellSouth In-Plant factors are used to calculate the engineering costs along with BellSouth-specific placing costs. The material prices are obtained from procurement records that reflect actual BellSouth purchase prices and contractual agreements. Inherent in the material prices are discounts BellSouth enjoys due to its negotiated contracts. In its Order No.PSC-98-0604-FOF-TP, this Commission ruled, "it is appropriate to accept the cable costs proposed by BellSouth." (Order. at p. 88)

The loop model design determines the amount of each facility required, i.e., the BSTLM determines the length of the loops based on customer location and network design. Obviously, loop length is a major cost driver. The MSRT routines built into the model ensure the most efficient routes are considered in determining the loop lengths.

Utilization or fill factors also play an important role in the calculation of loop costs. The FCC's TELRIC methodology allows for a reasonable projection of actual utilization to be incorporated into the equation. (FCC Order 96-325, ¶682) Similar to other models, such as, the HAI model, the FCC Synthesis Model, and the Benchmark Cost Proxy Model ("BCPM"), utilization is not entered as a percentage in the BSTLM. Rather, the distribution cables are sized based on the appropriate standard size cable and the number of pairs provisioned to each living unit. Cables are then sized to appropriately serve that demand in an efficient manner. Thus, the utilization is a product of this exercise. Even though the model allows for growth to be considered in the sizing of cables, BellSouth set the growth component to zero. Thus, spare capacity for growth was not reserved. The

effective distribution utilization can be calculated from the BSTLM. The average distribution cable effective fill in BellSouth's study for Florida is 47%. For feeder cable, the model uses the cable sizing factor and standard size cables to determine the required cables to be placed. The average effective fill of the copper feeder cables in this filing is 74%. These results are reflective of BellSouth's anticipated future fill in the distribution and feeder routes.

The amount of structure sharing is also a major cost driver. The structure sharing percentages should be BellSouth-specific and representative of BellSouth's achievable sharing arrangements in Florida. Structure sharing is reflected in the loading factors for poles and conduit and in the in-plant factor associated with buried cable.

Q. SPECIFICALLY, HOW WAS STRUCTURE SHARING REFLECTED IN THE COSTS DEVELOPED?

A. As I explained earlier, 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. Past information supports the fact that sharing of poles is a relatively common occurrence. In fact, in Florida BellSouth only owns approximately 40% of the poles to which it attaches cable. However, the sharing of conduit space is

not as extensive, as reflected in the relatively low amount of rent BellSouth receives from these structures. 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. As with the sharing of conduit, joint trenching occurs on a very limited basis.

BellSouth does not anticipate any major changes to the amount of structure sharing in the future. Arguments have been made in past proceedings alleging dramatic increases in the percent of structure sharing due to competition. BellSouth's experience suggests otherwise. Structure sharing is dependent on timing, location of facilities, and technical considerations. It is difficult for all the factors to coincide. In fact, this Commission agreed with this declaration in its Order No.PSC-98-0604-FOF-TP stating: "We are not persuaded by AT&T/MCI's argument that a competitive environment will encourage more structure sharing." (Order, at p. 78).

Q. HOW DOES BELLSOUTH ACCOUNT FOR THE COST OF MANHOLES IN ITS STUDIES?

A. Manhole costs are not developed individually, i.e., BellSouth does not develop the cost of a 4X6X7 manhole or a 12X6X7 manhole and enter those values into the BSTLM. Instead, manhole costs are incorporated into the study through the conduit loading factor.

Q. WHAT ARE THE APPROPRIATE MATERIAL AND PLACEMENT COSTS FOR CABLE?

A. BellSouth used BellSouth-specific costs for both copper and fiber cable. Material prices for copper and fiber cable were obtained from procurement records that reflect actual BellSouth purchase prices and contractual agreements. As previously explained, future inflation trends (TPIs) were also taken into consideration in order to reflect forward-looking costs. Telephone company engineering and labor costs were derived from BellSouth's Florida in-plant loading factors. In-plant factors convert material prices to a Florida-specific installed investment. BellSouth-specific cable costs reflect economies of scale and vendor prices that an efficient provider would be able to expect to achieve on a going forward basis.

Q. HOW WERE THE COSTS FOR DROPS AND NETWORK INTERFACE DEVICES ("NIDs") CALCULATED IN BELLSOUTH'S COST STUDY?

A. BellSouth used BellSouth-specific costs for the material, travel, and installation labor associated with the NID and the drop in the BSTLM. These costs are based on material prices for equipment/material and BellSouth's expertise and experience in placing the equipment/material. The BSTLM, through internal calculations determines drop length, which for Florida averaged 116 feet for a 2-wire analog loop.

Q. HOW ARE DIGITAL LOOP CARRIER COSTS DEVELOPED IN THE BSTLM?

A. The BSTLM determines the size, type, and placement of digital loop carrier system required to serve the designated customer locations. Internal algorithms determine the required number of commons and working plug-ins and supporting equipment necessary based upon vendor capacities and equipment configurations. User populated tables contain BellSouth-specific material prices, reflecting negotiated discount rates, for the individual pieces of digital loop carrier equipment and the vendor capacities.

Q. DIGITAL LOOP CARRIER DEPLOYMENT HAS GENERATED SIGNIFICANT CONTROVERSY. IN PARTICULAR, THE ISSUES OF (1) UNIVERSAL DLC ("UDLC") VERSUS INTEGRATED DLC ("IDLC") AND (2) TR008 SYSTEMS VERSUS GR303 SYSTEMS HAVE BEEN DEBATED. HOW DOES THE BSTLM ADDRESS THESE TWO AREAS OF CONCERN?

A. First, let me discuss the issue of universal versus integrated. It is still BellSouth's contention that for an unbundled offering, only universal digital loop carrier is appropriate. The only way in which BellSouth can "hand-off" a loop, i.e., unbundle the loop, is to terminate the central office end of the loop on a MDF. Thus, only UDLC (non-integrated) is appropriate for this scenario. However, in the combination studies, IDLC is applicable since the loop and the port are combined and no "hand-off" of the loop is needed. In the BSTLM, Scenarios BST2000 and Copper reflect the unbundled configuration, where each loop is not switched. Thus, in these instances, the loop is not integrated in the switch.

However in the Combo Scenario, switched loops are considered. Because these loops are switched, they can be directly integrated into the switch and thus, IDLC is appropriate.

In the past, BellSouth's cost studies did not reflect any GR303-based digital loop carrier systems. This assumption resulted from the extremely limited number of GR303 systems deployed in BellSouth's network and guidelines that restricted consideration of GR303 for future systems until a demand threshold was met. However, BellSouth has reconsidered this directive and now considers GR303 systems in its loop cost modeling. The BSTLM places GR303 systems for all DLC systems with greater than 150 DS0s. For consistency, BellSouth also populated the SCIS/MO database such that GR303 terminations are considered in the switch.

Q. PLEASE EXPLAIN BELLSOUTH'S BSTLM INPUT VALUES FOR DROP TERMINALS?

A. Drop terminal costs for line sizes below 100 pairs are included as exempt material in the in-plant factors used to develop the installed investments of cable. Therefore, terminal costs for these sizes are not included. The material prices for larger sized terminals were obtained from procurement records and were adjusted for inflation. The engineering and labor costs were developed from Florida-specific in-plant factors. As previously explained, the in-plant factor converts material prices to installed investments.

SWITCHING

Q. WHAT INPUTS ARE CRITICAL TO THE DEVELOPMENT OF SWITCHING-RELATED COSTS?

A. The first step in developing switching costs is the population of the SCIS/MO database. Information is entered for each digital office in BellSouth's territory. For existing analog offices, digital technology, based on Network's replacement forecasts, has been assumed.

The SCIS/MO data reflects the investment drivers, i.e., what will cause exhaust of the switch. The investment drivers are inputs such as O+T (originating plus terminating) usage, CCS, quantity of analog lines, quantity of digital lines, processor utilization, etc. Another important input in the model is the discount rate. BellSouth utilized a discount that is indicative of the way switching equipment will be purchased in the future. BellSouth buys a limited number of new central office switches, however, BellSouth grows capacity in its existing central offices on a regular basis. Thus, the discount rate should reflect this combination of new/growth purchasing activity.

In determining the investment related to vertical features, busy hour usage is an important component. Switches are engineered to handle the busy hour load. Thus, in order to develop flat-rated feature costs, the usage in the busy hour is the only relevant factor. Inputs need to reflect the anticipated demand that is going to be placed on the switch due to the request for feature-enhanced call processing. Consideration must be given to the number of feature-related calls, holding times, and activations/deactivations that occur.

Usage costs are driven by such items as distribution of calls (intra-office/interoffice split), percent local tandem occurrence, busy hour-full day ratio, average number of facility terminations per call, minutes per call, airline miles per call. The outputs from SCIS/MO also are important contributors to the development of the usage costs.

As with the inputs to the loop model, only BellSouth-specific data will appropriately reflect the costs BellSouth will incur in the provisioning of switch-related UNEs to competitors in Florida.

TRANSPORT AND SIGNALING

Q. BESIDES LOOPS AND SWITCHING, WHAT OTHER COMPONENTS OF THE NETWORK ARE IMPORTANT IN NORMAL CALL PROCESSING?

A. In order to complete a call, both transport and signaling are required. Thus, these costs are also important to ALECs.

Q. HOW ARE SIGNALING COSTS REFLECTED IN BELLSOUTH'S COST STUDIES?

A. One of BellSouth's fundamental studies, the Signaling System 7 ("SS7") Price Calculator, determines the unit costs associated with BellSouth's SS7 network. This price calculator calculates the vendor prices for the equipment and facilities deployed in the BellSouth's regional SS7 signaling network. Studies that require

SS7 network resources are linked to the results of this study.

Common channel signaling, using the SS7 signaling protocol, provides the capability of transporting signaling messages used to establish calls and query databases separately from the voice network. The study components are comprised of the six mated Gateway Signal Transfer Point ("STP", packet switch) pairs, the thirteen mated Local STP pairs, the BellSouth signaling links, the Link Monitoring System ("LMS") and the Integrated Digital Service Terminals ("IDSTs") that make up the SS7 infrastructure.

Access Links connect end offices or Service Switching Points to STPs. Bridge Links and Diagonal Links connect STPs that are at the same or different switching hierarchies in the system respectively. Cross Links are administrative links mating paired STPs.

The material prices for the SS7-related equipment are divided by the total annual octets to develop the per unit material prices.

Q. HOW ARE TRANSPORT SYSTEM COSTS DETERMINED?

A. Transport costs incorporate the forward-looking Synchronous Optical Network ("SONET") architecture in determining network design and subsequent costs. Inputs to this calculation reflect BellSouth-specific costs for Florida. These inputs include fill factors, SONET material prices, number of nodes on a ring, air-to-route factor, and the mix of aerial, underground and buried fiber in the interoffice

transport.

NONRECURRING COST INPUTS

Q. WHAT INPUTS ARE IMPORTANT TO THE DEVELOPMENT OF NONRECURRING COSTS?

A. I have previously discussed the manner in which time estimates are obtained. These inputs drive the nonrecurring costs. However, in addition to the work times, the labor rates are critical in determining the costs to provision unbundled elements. This Commission accepted BellSouth's methodology for developing the direct labor rates in the previously filed UNE studies. It did, however, eliminate the shared component from the labor rate. (Order No.PSC-98-0604-FOF-TP at Page 63) Additionally, this Commission established a rate structure such that disconnect costs are assessed at the time of disconnect. (Order No.PSC-98-0604-FOF-TP at Page 69) BellSouth followed the same process in developing labor rates contained in Attachment A to the SGAT and presented the disconnect costs as separate elements.

SECTION 2 – UCL-ND, LINE SHARING, LINE SPLITTING AND COLLOCATION

Q. HOW DOES THE UNBUNDLED COPPER LOOP – NON-DESIGNED DIFFER FROM THE UNBUNDLED COPPER LOOPS PRESENTED IN DOCKET NO. 990649-TP?

A. As the name implies, these loops do not go through the design process BellSouth utilizes to provision UCL-Short and UCL-Long loops. Thus, they are not provisioned with a test point and a Design Layout Record ("DLR") will not be provided. Additionally, the UCL-ND loop will not have a specific length limitation. Since its resistance is restricted to 1300 ohms, however, the UCL-ND loop will generally be 18,000 feet or less.

Even though the DLR is not provided with the UCL-ND loop, CLECs may request an Engineering Information document from BellSouth. This document provides loop make-up information, similar to a DLR. The study also includes the cost development for this optional element.

Q. WHAT IS THE STATUS OF THE COST STUDIES FOR LINE SHARING AND COLLOCATION?

A. With respect to line sharing, the stipulation that established Docket No. 990649-TP specifically excluded line sharing from that docket. The Commission has yet to establish a docket in which line sharing will specifically be addressed.

Collocation is being considered in a two-phase docket, Docket Nos. 981834-TP/990321-TP. The first phase addressed provisioning methods and procedures and terms and conditions associated with collocation. The second phase will determine collocation rates. However, the procedural schedule for the second phase of the collocation docket has not been set.

BellSouth is filing cost studies in this proceeding to support interim cost-based rates for the following: (1) physical collocation, including remote site and adjacent; (2) line sharing; and (3) assembly point. BellSouth provides virtual collocation pursuant to the terms and conditions of the state access tariff, section E20.1. Commission-approved rates for virtual collocation are in the Order No. PSC-98-0604-FOF-TP and included as Attachment A to the SGAT.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF THE COLLOCATION AND LINE SHARING ELEMENTS INCLUDED IN EXHIBIT DDC-1.

A. The following elements are included in Exhibit DDC-1:

Physical Collocation

Physical Collocation allows an ALEC to install its equipment and facilities within leased floor space in BellSouth's Central Offices to the extent such collocation is technically feasible and space is available. This arrangement enables the ALEC to connect to the BellSouth network. The ALEC may choose a caged or cageless arrangement. Two types of power are also offered to the ALEC; power per fused amp and AC power, where the collocator provides its own DC power plant.

Assembly Point

Assembly Point provides an alternative to collocation that allows ALECs to connect to BellSouth's UNEs. By offering the ALECs the ability to recombine UNEs themselves at an assembly point location, the ALECs can create UNE combinations to provide local exchange service.

Adjacent Collocation

Adjacent Collocation is another form of collocation. Physical Collocation occurs inside the BellSouth central office building. Adjacent Collocation is outside the BellSouth central office building, but on BellSouth "adjacent" property. BellSouth will provide adjacent collocation arrangements where space within the Central Office is exhausted. This is subject to technical feasibility and where the adjacent arrangement does not interfere with access to existing or planned structures or facilities on the Central Office property. Adjacent collocation is also limited to locations permitted by zoning and other applicable state and local regulations. The adjacent arrangement shall be constructed, procured, maintained, and operated by an ALEC and in conformance with BellSouth's guidelines and specifications.

Physical Collocation in the Remote Terminal

Remote site locations include cabinets, huts, and controlled environmental vaults ("CEVs") owned and leased by BellSouth that house BellSouth network facilities. Remote Site Physical Collocation can occur where technically feasible, and where space exists. The ALEC must use the remote collocation space for the purposes of installing, maintaining, and operating its equipment used or useful to interconnection with BellSouth services and facilities, including access to UNEs, for the provision of telecommunications services.

Line Sharing

Consistent with the FCC's Advanced Services Order, BellSouth provides the high frequency portion of the loop to a single requesting carrier, on loops that carry BellSouth voice services, to the extent that the xDSL technology deployed by the requesting carrier does not interfere with the analog voiceband transmissions.

Line Splitting

Bellsouth will facilitate line splitting between two ALECs where one ALEC provides voice and one ALEC provides data. In this situation, the ALEC must own the splitter. The costs for line splitting are comprised of costs already identified in Docket Number 990649-TP and in the cost summary in Exhibit DDC-1.

Attached, as Exhibit DDC-1, in paper form and on CD-ROM, are the cost studies for UCL-ND, Line Sharing and Collocation.

Q. IS THE COST METHODOLOGY BELLSOUTH USED FOR UCL-ND, LINE SHARING AND COLLOCATION CONSISTENT WITH THE COST METHODOLOGY FILED IN DOCKET 990649-TP?

A. Yes. The cost development followed the same cost methodology used in Docket No. 990649-TP. Therefore, the Commission should set rates in this docket for UCL-ND, line sharing and collocation with the understanding that applicable adjustments ordered in Docket No. 990649-TP (and eventually Docket Nos. 981834-TP/990321-TP for collocation and the unspecified Line Sharing docket) can be incorporated at such time as the Commission issues a written order in Docket No. 990649-TP.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. This Commission has ruled on the appropriate methodology for developing costs for UNEs, TSLRIC plus shared and common or the equivalent TELRIC economic costs. BellSouth utilized the principles inherent in this methodology for its cost studies that support the rates contained in Attachment A to BellSouth's SGAT. Thus, the incremental recurring and nonrecurring costs are long-run and reflect an efficient, forward-looking, yet attainable, network.

Because the results of the cost study must replicate the incremental costs BellSouth will incur in providing unbundled elements and combinations to competitors, BellSouth-specific values are the only relevant source for inputs. Thus, the inputs utilized in BellSouth's cost studies reflect BellSouth network guidelines, provisioning practices, vendor discounts, labor rates, and factors.

Costs have been deaveraged appropriately into three zones that reflect geographic differences.

The costs provided by BellSouth meet the requirements of the Act as well as the requirements of the FCC Rules and provide a suitable basis for setting UNE rates.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BELLSOUTH TELECOMMUNICATIONS, INC.

SURREBUTTAL TESTIMONY OF D. DAONNE CALDWELL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 960786-TL

AUGUST 20, 2001

Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A. My name is D. Daonne Caldwell. My business address is 675 W. Peachtree St., N.E., Atlanta, Georgia. I am a Director in the Finance Department of BellSouth Telecommunications, Inc. (hereinafter referred to as "BellSouth"). My area of responsibility relates to the development of economic costs.

Q. ARE YOU THE SAME D. DAONNE CALDWELL THAT PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

A. Yes. I filed direct testimony on May 31, 2001.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony responds to cost development issues raised in the testimony filed by WorldCom witness Greg Darnell.

Q. ON PAGE 7, MR. DARNELL STATES THAT THERE ARE "CHANGES [THAT] MUST BE MADE IN THE RATES APPROVED BY THE

COMMISSION IN THE UNE COST DOCKET IN ORDER FOR BELLSOUTH'S RATES TO BE COST-BASED." (LINES 1-3) PLEASE COMMENT.

A. Mr. Darnell contends that BellSouth will not have cost-based rates until: (i) BellSouth has updated its UNE cost studies to replace its loading factor calculations, (ii) the Florida Public Service Commission ("Commission") orders BellSouth to recalculate all UNE prices using a single network design, and (ii) the Commission orders BellSouth to make the other changes identified in the Joint Motion for Reconsideration and Clarification file by AT&T, WorldCom, Covad, and Z-Tel "that are necessary to make BellSouth's rates TELRIC-compliant." (Darnell Testimony, Page 7, Lines 4-13) This Commission has already reviewed and ruled on the two specific points to which Mr. Darnell points – loading factors and use of a single network design. Nothing in Mr. Darnell's testimony provides any additional evidence that was not submitted and rejected in Docket No. 990649-TP. Mr. Darnell's last point is so vague and unsupported that BellSouth cannot reasonably respond.

In fact, Mr. Darnell's testimony basically replicates the major arguments contained in the Joint Motion for Reconsideration and Clarification ("Joint Motion"). This Joint Motion requested reconsideration on the following points, each duplicated in Mr. Darnell's testimony:

1) Use of Three Cost "Models"
2) Use of In-plant Factors (Clarification of Relationship Between Costing for UNEs and USF Purposes)

3) Shared Cost Allocation

4) Drop Routing

Mr. Darnell threatens that if this Commission does not find in WorldCom's favor then BellSouth's cost study will not be TELRIC-compliant. I do not agree.

Q. ON PAGE 7, MR. DARNELL ARGUES THAT "BELLSOUTH'S COST STUDIES MUST IMPLEMENT THE BOTTOMS-UP APPROACH BEFORE THEY CAN BE TELRIC-COMPLIANT." (LINES 15-17) IS HE CORRECT?

A. No. The Federal Communications Commission's ("FCC's") TELRIC methodology does not prohibit the use of in-plant factors, as Mr. Darnell implies. BellSouth develops in-plant factors based on the relationship between investments and expenses. These factors are applied against "least-cost, forward-looking" investments. Therefore, the costs resulting from the use of in-plants are, by default, "least-cost, forward-looking" and thus, comport with the FCC's TELRIC principles.

Further, Mr. Darnell incorrectly concludes in his testimony, as WorldCom did in its Joint Motion, that: "the Commission accepted WorldCom/AT&T's position that it is more appropriate to develop 'bottoms-up' installed costs than to make use of linear loading factors." (Joint Motion, Page 6) Since this Commission has not reviewed the results of a cost study based on this approach, let alone ruled that the "bottoms-up" methodology is the most appropriate, it is difficult to see how Mr.

Darnell can reach this conclusion. It appears Mr. Darnell has already decided what the outcome will be once BellSouth fulfills this Commission's directive in Docket No. 990649-TP and re-files the loop study. It is my understanding that the Commission wanted additional evidence in order to make an informed ruling concerning the use of in-plants. When BellSouth submits the study with the alternative method, then a conclusion can be reached, not before as Mr. Darnell has done. Further, this Commission stated: "we find that the appropriate assumptions and inputs for the associated cable placement costs are those identified by BellSouth." (Order No. PSC-01-1181-FOF-TP, Page 190) The Florida Commission has asked for a "bottoms-up" approach to the development of costs in order to evaluate the differences in the two approaches, but currently the inputs and methodology used by BellSouth stand approved.

Q. WILL A "BOTTOMS-UP METHOD NECESSARILY PRODUCE A MORE ACCURATE REFLECTION OF COST?

A. No. In a "bottoms-up" approach, costs are added to the cable's material prices based on very specific activities that occur during cable placement and the probabilities of those activities occurring. Thus, this method requires that BellSouth expend time gathering data that is not readily available in order to populate the model. Besides being a time-consuming endeavor, the level of precision anticipated by the use of a bottoms-up approach is not realized. Many of the inputs, by necessity, would be based on subject matter expert opinion since actual data is not available at granular level required by the BellSouth

Telecommunications Loop Model© ("BSTLM"). For example, BellSouth is able to ascertain the per-foot cost of placing cable from existing contracts, but is unable to determine how often a particular activity occurs based on actual data. Specifically, BellSouth can determine that it costs $X to bury one foot of cable based on actual data. BellSouth does not, however, have actual data to forecast how often sod must be cut and restored or how often cable must be bored under driveways or how these probabilities would differ between an urban and rural location. These inputs would need to be obtained from subject matter experts. Another item that is difficult to quantify is the specific cost of the exempt material associated with each provisioning activity. Exempt material identifies the cost of items that do not carry a unique identifier in BellSouth's accounting records but are necessary to provision the element. For these reasons, the level of "accuracy" anticipated from the use of a bottoms-up approach versus the use of in-plant factors is not attainable. In addition, it is for these very reasons that telephone companies have traditionally used in-plant factors in cost development.

Q. ON PAGES 8-13, MR. DARNELL CONTENDS THAT THE USE OF MULTIPLE SCENARIOS VIOLATES FCC TELRIC RULES. IS HE CORRECT?

A. No. BellSouth understands the implications of the FCC's rule 51.505(b) and fully adheres to the principles outlined by that rule. BellSouth considered the "total quantity of facilities" in each scenario; i.e., each scenario had the same overall line

count. Thus, this modeling technique fulfilled the FCC's directive that "a reasonable projection of the sum of the total number of units" is considered. Additionally, this methodology is appropriate since BellSouth cannot anticipate the ultimate use for any particular loop. A loop delivering voice grade service today potentially can be utilized to provide digital service tomorrow. Contrary to Mr. Darnell's allegation on page 13, BellSouth does not assume a customer "will want BellSouth's retail voice service, an ALEC's UNE-P voice service, service provided by the BellSouth data affiliate, and DSL service provided by a data-ALEC using a DSL loop." (Lines 2-5, emphasis added) The operative word is not and, it is or. If the existing loop to the end-user has the technical specifications such that it can provide the loop under consideration (e.g. Unbundled Copper Loop – Non-Design ("UCL-ND")) then it is considered part of the universe.

Additionally, BellSouth does not possess WorldCom's or any other ALEC's marketing plans. Thus, BellSouth cannot anticipate where ALEC customers will be located and what type of loop they will purchase. Mr. Darnell's "one-scenario" requirement adds no accuracy to the model's results since BellSouth cannot project where the particular loop will be located. Any attempt to assign a loop type to a specific customer location would be an exercise based on unsupportable and arbitrary assumptions. Thus, by assuming all customer locations are potential candidates for a particular unbundled loop, BellSouth has eliminated the random assignment process. Further, contrary to Mr. Darnell's assertions on page 13, the assumption that all customers can be converted to unbundled loops (or combinations) allows BellSouth to reflect economies of scale and scope. The universe is larger in BellSouth's proposal, thus, larger cables can be considered

and efficient network configurations can be established, which results in lower costs. For these reasons, Mr. Darnell's allegation is without merit.

Q. WHAT WAS THIS COMMISSION'S FINDING WITH RESPECT TO THE USE OF MULTIPLE SCENARIOS?

A. In its Order in Docket No. 990649-TP, pages 132-133, this Commission discusses the use of multiple scenarios, finding that "BellSouth's use of three distinct scenarios is reasonable for the purpose of this proceeding." (Order, page 133) Further, the purpose of Docket No. 990649-TP was to establish cost-based rates for unbundled network elements and combination of network elements. Mr. Darnell's arguments in this docket offer no new evidence that should alter the Commission's ruling on this issue.

Q. MR. DARNELL ALSO ARGUES THAT CERTAIN "FIXED" INVESTMENTS, SUCH AS DIGITAL LOOP CARRIER ("DLC") COMMON EQUIPMENT AND FIBER CABLE SHOULD NOT BE ALLOCATED ON THE BASIS OF DS0 EQUIVALENTS. HE ARGUES THAT ALLOCATION SHOULD INSTEAD BE BASED ON PAIR EQUIVALENTS. (PAGES 14-15) DO YOU AGREE WITH THIS APPROACH?

A. Absolutely not. The best approach of assigning investment of items, such as DLC common equipment and fiber facilities, is on the basis of DS0 equivalents. This methodology represents the most reasonable approach since the equipment in most

cases is actually sized based on DS0 equivalents. In fact, the BSTLM© uses DS0 equivalents not only to assign "fixed" investments among services, but it also uses DS0 equivalents to size the equipment. If pair equivalents were used to assign the fixed costs, the capacity requirements of the DLC optical equipment would be inappropriately reduced. Therefore, pair equivalents are not a reasonable approach. To illustrate my point, a DS1 requires 24 DS0s or 2 pairs. Using 2 lines instead of 24 DS0s as input, the BSTLM would size the equipment to support only 2 DS0s, not the 24 DS0s that are really required. The bottom line is that this adjustment proposed by Mr. Darnell understates the equipment requirements generated by the BSTLM and, therefore, understates the costs. For this reason alone, this Commission appropriately disregarded this argument in Docket No. 990649-TP.

Q. WHAT HAS THIS COMMISSION RULED WITH RESPECT TO THIS ISSUE?

A. In its May 25, 2001 Order in Docket No. 990649-TP, this Commission found that: "[o]f the two factors, competitive impact or causal linkage, we believe that where possible, cost causal connections should get the nod when designing cost models. Thus, based on the evidence, we find that the BSTLM method of allocating shared investments based on DS0 equivalents is reasonable." (Order No. PSC-01-1181-FOF-TP at page 134) In that docket, AT&T presented similar arguments currently

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advanced by Mr. Darnell. Mr. Darnell does not provide any new evidence in this docket that should alter this Commission's ruling.

Q. ON PAGE 15, MR. DARNELL STATES, HOWEVER, THAT IF THE COMMISSION DOES NOT ALTER ITS FINDING ON THIS ISSUE THAT THERE MAY BE AN "ADVERSE IMPACT ON COMPETITION." (LINE 11) PLEASE COMMENT.

A. Mr. Darnell uses a 2-wire facility "used to provide high-capacity T-1 service" as an example of a "high-capacity" offering that would be adversely impacted by BellSouth's methodology. T1 is a transmission system that employs two copper pairs (4 wires) and a particular line coding scheme called alternate mark inversion to send DS1 level signals across the network. Additionally, T1 employs repeaters spaced at 4,000 to 6,000-foot intervals to rebuild, or repeat, the T1 signals. In addition to using T1 for DS1 transport, HDSL or HDSL2, and many types of transmission rates for fiber optic multiplexers are used. Thus, a T-1 cannot be provided on a 2-wire facility, a 4-wire facility is required to handle the bandwidth. (HDSL transmission can be offered on a 2-wire facility, but Mr. Darnell did not discuss this element.) Further, T-1 is not a "service" as Mr. Darnell states; rather it is a transmission system used to provide DS1 signals. A comparison of DS1 rates charged by another ILEC (who has obtained 271 relief) for DS1 loops should put Mr. Darnell's argument into perspective and negate his "anti-competitive" claim.

	Florida	New York
Zone 1	$69.22	$98.32
Zone 2	$95.89	$98.32
Zone 3	$181.38	$112.29
	4W DS1	1.544 Mbps

(The Florida results reflect the Commission's adjustments made in Docket No. 990649-TP.) Florida's rates obviously compare favorably with the results in New York. Florida's Zone 1 rate, where the majority of Alternative Local Exchange Competitors ("ALECs") will concentrate their efforts, is hardly at a level that will hamper competition. Again, Mr. Darnell's attempt at re-litigating an issue that has been examined and resolved by this Commission should be dismissed.

The Joint Motion also discusses the risk of "anti-competitive" rates if the Commission does not reconsider its finding on this issue, citing ¶696 of the FCC's First Report and Order and Florida Statues Section 364. (Joint Motion, Page 9) As the chart above confirms, BellSouth's rates are hardly "anti-competitive". Additionally, the Commission appropriately recognized the interrelationship between the use of DS0s to size the equipment and the use of DS0s to allocate shared equipment costs.

Q. ON PAGE 10, MR. DARNELL ALSO CRITICIZES BELLSOUTH'S USE OF UNIVERSAL DLC ("UDLC") FOR UNBUNDLED LOOPS, A SENTIMENT BORROWED FROM THE JOINT MOTION AT PAGE 3. IS HE JUSTIFIED IN HIS CONTENTION?

A. No. In its Third Report and Order, the FCC stated: "The local loop network element is defined as a transmission facility between a distribution frame (or its equivalent) in an incumbent LEC central office and the loop demarcation point at an end-user customer premises." (§51.319(a)(1)) The FCC did not state that the loop is integrated into the switch. The distribution frame is the termination of the local loop, not the switch. This is exactly what the use of UDLC reflects. AT&T/MCI presented this same argument in the previous generic cost docket in Florida. The Commission did not accept the argument then, nor does Mr. Darnell offer any evidence that should cause this Commission to reconsider that decision now.

Q. ON PAGE 13, MR. DARNELL CONTENDS THAT "DROP LENGTHS BE RECALCULATED BASED ON A DIFFERENT ROUTING ASSUMPTION." WHAT WAS THE COMMISSION'S FINDING ON THIS ISSUE IN DOCKET NO. 990649-TP?

A. Page 135 of the Order in Docket No. 990649-TP states: "Absent any clear understanding of why a distribution terminal should be in a lot corner, we find that BellSouth's approach, which employs angled routing but implicitly assumes that some terminals are not in lot corners, is reasonable." Mr. Darnell offers no evidence that should alter this finding.

Q. MR. DARNELL ALLEGES THAT ALL OF THE MODIFICATIONS HE HAS OUTLINED MUST BE IMPLEMENTED IN ORDER TO "INCREASE

THE LIKELIHOOD OF BROAD SCALE COMPETITIVE LOCAL ENTRY." (PAGE 15, LINES 20-21) PLEASE COMMENT.

A. Since New York is one state where 271relief has been granted, it is assumed competition is viable in that state. Further, each of the adjustments Mr. Darnell proposes and contained in the Joint Motion impacts the recurring cost of the loop. Thus, a comparison to the UNE-P (2-wire analog loop/port combination), the vehicle most ALECs will use to compete in the residential market, is justified.

UNE-P	Florida	New York
Zone 1	~~$14.69~~ 13.01	$14.33
Zone 2	~~$16.03~~ 17.15	$14.99
Zone 3	~~$29.93~~ 30.45	$21.74

As this chart displays, BellSouth's rates in Florida correlate closely with the rates charged by New York. This supports the rejection of the argument that further adjustments are necessary in order to become "TELRIC-compliant," as Mr. Darnell contends.

Q. ON PAGE 16, MR. DARNELL STATED THAT BELLSOUTH "FAILED TO FILE ITS COMPLETE BSTLM IN THIS PROCEEDING." IS THIS TRUE?

A. Yes. However, there are two excellent reasons why BellSouth did not re-file the entire model in this proceeding. First, the underlying data did not change from

what was filed in Docket No. 990649-TP. Second, if BellSouth had done so, the likelihood of the working version used in the generic docket being over-written is very high. If BellSouth supplied the entire model and the user loaded the new version onto a machine that stored the BSTLM from Docket No. 990649-TP, the older version would have been destroyed and all runs lost. BellSouth did not want to take the chance of this happening. Since BellSouth was only adding a new loop element (the unbundled copper loop non-designed ("UCL-ND")) it was felt providing only the files required to add this element would be sufficient.

Q. WHAT ARE BELLSOUTH'S PLANS FOR REVISING COSTS TO INCORPORATE THE COMMISSION-ORDERED ADJUSTMENTS IN DOCKET NO. 990649-TP?

A. A revised Exhibit DDC-1 is attached to my testimony. The costs contained in this revised exhibit reflect the applicable modifications resulting from this Commission's May 25, 2001 order in Docket No. 990649-TP. BellSouth was unable to review and implement the ordered modifications in time to meet the May 31, 2001 filing date for direct testimony in this docket. This should alleviate Mr. Darnell's concern that BellSouth "fail[ed] to incorporate the decisions this Commission reached in its May 25, 2001 order." (Page 16, Lines 19-20) Let me point out that in my direct testimony, I acknowledged the fact the studies filed in this docket did not reflect the decisions made in Docket No. 990649-TP. As I stated; "the Commission should set rates in this docket for UCL-ND, line sharing and collocation with the understanding that applicable adjustments ordered in

Docket No. 990649-TP (and eventually Docket Nos. 981834-TP/990321-TP for collocation and the unspecified Line Sharing docket) can be incorporated...."

Q. PLEASE EXPLAIN THE CHANGES THAT WERE MADE TO REFLECT THE COMMISSION'S MODIFICATIONS ORDERED IN DOCKET NO. 990649-TP.

A. Exhibit DDC-2 details the modifications BellSouth made to implement the intent of the Commission's May 25th order in Docket No. 990649-TP. The major changes were to the Cost of Capital, Depreciation, Taxes, and Inflation (eliminated). This exhibit also explains how these changes were made in the cost study. Exhibit DDC-3 identifies the modifications made to the nonrecurring work times associated with Engineering Information and UCL-ND to reflect the Commission's order. The work time input associated with collocation and line sharing has not been adjusted since these elements were not at issue in Docket No. 990649-TP and thus, have not be reviewed. However, the modifications outlined in Exhibit DDC-2 are reflected in the revised collocation and line sharing costs.

Additionally, the deaveraged costs reflect the methodology outlined in the Commission's order. Specifically, the wire center level costs were grouped into three zones in accordance with Appendix B of the order. These adjustments do not reflect BellSouth's requested reconsideration items.

Q. DO YOU HAVE A COMPARISON OF THE REVISED COSTS TO THOSE ORIGINALLY FILED?

A. Yes. Exhibit DDC-4 compares the costs between the two sets of costs. The revised costs reflect the Commission-ordered modifications discussed previously.

Q. IS BELLSOUTH ALSO FILING THE UCL-ND IN DOCKET NO. 990649-TP?

A. Yes. BellSouth is planning on filing the UCL-ND element in the compliance run in Docket No. 990649-TP on September 25, 2001. All of the Commission-ordered adjustments will also be reflected in that filing. (BellSouth has requested Reconsideration and Clarification on several issues that if granted, will require another run to develop final rates. The Commission is currently scheduled to issue an order on October 8, 2001 on BellSouth's request.)

In its Order in Docket No. 990649-TP, this Commission required BellSouth to "file modified versions of its xDSL nonrecurring cost studies, which exclude the following: 1) the DLR, 2) a test point, and 3) order coordination." (Order, Page 67) Additionally, this Commission stated that "the Data ALECs want a nondesigned xDSL-capable loop, they also want a guarantee that the loop will not be rolled to another facility. We find this to be a reasonable request; therefore, based on record, we find it appropriate to require BellSouth to provision an SL-1 loop and guarantee not to roll it to another facility, or in other words, guarantee not to convert it to an alternative technology." (Order, Page 67) The UCL-ND fulfills all of these requirements. As I explained in my direct testimony, these loops do not go through the design process BellSouth utilizes to provision UCL-Short and

UCL-Long loops. Therefore, order coordination is not part of the provisioning process. Also, the UCL-ND loops are not provisioned with a test point and a Design Layout Record ("DLR") will not be provided. Additionally, these loops are designated in such a way as to guarantee that they will not be "rolled" to other types of facilities. Even though the DLR is not provided with the UCL-ND loop, ALECs may request an Engineering Information document from BellSouth. This document provides loop make-up information, similar to a DLR. Thus, BellSouth will file cost for Engineering Information (incorporating Commission-ordered adjustments) with its compliance run in Docket No. 990649-TP.

As stated previously, the UCL-ND does not include a test point. ALECs, however, may desire a joint acceptance test to benchmark the transmission quality of the loop and to ensure compatibility with the xDSL service they wish to provide. These testing parameters include, but are not limited to, testing for non-loading, balance of pair, and continuity from the main distribution frame ("MDF") to the network interface device ("NID"). BellSouth filed Testing Beyond Voice (A.19 elements) previously in Docket No. 990649-TP. These costs, however, only considered testing a designed loop that had been conditioned. The adjusted loop testing elements also consider testing parameters for non-designed loops (SL1 or UCL-ND). These reduced A.19 costs will also be filed with BellSouth's compliance filing in Docket No. 990649-TP.

Q. MR. DARNELL STATES THAT "THERE IS NO RATIONAL NEED FOR A SEPARATE MONTHLY RECURRING RATE FOR SECURITY ACCESS SYSTEMS." (PAGE 17, LINES 5-6) PLEASE COMMENT.

A. Contrary to Mr. Darnell's assertion there is support from both this Commission and from the Federal Communications Commission ("FCC") for Security Access charges. The FCC addressed this issue in its First Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 98-147:

> We conclude, based on the record, that incumbent LECs must allocate space preparation, **security measures**, and other collocation charges on a pro-rated basis so the first collocator in a particular incumbent premises will not be responsible for the entire cost of site preparation.

FCC Order at Paragraph 51, emphasis added.

In its order in Docket Nos. 981834-TP/990321-TP (Order No. PSC-00-0941-FOF-TP), this Commission specifically addressed how security access costs should be recovered:

> We note that the ALECs addressed their concerns over security issues that not only benefit collocating parties, but also benefit the ILEC. Acknowledging those concerns, we shall require that when multiple collocators and the ILEC benefit from modifications or enhancements, the cost of such benefits or enhancements shall be allocated based on the amount of square feet used by the collocator or the ILEC, relative to the total useable square footage in the central office. (Page 88)

Thus, this Commission has recognized the fact that these costs are legitimate and that BellSouth is entitled to charge for them on a per square foot basis.

Mr. Darnell states that costs associated with Security Access are shared and common in nature. He then implies BellSouth "double recovers" these costs. (Page 17) Neither statement is true. First, Security Access costs are not shared or common, they are directly caused by the need to install additional security measures in central offices where ALECs will collocate. Second, any cost that is directly identified in the study is excluded from the calculation of the shared and common factors.

Q. MR. DARNELL CONCLUDES THAT SINCE BELLSOUTH SUBMITTED COSTS FOR CABLE RECORDS THEN "ALL COSTS OF COLLOCATION MUST BE ANALYZED" BY THIS COMMISSION. IS HE CORRECT?

A. No. I am having a difficult time understanding Mr. Darnell's logic. While I admit that BellSouth developed costs for Cable Records, something Mr. Darnell alleges was never charged, how can that action make all collocation costs suspect? First, contrary to Mr. Darnell's assertion, it is my understanding that BellSouth did bill WorldCom for Cable Facility Records ("CFAs"). These costs were reflected in the Additional Engineering charges. The Cable Records charges filed in this proceeding were developed in order to provide ALECs standardized rates and to streamline the provisioning process. Second, the costs filed in this docket for Physical Collocation are consistent with the existing tariff approved by this Commission (E20 – Access Services Tariff). It is BellSouth's understanding that this Commission will establish a separate docket to address the pricing of collocation elements and as I have stated in my direct testimony, BellSouth is

willing to incorporate the modifications ordered in that future docket into its cost-based rates. Further, the revised costs filed in this docket reflect the applicable modifications ordered in Docket No. 990649-TP.

Q. PLEASE BRIEFLY DESCRIBE THE WORK ASSOCIATED WITH THE CABLE RECORDS CHARGES.

A. The Cable Records charges reflect the costs associated with the work required to build cable records in BellSouth's systems. Since the collocator's certified vendor runs the cables (e.g., voice grade/ DS0 and DS1) from the collocation space to the distribution frame, these cables belong to the ALEC. The specific distribution frame termination locations, however, are required in order for the ALEC to place orders to cross-connect network elements (e.g., unbundled loops) to their collocated equipment.

Q. WHY IS IT APPROPRIATE FOR BELLSOUTH TO APPLY A NONRECURING CHARGE FOR INPUTTING CABLE RECORDS FOR ALECS?

A. The only reason this work would be undertaken is to comply with an ALEC's request to collocate equipment in BellSouth's central office. In other words, the work is strictly driven by a collocation application and the subsequent need to input new information in current systems for the benefit of the collocator. The work is not associated with BellSouth's normal repair and maintenance of systems.

Since BellSouth performs this work solely at the request of an ALEC, BellSouth is entitled to recover the one-time costs associated with such work.

Q. MR. DARNELL DISCUSSES BELLSOUTH'S LINE SPLITTING COSTS. PLEASE COMMENT.

A. It appears that Mr. Darnell uses the terms Line Sharing and Line Splitting interchangeably. This is inappropriate since these are two distinct offerings. Line Sharing is an arrangement between BellSouth and an ALEC in which BellSouth retains the voice spectrum of the line and the ALEC uses the line's higher frequencies to provide data to the end user. In contrast, Line Splitting is an arrangement between two ALECs, i.e., BellSouth does not provide either voice or data to the end user.

BellSouth provisions Line Splitting by extending an unbundled xDSL-capable loop and an unbundled port to the collocation space of either the Voice ALEC or the Data ALEC. These carriers may then connect the loop and the port to an ALEC-owned splitter, thereby splitting the line themselves. The testimony of BellSouth witnesses Ms. Cox and Mr. Williams support BellSouth's contention that the ALEC and not BellSouth is obligated to provide the splitter. This Commission has addressed Line Splitting in the AT&T arbitration, Docket No. 00731-TP. In its order in that docket, this Commission ruled:

> In order to facilitate 'line splitting,' BellSouth shall be obligated to provide an unbundled xDSL-capable loop terminated to a collocated splitter and DSLAM equipment, and unbundled circuit switching combined with shared transport at TELRIC rates.

However, BellSouth will **not** be required to provide the splitter in a line splitting arrangement." (Emphasis added)

This Line Splitting arrangement would reflect a UNE loop and a UNE port being used to provide the ALEC's end user with voice service. The high frequency portion of the loop would be available for data through the ALEC-provided splitter, which would be accessed via a cross-connection from the frame to the ALEC's collocation space. A second cross-connection would return the voice signal from the splitter in the collocation space to the voice switch port. The applicable recurring and nonrecurring charges for this Line Splitting arrangement are: the unbundled loop rate, the unbundled port rate, and the rate for two collocation cross-connections. As I stated in my direct testimony: "The costs for line splitting are comprised of costs already identified in Docket Number 990649-TP [unbundled loop and unbundled port] and in the cost summary in Exhibit DDC-1 [collocation cross connects]."

If the Line Splitting arrangement is a migration from an existing Line-Sharing arrangement, the applicable nonrecurring charge for this Line Splitting arrangement will be the nonrecurring charge for the loop-port combination. The recurring charge is the same as that discussed above: the unbundled loop rate, the unbundled port rate, and the rate for two collocation cross-connections. Again, the costs "are comprised of costs already identified in Docket Number 990649-TP [nonrecurring cost of a loop-port combination, unbundled loop and unbundled port] and in the cost summary in Exhibit DDC-1 [collocation cross connects]."

Therefore, the rates for Line Splitting are not independent rates, but rather are comprised of cost-based rates already established by (or pending before) this Commission. In other words, rates for additional unbundled network elements need not be decided in order to accommodate Line Splitting.

Q. ON PAGE 17, MR. DARNELL STATES "THE COST SUPPORT BELLSOUTH HAS FILED DOES NOT IDENTIFY THE LEVEL OF ANTICIPATED LINE SPLITTING DEMAND BELLSOUTH HAS USED IN THE DEVELOPMENT OF ITS LINE SPLITTER COSTS." (LINES 23-25) IS THIS COMMENT RELEVANT?

A. No. Mr. Darnell implies that BellSouth's cost study does not comply with "47C.F.R. 51.511(a) in the development of its line splitting rates." (Page 18, Lines 1-2) Since this is a flat-rated element, the applicable FCC rule mandates that the per unit cost of an element equals the forward-looking economic cost divided by a "the discrete number of elements (e.g. local loops or local switch ports) that the incumbent LEC uses or provides." (FCC First Report and Order, §51.511(b)(1))

BellSouth currently has agreed to provide ALECs splitter systems in either 24 or 96-line arrangements[1] for Line Sharing. In developing the costs for either arrangement, demand is not required for the cost calculation since the splitter system is not shared among a number of ALECs. The vendor sells the equipment as in multiples of 24 lines. The 96-line system and this corresponds to 4, 24-line

[1] An 8-line arrangement is also currently under development.

shelves. The cost for the 24-line arrangement reflects one shelf. Thus, projected demand for splitters is unnecessary and Mr. Darnell's implications should be disregarded.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BY MS. WHITE:

Q Ms. Caldwell, have you prepared a summary today?

A Yes, I have.

Q Could you please give that.

A Good afternoon. In my direct testimony I discuss BellSouth's cost study methodology and the models used to perform cost studies for the different UNEs. These studies conform to the 1996 Telecommunications Act and the FCC's TELRIC pricing methodology. This Commission has reviewed BellSouth's cost studies in prior dockets and most recently in Docket Number 990649-TP, which I will refer to as the UNE cost docket.

On May the 25th, 2001, this Commission issued an order in that docket establishing cost-based rates that complies with the FCC's pricing rules. Last week the Commission voted on the various motions for reconsideration in that docket. Collocation and line sharing were not included in the UNE cost docket. Therefore, to have rates for all services cost studies with these elements were filed with my testimony in this docket as Exhibit DDC-1. The cost studies for these elements used the same methodology and models reviewed by the Commission in the cost docket. Where appropriate, BellSouth has incorporated the adjustment contained in the Commission's May 25th order in developing the costs that I have filed here.

Since the UNE cost docket, BellSouth has also

developed another offering called the unbundled copper loop nondesigned. As the name implies, these loops do not go through the design process, therefore, they are not provisioned with a test point nor with a DLR. Again, to have cost-based rates, cost studies and support were filed for this element. Let me note that BellSouth has also filed the unbundled copper loop nondesigned in the UNE cost docket to respond to one of the Commission's 120 day issues.

On August 20th, 2001, I also filed surrebuttal testimony. The majority of cost issues raised by the intervenors in direct testimony, specifically Mr. Darnell, have already been addressed by this Commission. These issues include use of multiple scenarios for loop modeling, use of in-plant factors, use of DS-0s to allocate shared costs, and the drop routing. Mr. Darnell did not introduce new evidence on any of these issues. In fact, this Commission has already heard testimony on each of these issues, issued an order, considered requests for reconsideration, and ruled. In each case the Commission accepted BellSouth's approach as being appropriate and TELRIC compliant. Nothing presented in this docket should alter the Commission's decision.

With respect to the use of in-plant factors, while the Commission accepted BellSouth's proposal, it has asked for a bottoms-up review to assess the magnitude of the differences between the two approaches. Let me reiterate that the

Commission accepted BellSouth's in-plant factors and has set effective rates based on that methodology, and we will have hearings in January on the bottoms-up study.

Mr. Darnell did raise new issues that were not addressed in the UNE cost docket as they related to collocation and line splitting. My written testimony addresses these in detail.

Now I would like to respond to two issues raised in Mr. Darnell's 's October 5th supplemental rebuttal testimony. The first is the use of inflation in the development of costs. Mr. Darnell has taken this Commission's October 2nd decision to reinstate inflation as an opportunity to relitigate an issue that was reviewed, debated, and resolved in the UNE cost docket. He has resurrected the inaccurate claim that BellSouth double counted inflation by applying TPIs to material prices and by utilizing a nominal cost of capital. In its May 25th order in the UNE docket, this Commission rejected this argument stating that TPIs and nominal costs of capital identify uniquely different inflation costs and BellSouth's use of inflation in this manner is correct. Mr. Darnell offers no further evidence here and merely repeats the same arguments made and lost previously.

The only effort he makes to persuade this Commission to rescind its decision on inflation is to compare Florida UNE-P statewide loop rates to Georgia. First, the Georgia

rates are based on that Commission's decisions resulting from the evidence presented in Georgia, not Florida. The Georgia Commission set a different cost of capital, different depreciation rate, and even used a different deaveraging methodology. Further, as Mr. Darnell notes, BellSouth recently on October 1 filed updated costs in Georgia and they would be subject to a hearing.

Mr. Darnell assumes that the Georgia costs will unnecessarily lead to a decrease in rates, but that is presumptuous. Only after the proper consideration of the evidence in Georgia will the Commission there determine appropriate cost-based rates.

Additionally, Mr. Darnell's contention that the average loop cost in Georgia also exceeds TELRIC and that the Florida UNE-P rate just exceeds TELRIC by a larger amount is unsupported by any evidence. Both the Florida and Georgia Commissions have expended considerable resources to review an extensive amount of evidence in determining cost-based rates that fulfill the FCC's TELRIC principles.

The second issue raised by Mr. Darnell concerns BellSouth's rates for daily usage filed information. Mr. Darnell claims that this Commission should not set a separate rate for daily usage files. He claims that these costs are included in the shared and common cost factors. This is not true. The costs BellSouth determined for the daily usage files

are incremental to the costs associated with the normal call measurement detail.

BellSouth developed unique programs at the ALECs' request in order to extract billing data in a format specific to ALEC billing needs. The costs associated with this on-going process and the computer resources required to implement and support the programs are appropriately reflected in BellSouth's cost study. These costs are incremental to BellSouth's normal billing process and are therefore charged to the ALEC.

Mr. Darnell may have based his double recovery argument on the fact that the same expense accounts appear in both the DUF studies and in the shared and common costs factors, but he failed to realize that BellSouth identified and removed costs that are directly assigned in the DUF studies from the shared and common cost factor calculation. And also, speaking of shared and common costs, the costs and developments (sic) used in these factors are not embedded as he implies. It can easily be seen that both the costs and investments used to develop these factors are projected into the future, thus the embedded label is inaccurate. Further, in the UNE cost docket this Commission reviewed and approved BellSouth's cost study methodology for shared and common cost factor calculations.

In conclusion, BellSouth's cost studies are TELRIC compliant and the results are reasonable. Thank you.

MS. WHITE: Ms. Caldwell is now available for cross

examination.

COMMISSIONER DEASON: Mr. Melson.

MR. MELSON: I think Mr. Lamoureux has agreed to let me go first on Ms. Caldwell.

CROSS EXAMINATION

BY MR. MELSON:

Q Good afternoon, Ms. Caldwell. Rick Melson. We meet again.

A Good afternoon.

Q You would agree that Checklist Item 2 requires that all UNEs be offered at prices set in accordance with the act and the applicable FCC rules, is that correct?

A That is correct.

Q And I think Commissioner Jaber had a question toward the very end for the last witness about whether BellSouth thought it was necessary in this docket to set rates for the physical collocation. I guess the nondesigned unbundled copper loop, and I frankly forget what the third item is?

A Line sharing.

Q Line sharing. Do you believe it is necessary for the Commission to set those rates in order to make the 271 consultation to the FCC?

A I believe Ms. Cox answered that in terms of what is necessary as to 271. My position is on what is included in the costs and whether or not they are appropriate.

Q So would you be happy if the Commission made no decision on those rates in this docket?

A I think if I understood Ms. Cox, she said that in terms of the collocation and line sharing, as long as the Commission was to establish cost-based rates in the Covad arbitration, then that would be satisfactory. And, of course, I would agree with that. And I will be doing the cost studies to meet with the Commission's requirements there in the 30-day time frame.

I believe in terms of the unbundled copper loop nondesigned there was an interest that the Commission review the cost study here in order to set a rate in order to meet the 271 requirement. But in terms of the exact -- her statements, that is the best of my recollection of exactly what she said.

Q All right. Would you agree -- I think there was a question about the line sharing rates not having been set in the UNE cost docket. Do you recall was that the result of a stipulation between all the parties that line sharing rates would not be addressed in that docket?

A I believe it was. And, in fact, I incorrectly filed line sharing rates in the original cost study and had to withdraw them. So I do believe it was all agreed to by the parties.

Q And agreed to by the parties and approved by the Commission?

A Yes, I'm sorry.

Q All right. One more follow-up to Commissioner Jaber's questions before I launch into my list. She had asked Ms. Cox for a comparison, if I understood correctly, of UNE loop rates to retail rates. Would you agree with me that an ALEC offering service via UNEs would need more than just a UNE loop in order to provide service?

A They would purchase other things to provide different types of service. Give me an example and I could --

Q All right. An ALEC that was going to use the UNE platform would need not only a loop, but would need a port, is that correct?

A I was asking for the type of service.

Q I'm sorry. Basic single line residential service.

A Okay. And in that particular case what you would need, you are correct, you would need a loop, you would need a port terminating on the switch, and then you would need your local usage components, which would be -- as an example, would be end office switching and common transport.

Q So in addition to the loop, you would have a fixed rate for a port, you would have a usage sensitive rate for switching as the line was used, and you would have a usage sensitive rate for shared transport as that was used?

A Yes. It is usage sensitive, it is based on minute of use and per mile on the common transport.

Q Okay. If we look at the corrections you made to the chart in your rebuttal testimony, my understanding was you updated the Florida rates in that chart to add the port rate to the loop rate, is that right?

A Yes. I inadvertently left it off because in the rate sheet it was in two different places.

Q Okay. If I wanted to put another column on that page that showed what the combined loop/port rate was as a result of the Commission's vote last week on reconsideration, do you have those numbers available to you?

A Yes, I do.

Q We didn't choreograph this, she just happens to have them.

A Well, in updating the testimony when I looked at the date in which it was filed, I was just correcting it as for that point in time, so that's why I have the other numbers. For Zone 1, this would be based on the -- let me just double-check one thing, I'm sorry. This would be based on the staff's rec for the reconsideration, the Zone 1 would be $14.11, Zone 2 be $18.23, and Zone 3 would be $33.04.

Q And that includes, if I understand correctly, the UNE combo loop and the UNE combo port?

A Correct. The two that would add together to make what we call the UNE-P, or the platform.

Q All right. It does not include any assumed amount of

usage sensitive charges for switching or for shared transports?

A That is true, because the number I'm really looking at in New York is just the UNE-P also. It does not include any switching or common transport.

Q Ms. Caldwell, I would like to ask Ms. McNulty to hand out, if she would, a copy of the FCC's TELRIC pricing rules. And I believe we agreed earlier that in order to show checklist compliance BellSouth is required to demonstrate that its UNE rates are set in accordance with TELRIC standards, is that a fair summary?

A Yes. First of all, they are cost-based and that they conform to the TELRIC principles.

Q All right. If you would look at the first section that I have marked, Rule 51.505(b)(1), that rule requires, does it not, that the TELRIC cost of an element should be measured based on the use of the most efficient telecommunications technology currently available and the lowest cost network configuration given the existing location of the incumbent LEC's wire centers?

A That is correct.

Q And another rule that you must comply with in setting the per unit UNE rates is 51.511(a), is that correct?

A Yes.

Q And I'm going to try to paraphrase this just a little. Catch me if I get it wrong. Essentially, the TELRIC

cost per unit for an element equals the TELRIC cost of the element in 51.505, and now I'm going to quote, "Divided by a reasonable projection of the sum of the total number of units of the element that the incumbent LEC is likely to provide to requesting telecommunications carriers and the total number of units of the element that the incumbent LEC is likely to use in offering its own services during a reasonable measuring period." You would agree that is what the rule requires?

A Yes, that's what it states.

Q And essentially, is what that rule in combination with 51.505 doing saying you calculate the total incremental cost of providing an element, you divide by the number of the units of the element you are going to provide to come to a per unit cost?

A Considering all elements, yes.

Q Okay. For example, the cost of providing a million loops is $10 million, the TELRIC cost, you divide that $10 million by the million loops you project you are going to provide and you come back to a $10 per unit cost for the loop?

A In a simplified version, that's what it states. I think it is important to point out that in determining that $10 million there is a lot of things to be considered as to how you model the network and what is the appropriate methodology for determining what the network consists of.

Q And, in fact, you have probably anticipated where I'm

going which is you recognize there are some disagreements between WorldCom on the one hand and BellSouth on the other as to the appropriateness of some of the modeling techniques you have used?

A Yes, I believe you filed in rebuttal testimony.

Q All right. And just so I'm clear, for the elements other than those -- other than the nondesigned unbundled copper loop, the physical collocation, and the line splitting, BellSouth's proposal is that it will incorporate in its SGAT the rates that were set by the Commission essentially on reconsideration last week, is that the current status?

A Yes.

Q And those rates that were set last week are, in fact, higher than the rates that were set in the original UNE cost docket order in May, is that right?

A Yes. It was the result of the reconsideration issues that were raised.

Q And, in fact, the major reconsideration issue that drove that increase was the Commission's decision to reconsider its previous disallowance of an inflation adjustment, is that right?

A Yes.

Q And I don't know if you were present during the Commission's discussion and vote last week, but are you aware that the decision to reinstate the inflation adjustment came

after a lot of discussion and ultimately turned out on that issue to be a two-to-one vote?

A No, sir, I wasn't there, I'm not aware. I only have Florida -- or I was told what was said and I have the staff's rec, I'm sorry.

Q Okay. Let me talk to you a little bit about the modeling technique BellSouth used to develop the loop rates. If I understand it, you use a loop cost model called BSTLM, BellSouth Telecommunications Loop Model?

A Yes, that's right.

Q And this will be old hat to the Commissioners who sat in the UNE cost docket, it may be fairly new to those who didn't. One of the disagreements regarding TELRIC compliance is whether BellSouth's use of that model to model three different scenarios in setting loop prices is an appropriate application of the FCC's pricing rules?

A That was one of the issues under reconsideration, and in that particular case they ruled in terms of BellSouth that the three scenarios are an appropriate method for establishing the costs, and also it does not violate the TELRIC principles.

Q All right. And, in fact, in the original order in the UNE cost docket, the Commission concluded that BellSouth's use of the three scenarios was reasonable for purposes of that proceeding, do you recall that?

A Yes, in terms of reasonable to establish rates for

unbundled network elements.

Q All right. Do you recall that the Commission also concluded in that order, and I'm going to quote now, "In principle it appears to us that a single unified network design is most appropriate, however, we believe this goal is not attainable based on this record." Do you recall that in the Commission order?

A No, I don't remember those exact words, because I haven't looked at the order in awhile. I have looked at it in terms of the staff rec and when it talked about in terms of the principle and the information that it talks about the fact that the only way to accurately model scenarios in which you are going to have a loop that goes to a switch and a loop that goes to a collocation space, that is the difference between what I refer to as our stand-alone loop versus the loop that is associated with the UNE-P, that the appropriate way to get the modeling correct would be to use the separate scenarios.

Q But as you -- well, as you sit here today, do you recall whether or not the Commission indicated that they thought that a single unified network design was most appropriate, but that it was not possible to achieve that goal based on the record in the UNE cost docket?

A No, sir. You would have to show me the order. I just haven't read that order in a long time.

Q If you could just read for us the highlighted

sentence on Page 154 there of the order beginning "in principle"?

A "In principle, it appears to us that a single unified network design is most appropriate, however, we believe this goal is not attainable based on this record." And then it proceeds to go on and talk about the different scenarios and why they are appropriate.

Q And it concludes that for purposes of that proceeding, since the goal could not be attained, the use of three scenarios was the appropriate base to set prices?

A In terms of the order, it says, "Although we thus conclude that BellSouth's use of three distinct scenarios is reasonable for the purposes of this proceeding, we would note --" is that what you wanted?

Q That's okay.

A Well, I think though the important point is it says for the purposes of this proceeding, and the purpose of that proceeding was to establish TELRIC-based rates for UNEs.

Q And I guess would you agree with me that one fair reading of that order is that the most appropriate way to set rates for UNEs couldn't be achieved because BellSouth did not present a cost study with a single unified network design, and so the second best alternative of using the evidence that was in the proceeding, BellSouth's three-model approach, three-scenario approach, was used to set the rates?

A Well, I don't necessarily agree with that, because even though all the parties agreed to use BellSouth's loop models, the BSTLM, and we talked about how the model worked and some of the internal workings, the other parties filed using only one of our scenarios and said that was the appropriate way to develop the costs. And the Commission ruled against using that one scenario. So it appears to me that they had the choice to use the one scenario or to use the three models -- excuse me, the three scenarios -- and they felt that that was the more appropriate method because it identified the costs more accurately.

Q Let me ask this, in developing the per unit cost, you developed different per unit costs for loops that are offered as part of a UNE combo, which I guess was called your combo scenario, for loops that were -- are offered on a stand-alone basis, which was called your BST 2000 scenario, and for DSL capable loops, which was called, I guess, your all copper scenario, is that right?

A That is correct.

Q And that yielded different rates for those three types of loops, is that right?

A Yes, it did. And because it reflected the differences in the three offerings that were being made. In the combination study in which you are going to have the switch connected to the loop, we recognized the fact that we are going

to have the digital loop carrier integrated into the switch, so for all of the loops we indicated that in our cost study.

As far as the difference when I went to the BST 2000 we referred to, which was the stand-alone loop study, the only difference between those two scenarios was in the central office, and in that particular case it just indicated that the loop did not go to the switch, it went to the collocation space. And then in terms of the all copper, it considers that you are building a copper network of any length to the various customers.

Q Let me take a step back. For purposes of pricing the UNE loop/port combo, you did a study that used what is known as integrated digital loop carrier technology, is that right?

A Yes, I did.

Q And is that, in fact, the most forward-looking technology that BellSouth deploys in its network today?

A It is the most forward-looking technology for switched services. And by that I mean a service that is going to ride digital loop carrier and go directly into the switch. It is not the most efficient technology for use when you are going to have a stand-alone loop that does not go to the switch.

Q And in your combination scenario, you essentially assumed you build an entire network to serve every customer location and every line that is served today by BellSouth,

correct?

A Yes. We have a couple of new people on the model, so let me just be sure we are altogether. What the model really does is it geocodes every customer location in the Florida territory that BellSouth has. So for every customer you know where it is physically located and what type of service is there. So what the model does is based on modeling techniques that I will not go into, but basically it builds plant to each one of those locations. So when I looked at the stand-alone loop, I built the network to those locations and I used digital loop carrier. But when I got to the central office, I took them directly to the collocated space, I did not integrate them into the switch. In the combo scenario, I built the same identical network in the field, that means outside the CO, and when I got to the central office I integrated them into the switch on integrated digital loop carrier.

Q And when you -- and for purposes of setting DSL capable loop rates, you modeled an entire network consisting of 100 percent copper loops that went to every geocoded customer location, is that correct?

A That is correct, because the definition of the xDSL capable loops are that they are 100 percent copper. And that was the only way we could determine the various lengths of copper because it will not work on digital loop carrier, whether it be integrated or not.

Q Now, when you did the combo scenario, you made no attempt to project the number of integrated loops that would be used in total by BellSouth and the ALECs, is that correct? You simply assumed that every loop would be an integrated loop?

A Every loop that would be a switched loop. There are loops in that particular combo scenario, for instance a private line that is nonintegrated is going to stay nonintegrated. Because every physical location I know what type of service is there, so if it had a special service that had to ride a digital loop carrier that was nonintegrated, I did recognize that. But if it was possible to go to the switch, I did integrate it, correct.

CHAIRMAN JACOBS: Can I ask a question?

THE WITNESS: Yes.

CHAIRMAN JACOBS: What does that do to all of your common costs and so forth? Does it matter that you project out a network that has no digital technology in it? I mean, no digital loop carriers, I'm sorry. Because it is my understanding that they afford you, that technology affords you some cost efficiencies and so forth. Is that a correct assumption?

THE WITNESS: It affords you efficiencies based on the fact that you are going to be using that service for voice grade type offerings, because digital loop carrier at this point will not support your xDSL offerings.

CHAIRMAN JACOBS: Okay. So when you come back and you do your scenario that has only copper lines in it, I accept the fact why you did it, but you are going to allocate some common costs in that scenario, as well, aren't you?

THE WITNESS: What basically happens is you assign, I guess in terms of the common costs that we have the common cost factor that is based on the various accounts that is being assigned, so it would basically follow the individual accounts. But I think there is probably one thing to kind of note, when you are looking at the unbundled copper loops there are length specifications where these facilities actually work. And in particular when you look at the unbundled copper loop nondesigned that I have in this particular docket, you will see that by using the unbundled copper loop scenario you actually are going to get a cost that is more beneficial to the xDSL loop because of the shortness of the copper itself.

CHAIRMAN JACOBS: Thank you. Mr. Melson.

BY MR. MELSON:

Q Let me take a step back and make sure I understood. For purposes of simplicity, I am going to focus on loops used to provide switched service, so that we don't -- I understand the qualification about loops that are used to provide special services, but just so I can keep the focus. For loops used to provide switched services, the model in your combo scenario built an entire network, switched network in which every loop

terminated was integrated into the switch, correct?

A I just need to clarify, every switched loop.

Q Every switched loop.

A Right. And let me also clarify, too, and I hate to get into fine points, but I am a cost analyst. Just to be very clear that we are talking about digital loop carrier loops, so that would be loops that are longer than 12,000 feet. If it is within 12,000 feet it is always going to be on copper. So I just want to clarify that this discussion is only about those loops greater than 12,000.

Q All right. For the BST 2000 scenario, which is the scenario you used to price stand-alone loops, for switched loops greater than 12,000 feet, you assumed all of those loops used an older version of digital loop carrier, universal digital loop carrier and were not integrated into the switch, is that correct?

A No. We assumed that they used universal digital loop carrier, but that's not an older version of carrier. Next generation digital loop carrier, which is the most current available technology, which is what we used in the study can be either used as universal or integrated. So it's not that I'm using an older technology, I'm using a technology that is appropriate for that type service. If it is not going to go to the switch, then I need to get it down to the voice grade level to take it to the collocation space. So, there is a fine

distinction in the type carrier you're talking about.

Q In determining the unit cost for stand-alone loops, you simply divided by the total universe of switched loops, you did not do a projection of the number of switched loops that would actually be provisioned over UDLC, is that correct?

A In the BST 2000, I divided by the total universe of loops. I built the loop to every customer, yes.

Q Okay. And in the copper scenario, you built a copper network to every customer, you divided by the total number of loops, you did not separately project the demand for DSL capable loops?

A That is correct.

Q All right. And I guess the point of debate, and it would probably be better to deal with it in the briefs is whether that modeling technique complies with the requirements of the FCC's rules. Would you agree that is one of our points of contention?

A I believe that is one of the points of contention. I fully believe that it complies, because in each scenario I considered the entire universe of all possible customers. There is no way for BellSouth to know how a CLEC will use a loop tomorrow. We do not know if they will buy a UNE-P, we do not know if they will even want that customer, and we do not know if they will put in their own switch and put in their own loop. So there is really no information available for me to

have the perfect demand data you would need to model this network.

However, by using my three scenarios, in each scenario I have picked the currently available technology, the least cost method of serving those type customers, and I fully believe that I have recognized every cost efficiency that could be recognized in a least cost network in my scenarios for costing these individual loops. And by using the complete full demand in each scenario, I believe I have satisfied Rule 51.511(a).

Q And yet if you take a step back and add up the total number of loops that you modeled through your three scenarios, you essentially modeled three times as many loops as exist in BellSouth's network today, is that correct?

A Yes, I did, but I believe I have explained that by looking at the cost efficiencies that did not distort my answer.

Q How did the most recent rates set by the Commission for a stand-alone loop compare to the rates set for a loop used in a UNE combo, do you know?

A I do not have the Florida numbers.

Q Let me represent to you that the loop cost for the UNE-P loop is slightly higher than the UNE cost for a stand-alone loop. Can you give a sort of an intuitive explanation of what might drive the difference to be in that

direction?

A No, I haven't really looked at that in terms of exactly how the model was calculated. My first impression would be is in terms of the way the -- the only numbers I'm familiar with is the zone numbers, and I believe in looking at the individual zones it could be how the individual wire centers might have been looked at in terms of the costs in setting the zone prices. I have not looked at the individual cost itself to look at that impact.

Q Do you know whether the statewide average rate for the UNE-P loop is, in fact, higher than the statewide average rate for the stand-alone loop?

A I have not looked at the statewide average rates.

Q All right. Let's turn to Page 12 of your rebuttal, and I believe that may be the page in which we have already made some of these number changes?

A Yes, it is.

Q On Page 12, I believe if you read the question, you are commenting on Mr. Darnell's statement that certain modifications need to be made to BellSouth's UNE prices in order to increase the likelihood of broad scale competitive local entry, is that right?

A Yes.

Q And in your answer, you -- as it has been modified, you compare the Florida loop/port rates to New York loop/port

rates, is that correct?

A That is correct.

Q And you concluded that those rates correlate closely?

A Yes.

Q Given the most recent rates set by the Commission and the inclusion of the port charge in the Florida rates, do you still believe they show that same close correlation?

A Well, I mean, Zone 1 was still at 14.11, and that is the one I really concentrate on. And I think, yes, in terms of, you know, they are fairly close to each other.

Q So, the Zone 3 rate in Florida is roughly 50 percent higher than the Zone 3 rate in New York, that is fairly close in terms of correlation?

A No. As I said, I think mainly about Zone 1 in terms of the numbers being very close. When you get to Zone 3, you are going to find that especially where you have a lot of rural area, you are going to end up with a much higher rate in Zone 3. So in terms of the comparison, I would concentrate more on Zone 1.

Q Do you know what percentage of the loops in Florida are in the various Zones 1, 2, and 3?

A I'm trying to think if I could remember that. No, I do not. I cannot remember that.

Q Do you know what percentage of the loops in New York are in the three New York Density Zones, 1, 2, and 3?

A I do not.

Q In concluding that the rates in Florida were at a level that would support viable competition, did you make any consideration of what the retail end user rates in Florida are versus the retail end user rates in New York?

A No, I just concentrated on the cost aspect, which would have been my part of the particular study. So I just really looked at the rates or the costs, so that's what I looked at here.

Q So you are not making any conclusion about whether the margin in Florida between cost and price bears any relationship to the margin in New York between cost and price, between cost to an ALEC and retail, the retail price it competes against in the market?

A Okay, because I was thinking in terms of the cost of rates for TELRIC. No, I'm not making any judgments there. All I am really stating here is the costs that have been determined.

Q Let me change topics for a minute and talked about BellSouth's assembly point offering. And let me try to see if -- make sure I understand we have a common understanding of what an assembly point is. If an ALEC wants to provide service to a customer using loop and port, I believe Ms. Cox has told us it is BellSouth's position that if those are actually physically combined in the network today to serve that customer

location, we could purchase them as a combination. But if it were a new customer or an additional line to a customer, BellSouth's position is that we would have -- the ALEC would have to combine those elements itself, is that correct?

A That was my understanding of her testimony, yes.

Q Okay. And one way for an ALEC to do that is to purchase a collocation space and to do the combination in its collocation space?

A That is correct.

Q And my understanding is your assembly point offering is intended to be an alternative way to enable an ALEC to perform the combination function, is that right?

A That is correct.

Q Can you give the Commission maybe better than a mental picture, your -- you drew a little diagram during your deposition, didn't you?

A Yes, I did.

Q Give me just a minute. Could you turn to Page 136 of Exhibit Number 6, I guess, which is your deposition transcript and exhibits?

A Do I have that?

Q It's your art work. I'm afraid this diagram in the record doesn't make sense without a little explanation. Could you explain it to us. Is this intended to depict BellSouth's assembly point offering?

A Yes, it is. And, again, I'm talking about -- I am the cost person, so I talk about the cost components that I am looking at here. In terms of any technical details, Mr. Gray might could answer more about that, but I think if we just talk about costs, I'm okay. However, I determined, I believe, as we got to the end of my deposition, that we talked about the number of connections and what was determined, and I'm not sure I ever really straightened that out, so I will try to go through it here to be sure that --

Q Well, at this point if you just could describe physically if I am an ALEC and I want to provide service to a brand new customer using loop and port, and BellSouth won't sell me the combination, they tell me I've got to combine it myself. And I say, well, let me use your assembly point offering to do that, physically how do you deliver that to me and how does the connection get made?

A Okay.

Q In terms of what you took into account for pricing purposes.

A All right. First of all, the big box there that is labelled BST MDF, that is the main distribution frame in the central office. That is where you will see the loops actually terminated onto the frame and the ports terminated onto the frame from the switch. So, what you are basically saying is you have a termination when you buy a port on that frame, and

you have a termination on the loop on the MDF.

Well, in order for the CLEC to have the ability, or ALEC in this case to put the two together, what BellSouth offers is an assembly point location where the port will -- let me go back and say there is cable that will run from the distribution frame, the separate frame that the ALEC is going to be working on, that's where they will be doing their cross-connects. There is a cable that runs from that frame to the main distributing frame and that port -- there will be a jumper run from that port to that cable. It will then appear on the distribution frame that the ALEC will lose. There will be another cable -- and I really should have had this on the drawing -- that can be used or they could possibly even use it in the same cable. It's just the point that there will be another cable pair across, and there will be a jumper from the loop that cable pair, and it will terminate on the frame and then the ALEC can connect the jumpers together.

Q Okay. Let me see if I understand it, and let me try to restate that and tell me if I understood it right?

A Okay.

Q The loop that the ALEC wants to buy to serve the customer is attached to the main distributing frame?

A Correct.

Q And the port that the ALEC wants to use to serve the customer is attached to the main distributing frame?

A Correct.

Q What BellSouth essentially does is runs a jumper from the loop to a cable, the cable goes to a different frame, you do the same thing on the port side, you run a jumper from the port to a cable, the cable goes to the same frame and then on that frame the ALEC can send a technician in to connect the two cables and complete the connection, is that accurate?

A Yes.

Q Okay. If BellSouth was providing the combination itself, there simply would be a connection from the loop to the port on the main distribution frame, correct?

A Correct. If BellSouth was making the connection, correct.

Q All right. Now I want to give you a hypothetical and see if I understand --

COMMISSIONER DEASON: Excuse me just a second. Why can't you make that connection?

THE WITNESS: I think that is in terms of the issue of the combination and in terms of the obligation of whether or not we are to provide new combinations. I believe Ms. Cox talked about that. That's a little beyond my area.

COMMISSIONER DEASON: Is it more efficient for you to do it? Is there less cost involved for everyone for you to do it?

THE WITNESS: In terms of the costs, it would be less

cost for just one jumper to be run on the frame.

COMMISSIONER DEASON: If it costs less, why don't do you it that way?

THE WITNESS: I'm going to have to defer that to either -- I'm sorry, Ms. Cox has testified, Mr. Gray testifies about collocation and what we actually do there, so he may have some additional information on the assembly point.

COMMISSIONER DEASON: Does it somehow impede your network, or is there security causes -- you can't answer it?

THE WITNESS: I'm sorry, I can't. But I believe Mr. Gray, or in terms of the security issues, Mr. Milner is here, he might could address that.

BY MR. MELSON:

Q If you don't know the answer, tell me so, but my understanding when Ms. Cox was on the stand is that where a state commission has told you you have to run that jumper on the MDF and provide the new combinations, you do that. And Georgia, I think, and Louisiana were the two examples?

A Yes. In Georgia I performed actual cost studies for new combinations, in Louisiana I believe they ordered it was the sum of the existing UNE rates.

Q All right. So it's not --

COMMISSIONER DEASON: I guess my question is irregardless of whether -- just because a regulator made you do it, why don't you just do it on your own because it is the most

cost-effective way to do it?

THE WITNESS: Well, I guess my comment to that is in terms of the costs, I can look at the costs and just tell what you the numbers are. But there could be some technical or security issues that I am not aware of. That's why I was saying Mr. Gray or Mr. Milner may know more about that than I am familiar with in how we address those.

BY MR. MELSON:

Q Well, let me ask this. If a new customer came to BellSouth and said I want a line from BellSouth, you would make the connection for yourself on that main distribution frame, is that right?

A Yes, and we charge them a service connection charge.

Q The pricing that you propose for this assembly point arrangement is contained on your Exhibit DDC-4, is that correct?

A Yes.

Q And that is part of what has been identified as Hearing Exhibit 18?

A Yes. It was also on my DDC-1, so I was a little confused. But, yes, it is on both.

Q I want to walk you very quickly through a hypothetical to see if I understand the pricing correctly. Let's assume that an ALEC competes with BellSouth in a certain end office and wins 100 customers, and 90 of those are existing

BellSouth customers today who are getting service from BellSouth, and ten of them are new customers. Under BellSouth's policy, as I understand it, you would provide the UNE combination loop/port for the 90 customers where the physical connection exists today, is that right?

A Switch as-is, correct.

Q Switch as-is. And for the ten new customers, an ALEC could choose the assembly point option and say I want to connect -- I have to connect those myself, and it appears to me assembly point may be the way to go, and let me figure out what my cost is going to be. Can you using Page 2 of Exhibit DDC-4 explain to me what costs as an ALEC I will incur for serving those ten customers via this assembly point arrangement?

A Okay. Talking just in terms of the assembly point, because I don't think I have the loops and ports on here, I mean, you would purchase an unbundled port and you would purchase the unbundled loop, okay. And then --

Q Okay. Let me ask at this point and I would pay the nonrecurring charge for each of the ten loops, I would pay the nonrecurring charge for each of the ten ports, and then on a going-forward basis I would pay the monthly recurring charge for each of those?

A Correct.

Q All right. What additional charges are there now associated as a result of the assembly point arrangement?

A Okay. Where you see H3.1, the -- well, that is originally filed, excuse me. The revised rate of .8851, so that is approximately 89 cents. That is going to be the rate on the per cross-connect that you are going to need, so you have ten ports and you have ten loops, so you would need 20, okay.

Q So every month I would pay about $1.70, between 1.60 and 1.70 for each one of those circuits for the cost of returning the cables to the frame, whatever cost you have for the frame itself and the cost of the cables that go back to the MDF?

A That is correct. That is the cables and all the terminations on the frames. All right. And then for the -- basically, what you are paying for now in this nonrecurring is the establishment of the cable from the MDF to the separate distribution frame, and that would be -- for the first one would be $22.48, and then you have for each additional you would be doing all these at the same time, so you would have 19 times the 21.57.

Q So roughly $430 to set up the arrangement, nonrecurring charge for these connections?

A Yes, that's approximately -- in that neighborhood.

Q Now, when they get to the assembly point frame, or assembly point distribution frame, they are still not connected to each other. I've got to send a technician out to that

office to run ten jumpers of my own, is that correct?

A Yes, to do your own connections.

Q All right. Do I have to pay any sort of application fee to set up the assembly point arrangement in that central office?

A I do not believe you do. I was just trying to think what was in the application cost. To the best of my recollection you do not. I can't answer that 100 percent positive, though. Sorry.

Q Is there any other witness we are going to have who can answer that, because application fees can get a little pricey, can't they?

A I believe Mr. Gray, who is going to be talking about collocation, he would probably know whether or not the application fee would be applicable for assembly point.

Q All right. And an ALEC who was trying to decide whether to use an assembly point arrangement obviously would want to take into account all of these nonrecurring charges and monthly recurring charges and making its decision whether it can afford to provide service to new customers in a particular end office, would you agree with that?

A Yes.

Q A basic business economic decision?

A Yes, that would be one of the decisions.

Q When did BellSouth first begin offering assembly

point arrangements in Florida?

A It has been available in the BellSouth region for, I believe, well over a year. It was introduced into the cost docket in Georgia, we had a combination cost docket and we filed it there. My understanding is once it was available in Georgia it would be available everywhere else. So it has been a little over a year, I believe.

Q Is any ALEC anywhere in the BellSouth region using an assembly point arrangement?

A Not that I'm aware of.

Q Let's move for a minute to adjacent collocation. You proposed rates, have filed a cost study for adjacent collocation in this docket, is that right?

A Yes.

Q I notice that the rates for adjacent collocation do not include a rate for DC power, is that right?

A That is correct.

Q Are you aware that the Florida Commission in at least one arbitration has required BellSouth to provide DC power in adjacent collocation arrangements?

A Yes, I am. What we call our methods and procedures, or our product team is looking at that application, but at this point in time they did not have enough information for me to conduct a cost study.

Q Okay. So you have got a requirement to offer

something, but at this point yet you don't have a rate for it?

A Yes. I mean, I don't know if there is any type of negotiated rate. If they have worked out anything in the interim, I don't know that. I just do not have the cost study completed. I don't have the information yet, but they are working on it.

Q Let me rephrase the question. You don't have a rate that you can testify today is TELRIC-based?

A No, I cannot.

Q All right. Let me talk to you just a minute about rates for ADUF and ODUF. And can you first tell me what ADUF stands for?

A It stands for access daily usage files.

Q And can you tell me what an access daily usage file is?

A Yes. It's basically the information about the access usage that is used for billing the interexchange carrier for access.

Q So that if I was an ALEC and was providing services using the UNE platform, I am purchasing the loop, I am purchasing the port, I am paying for switching, I am paying for transport, if a long distance call is -- if my customer either makes or receives a long distance call, I am entitled to bill the interexchange carrier for access charges?

A That is correct.

Q And the access daily usage file is essentially the report that BellSouth who is operating the switch would give me and say so many minutes of long distance calls went to AT&T, or went to WorldCom, and so that I, as an ALEC, know who I can bill and for how much?

A That is correct.

Q All right. And the rates that were approved in the UNE cost docket include rates for the provision of those daily usage files to the ALEC, is that correct?

A Not so much just the provision of the daily usage file. In order for us to get information that is specific to the ALEC, what we had to do was develop additional computer program software and it uses resources to process the data, so it's that cost. It's not the actual recording of the message, that is already taken care of. But this would be the costs of getting that billing data processed so that we can supply that billing data to the ALEC.

Q Okay. And before we talk about the specific rates, what is ODUF?

A Optional daily usage files.

Q And how does that differ from an access daily usage file?

A The optional is going to be to the best of my recollection -- I always have a problem with this one -- is just the local usage component associated with the usage data,

I believe.

Q So if I either wanted to offer a local measured type of service, or wanted information about the volumes of local calls my customers were making, the ODUF would be the source of the data to give me that information?

A Yes. I'm also thinking that in terms of the ODUF, the ODUF would not necessarily be something you have to have. If you were billing like on a flat rate, you would not need that particular component. I knew there was a -- it took me a minute to kind of remember, but there is a difference there when you are talking about the local. But if you wanted to bill on a per minute of use, then that would be the type data.

Q Okay. And the per -- the ADUF rates are charged essentially on a per record processed and delivered type of basis, a usage basis?

A Yes.

Q All right. And my understanding is to develop that rate you calculated the total incremental cost of providing the billing data and then divided by a projected number of units, is that right?

A That is correct.

Q Okay. And the rates that were filed in Florida, are those -- the rates that were filed in Florida and essentially approved by the Commission with some very minor modifications, are those based on the most current vintage you have of demand

data?

A No, the original ones that were filed in Florida were the time frame in which the studies were conducted and provided to the Commission. So that data was in the -- I think those studies were 2000 through 2002, so the data that went into those studies were probably -- I filed those studies in May. Excuse me just a minute. About the '99 time frame data.

Q All right. And isn't it true that since 1999 your experience is that there is a lot more demand for this usage data than you had projected at that time?

A Yes. Basically what happened was with the opening of the market to the UNE-Pand the resale switching to UNE-P, we saw that particularly the access daily usage, the ADUFs went up. So in the September 24th filing, the 120-day filing in the original UNE docket, based on the demand I had at that point in time, I updated the cost studies for the Commission to review again the data at that point in time.

Q Let me be clear. In the filing you made last month, in the 120-day filing you updated the ADUF rate based on newer volume data?

A Yes. What had happened is since the original hearing in the Florida, we had moved in generic dockets in Louisiana and other states and we had determined that there had been a change in the demand. So I used that 120-day filing as a mechanism to notify the Florida Commission of the change.

Q Do you as we sit here today have even more recent demand data than what you filed last month with Florida?

A I have just determined some new data that we have used in Georgia, and I am analyzing it right now, because the Georgia study that we filed on October 1 is a complete from scratch everything brand new. Every factor, every piece of information because of the time frame, we had like a year and a half in the difference of the filings, so I'm looking at not only the demand, but the other components of the ADUFs to look at those. And we will, of course, notify the Commission if there is something to be considered there.

Q Would you accept subject to check that the ADUF rates that you filed this month in Georgia, that the currently approved Florida rate is about seven times that newly proposed Georgia level?

A I do know it's higher, I do not know if it is that amount. Like I said, I just realized that there was a difference, and there are certain things that have to be considered other than just the demand. It's not as easy as plugging in the demand numbers, because some of the material prices associated with the computer resources have changed, so I'm analyzing all of that and will hopefully have a -- but I'm going to share it with the Florida Commission as soon as I can get that resolved.

Q Based on the best information available to you today,

is it fair to say that the rates that this Commission set for the ADUF files are probably not TELRIC-based as we sit here today?

A No. The rates which the Commission set at the time based on the data that was available and the time frame that you are looking at, because costs change over time, we know that, that is just a fact of life. And so based on the information provided to them, the study was based on forward-looking technology, it followed the TELRIC principles and that was the most currently available data. So they issued an order based on the accurate information at that point in time. So the order as it stands is a valid TELRIC cost study, and even if you look at some I did bother to look at, I believe Texas and New York, you know, the rates are in line in some of those areas, so that gives me a little comfort in terms of the overall impact here. But as I have moved forward since the docket is still going on, I do know that there is a change in this demand, I am definitely going to let the Commission know that. But that does not mean that the rates that they have set was not TELRIC compliance. They followed all the rules and the regulations on the information available. And, of course, in September they can -- in our January hearings we can discuss it and if they want to revise the rate, they perfectly have the right to.

Q But if my interpretation of the Florida and Georgia

numbers is correct, the ADUF rates have -- what you believe are TELRIC-based ADUF rates have decreased by a factor of seven times between May of this year and October of this year?

A The rates have decreased, but I told you there was a significant reason for that. It was a major change in the market that was not foreseen in the time frame in which the studies was originally filed.

MR. MELSON: Give me just a minute. That's all I've got. Thank you.

THE WITNESS: Thank you.

CHAIRMAN JACOBS: Mr. Lamoureux.

MR. LAMOUREUX: It looks like I'm the last man standing at the table here on this side.

CHAIRMAN JACOBS: Why don't we take a few minutes break. The court reporter has been going for awhile, why don't we take a few minutes break and we will come back in ten minutes.

(Recess.)

CHAIRMAN JACOBS: Okay. Mr. Lamoureux.

CROSS EXAMINATION

BY MR. LAMOUREUX:

Q I think it is officially good evening, Ms. Caldwell.

A Good evening.

Q I am Jim Lamoureux, I represent AT&T. Let me just ask a couple of questions on the new combinations issue. We

mentioned Louisiana and Georgia, isn't it also correct that in Tennessee BellSouth was required to provide all combinations that it ordinarily combines in its network?

A I don't remember. It's possible.

Q Generally, the source of the rates that are included as the attachment to the SGAT behind Ms. Cox's testimony, those I think I heard you say were BellSouth's proposed rates from the UNE docket, right?

A In the ones that are in her attachment now, yes.

Q So there is nothing in the record right now that reflects the rates that the Commission has actually adopted in the UNE docket or in the Covad arbitration, right?

A I do not believe so. And I guess as one thing in terms of clarification in terms of adopting rates in Covad, my understanding is, and I only got the word last night, so I've only really looked at it, they don't really have rates yet. They have laid out procedures and I need to file cost studies in 30 days and then they will set rates.

Q But at some point rates will be finally adopted in that arbitration, right?

A That is correct.

Q And I just want to make clear, the rates that are in docket here today, they are not the rates that have been generated from the UNE docket and they are not rates that at some point will be generated in the Covad docket?

A That is correct, but I think Ms. Cox pointed out that she will update the SGAT once the Commission has a final ruling on their rates in the UNE cost docket. And also in terms of the Covad arbitration, I'm not sure exactly what the procedures will be on that, but if they have ordered any changes to the cost studies, I will, of course, incorporate those into the cost studies here. So as far as I'm concerned, the cost studies will be the same when we finish Covad and this docket unless the staff and/or Commission orders some -- the staff recommends and the Commission orders some additional changes and I would incorporate those, too.

Q I want to talk a little bit about the daily usage files.

A Okay.

Q And just to make sure I understand the chronology, on September 24th in Georgia, BellSouth made a filing to reduce the DUF files contained in its SGAT in Georgia, is that right?

A I don't remember the September 24th. I actually thought it was a little bit earlier than that. Where we just reduced a couple of the rates, it was done like in a letter format?

Q I'm sorry, there was another filing on September 25th. But there was a filing I think maybe in August?

A I think so.

Q Where you reduced your DUF rates in the SGAT in

Georgia, right?

A Yes, that was to bring them in line with Louisiana. It would have also brought them in line with the numbers I filed in Florida here on September 24th.

Q And that was my next question. In the chronology you made a similar filing in Florida in what we call the 120-day filing that you made on September 25th or 24th here in Florida, is that right?

A That is correct.

Q And it is your testimony that the reason you reduced the DUF rates in Florida is the same essential reason you reduced the DUF rates in Georgia?

A Yes.

Q Now, you are participating in the BellSouth 271 application for Georgia at the FCC, are you not?

A Yes, I am.

Q And you filed an affidavit in that proceeding, correct?

A Yes.

Q Have you looked at the affidavits that other BellSouth witnesses have filed in that proceeding?

A Not in a lot of detail.

Q Have you looked at the affidavit that Ms. Cox filed in that proceeding?

A I thought at one time I had reviewed some of it, but

I haven't read it all in detail.

Q All right. Ms. Caldwell, what I have handed you is a copy of the Cox/Ruscilli -- I can't remember if it is affidavit or a declaration, but BellSouth included in its FCC 271 filing for Georgia, particularly Paragraph 26.

A Yes.

Q That paragraph describes what you and I have just been talking about where BellSouth reduced its DUF rates in Georgia, right?

A Yes.

Q And that paragraph doesn't say anything about BellSouth having forecasted different demand data and, therefore, reducing its DUF rates, does it?

A No, it just basically states that we have revised the rates and that a new TELRIC compliant cost study was done. I guess in terms of when the discussion was done, I knew that the demand had changed, so the costs would have changed.

Q And, in fact, doesn't that paragraph of the Ruscilli/Cox affidavit say that the reason that BellSouth reduced the DUF rates in Georgia was because the CLECs had complained that the rates were too high, and is that what the first sentence of that paragraph says?

A Yes, but I don't believe that is exactly what the affidavit says. The affidavit says that CLECs have complained that BellSouth's ODUF and ADUF rates in Georgia are excessive

and out of line with rates charged by BellSouth in other states. BellSouth addressed these concerns by filing a new TELRIC compliant cost study. So it just addressed them, they didn't lower the rates just to lower them. I actually did a cost study to be sure it was appropriate.

Q But the purpose for addressing the new rates was because the CLECs had complained that they were out of line with other states, isn't that what that affidavit says?

A At that point in time that is what brought it to the forefront.

Q Why did BellSouth decide to review the DUF rates in particular to look to see if any of the assumptions underlying the costs of the DUF rates needed to be revised?

A Basically, it goes back to the generic cost dockets that were in process. And I believe it was in the State of Louisiana when we were actually doing the cost study -- I think it was actually during the hearing process and looking at some data for some data requests we determined that the demand had changed. So at that point in time in all the generic cost dockets that were still open and operational, we submitted the cost study differences at that point. And this was also brought to the attention, and I can't remember exactly how, but it was the same intervenors, I guess, in each one of the cases, so it was felt that in Georgia the rates would have also been in question.

Q Has BellSouth reviewed all the other rate elements in Florida to see if there are any other assumptions underlying any of the other rate elements that need to be revised, as well?

A The ones in which I have known if there is anything that has changed since we actually filed, I have noted those. When I filed the 120-day filing in Florida, the only thing that had come about as a result of all the generic cost dockets, because that is where this one originated, too, we found the difference was in -- it had to do with a couple of the work times. And like a percentage of information that was in a data base I think was an example. So in the 125-day (sic) I provided that information to the Florida Commission, as well.

Q Now, I want to follow-up on that. The purpose of the 120-day filing as set forth by the Commission was for BellSouth to file a revised cost study with new material input prices, correct?

A That is correct.

Q And what you are telling me now is not only did you do that, but you also revised other cost assumptions in your cost study that have the effect of changing other UNE rates, as well, is that right?

A Yes. I took that opportunity to notify the Commission of where I knew that a change of significance would have occurred.

Q Aside from things that you have known about as a result of things that you have learned in these other cost dockets going on in these other states, have you sat down and done a comprehensive review of all the rate elements to make sure that there aren't any other cost assumptions that need to be changed?

A In fact, in pulling the Florida studies, no, I have gone back through every one of them. But in doing the bottoms-up study we restudied every loop, we looked at the non-recurring associated with it, and in preparing as we go into Georgia generic, if there was anything different that would have occurred in terms of the major information, we would have corrected that at that point.

Q For the ODUF files, you told Mr. Melson that there really wouldn't be need to buy those files unless we were providing measured service and needed to be able to see how much usage we were getting to be able to bill that measured service, correct?

A I believe that was right. It has been awhile since I have looked at that total definition, so if there was something I missed there, I apologize.

Q Well, wouldn't another purpose for us having to buy the ODUF files would be because those are the only files that we would get that we can use to verify the amount that you are billing us for switched usage?

A Yes, that could be a possible use, correct.

Q In fact, that is the only corroborating evidence that we could get to verify the bills that you send us for switched usage as a UNE, isn't it?

A I believe that would be the only source of the switched information.

Q Now, these usage files that we are talking about, those files are generated by the same BellSouth systems regardless of what state we're talking about the usages being used in, right?

A Yes.

Q So, the underlying costs of DUF files should not vary from one state to another, should it?

A The underlying resources like material prices and things like that will not. However, once the Commission sets such things as cost of money, depreciation, that is going to have an impact on the final cost results.

Q I want to ask a few last questions about comparison of the Florida rates and the New York rates that you have in your surrebuttal testimony. And Mr. Melson asked you a little bit about those. You agree with me that all you have got set forth on Page 12 of your surrebuttal are the rates for the loop and the port pieces that an ALEC would need to buy to be able to provide service using UNE-P, right?

A That is correct.

Q But in order to actually provide retail service using UNE-P there are other things that an ALEC would have to buy from BellSouth and pay BellSouth UNE rates, correct?

A Yes, we have talked about those, switching in particular.

Q And when you say switching what you mean is the usage component on a per minute basis for switching that we would have to pay you, right?

A The end office switching, and also you would have the common transport which is on a per minute of use per month.

Q Okay. For the usage components we would have to buy switching from you and we would have to buy transport from you, correct?

A Correct.

Q Assuming the customer wants to keep his telephone number, we would also have to pay for number portability, correct?

A I get a little confused on exactly how the local number portability rates because of the FCC rates are actually applied.

Q But there are rates in what you filed as Attachment A to the SGAT for number portability that ALECs pay to BellSouth, aren't there?

A I'm kind of hesitant here because I actually thought that the numbers that is associated with those LNP is actual

access to the database itself. I would have to look back at that, I don't believe they are on a per user base.

Q Okay.

COMMISSIONER DEASON: Let me ask a question. I thought customers were already paying for that?

THE WITNESS: That's what I mean. The FCC charge of 35 cents or whatever it is actually covers the cost of the local number portability. What is in this is if for some reason the ALEC wanted access to the local number portability database for some purpose. And so it's a separate element that they could buy. It's not the local number portability that is recovered in the FCC charge.

MR. LAMOUREUX: I confess, I have always been confused with the number portability charge in the UNE dockets was for.

BY MR. LAMOUREUX:

Q Why would we want to access the number portability database?

A I have to admit, I have never quite understood it, either. But, it's one of those -- I think it's one of those things that when the FCC actually talked about having access to all databases, they just considered that as a possible option. And so we have looked at it, we have had no requests for it as I know yet.

Q Well, and then another rate that we would have to pay

is assuming that we want to be able to bill access in the event that one of our customers picked somebody else as an interexchange carrier, we would obviously have to pay for ADUF, right?

A Correct.

Q And if one of our customers decide to take some vertical features, we would have to pay you more money in order to buy vertical features from you as a UNE, correct?

A From the access, correct. Access to vertical features, I mean.

Q Have you calculated the total amount -- let me back up. Those are just all the recurring rates that we would have to pay in order to be able to provide service using UNE-P, correct?

A Correct.

Q There are also nonrecurring rates associated with loop and port, and also there is an OSS nonrecurring charge that we would have to pay, as well, is that correct?

A There is a switch as-is, which is basically the cost of the translation, which is a very small number in UNE-P, and then you have the N element, which is the labor associated if you have any fallout. We call that service order mechanized. So I guess I need to be clear that in that rate there are no OSS electronic interface costs in Florida.

Q Have you done any sort of an analysis to see what an

average total amount per month call connectivity charge would be that we would have to pay BellSouth on average to be able to use UNE-P to provide service in Florida?

A No, I haven't.

Q But it would be higher than the -- looking at Zone 1, you would agree with me it would be higher than the $14.11 that is just for the loop and port?

A Oh, yes, I agree. I mean, that comparison I want to be clear, was only just talking about the UNE-P rate itself. There was nothing else.

Q Well, you keep saying UNE-P, and I want to be a little more specific. It is specifically just the loop and the port?

A The loop and the port, correct.

Q Could it be as high as $30 for all the things that we would have to buy to be able to provide service?

A I would have to look at it and have to look at the zone. The one piece of information you really need is the typical local usage, and that is very unique per state.

Q Another thing, if we didn't have our own operator services and directory assistance and we wanted to use that from you, we would have to pay UNE rates to gain access to OS and DA, as well, correct?

A Well, you have access to your operator services, but in terms of operator services those are your cost-based rates,

those are your market-based rates for operator services and direct DA.

Q I just want to make sure, OS/DA is another cost whether we are providing it ourselves or buying it from somebody else that we would have to incur somehow, as well?

A Yes. I just wanted to clarify it is not in my cost studies.

Q Do you have any idea how high the total amount of cost on average could get to be able to provide service using UNE-P?

A No, I would have to sit down and calculate it. I just don't know.

Q Now, I want to specifically talk about the New York rates that you have got there. Where did you get the New York rates that you have got listed at Page 12 in your surrebuttal?

A New York basically has a tariff. I believe the tariff is actually on their website.

Q Okay. Can you tell me what rate elements -- well, let me back up. Are you aware that in New York there is no charge for a combined loop and port, that the way you get the loop and port rate is to add the rate for the loop and the rate for the port?

A Yes. And that's what I should have done here. That's what I meant to do here.

Q Well, in our regions in most of the states it's a

little bit different, there is actually a loop and port rate that is somewhat different than simply adding the rates together for the loop and the port.

A That's correct.

Q But in New York there is no separate combined loop and port rate, you just add the loop rate and the port rate together?

A That's correct.

Q Okay. Can you tell me what loop rate element you looked at and what port rate element you looked at to get this rate in New York?

A It has been a long time since I looked at the tariff. I just can't remember sitting here, but it was specified as the loop, that's all I can remember.

Q Well, are you aware that in New York there is a loop rate element called a two-wire analog link DS-0, and then there is a two-wire analog link DS-1. And my question is do you know whether you looked at the DS-0 or the DS-1 on the loop side?

A I remember looking at the two-wire analog loop, I just don't -- I wouldn't have looked at the DS-1.

Q And that's my question, are you aware that in New York it is actually the DS-1 loop rate that you would use for UNE-P? The DS-1 doesn't refer to the type of loop, it actually refers to the type of loop that was in the cost model?

A I just don't know, I can't remember.

Q How did you find the tariff with the rates in New York?

A Basically, the version that I had was actually delivered to me by someone in our federal regulatory department that actually -- and I'm not sure where they actually obtained it from. That was the one we looked at.

Q I take it you sent out a query, what are the UNE-P rates in New York, and somebody went and tracked them down for you, is that basically how it went?

A Not exactly. In fact, the federal regulatory department was actually looking at rates in Texas and New York and some of the other areas in the 271. And one of the things that they needed to do that was to look at the New York tariff, so that was -- they had that.

Q One of the answers I tried to take down that you gave to Mr. Melson, and I've got it paraphrased a little bit, is you said you had some confidence in the Florida rates because they are in line with what you found to be in the New York rates, is that right?

A Yes.

Q Are you aware that there is an on-going UNE case in New York to revise the rates that are in the tariff in New York?

A I was aware that they are looking at costs again in New York. But, again, these were the rates that were in

effect, and we are talking about 271 here, so I looked at the rates that were in effect when 271 went into place.

MR. LAMOUREUX: Ms. Caldwell, what I have handed you is a document -- and actually I would like to have this marked as the next exhibit, 19 maybe.

CHAIRMAN JACOBS: Yes, marked as Exhibit 19.

(Exhibit 19 marked for identification.)

BY MR. LAMOUREUX:

Q It is labelled second errata notice dated June 6th, 2001, from the State of New York Public Service Commission, Case 98-C-1357, proceeding on motion of the Commission to examine New York telephone companies rates for unbundled network elements. And if you look at the couple of paragraphs on the front page, would you agree with me that this is the staff recommendation in this docket for -- well, actually it's an errata notice to the original staff recommendation as to what staff recommends the rates to be in this docket?

A That's what it appears to be, yes.

Q All right. If you would turn a couple of pages in, what is labelled in the upper right-hand corner as Appendix C, Schedule 1, Page 1 of 20. If you look down four lines with me where it says two-wire analog link DS-1, Density Zone 1A.

A Yes.

Q The RD, the recommended decision is $6.95, do you see that?

A Yes.

Q If you will accept with me that that is the loop rate that goes with UNE-P, and you look at Page 5 at the digital line port density Zone 1A, and the recommended rate of $1.35, and you add those two together to get $8.30. If you assume with me that that is the rate for the combined loop and port in the most dense density zone in New York, would you agree with me that that rate is no longer substantially in line with the combined loop/port rate for Zone 1 in Florida, assuming that this is the rate that ends up getting adopted in New York?

A I would agree that that number is definitely very different than the 14.33 that was originally filed, but I think we have to look at the point in which the statement that I have made here that where the 271 was granted at the point in time in which it was granted, these were the rates that were in effect in New York, and that was all this page was supposed to identify.

In terms of what New York has done, what assumptions they have made in terms of cost of money, depreciation, and the underlying assumptions, anything can be done to change these individual numbers. So I do not feel that this has any bearing on the fact that the Commission actually did set the appropriate cost-based rates for their state.

Q Did you do any research to determine what had happened in New York since the tariff rates had been put in

place, why this case might have been initiated, you know, what inputs might have been considered in this case, anything like that?

A I have tried at several points in time to get cost studies from other states, and usually I am very unsuccessful because that is mostly proprietary data. So I don't really go much farther than that, since we have run into so many roadblocks.

Q Just a couple of last questions. The rate for just the loop and the port in Zone 1 is $14 in Florida as it stands, $14.11 as it stands today after the motion for reconsideration, right?

A Right.

Q In the 120-day filing that you all made, if the Commission adopts the inputs that you have recommended in that, that would actually increase that rate even further, wouldn't it?

A Yes, the bottoms-up approach did deliver a higher rate.

Q Move it up to as much as $15?

A It was in some cases as much as 20 percent, so that could be about right.

Q And that is the lowest zone rate for just the combined loop and port, right?

A For Zone 1, correct.

Q And the highest residential retail rate that BellSouth charges in Florida is $10.81, is that right?

A Ms. Cox talked about those, so whatever she said.

MR. LAMOUREUX: That's all I have. Thank you very much.

CHAIRMAN JACOBS: Ms. Kaufman, do you have an idea how long you will be?

MS. KAUFMAN: I just have one or two questions, I think, that we could finish up.

CHAIRMAN JACOBS: Okay.

CROSS EXAMINATION

BY MS. KAUFMAN:

Q Good evening, Ms. Caldwell. And they just relate to some answers that you gave a little bit ago to Mr. Lamoureux's questions about the Covad arbitration. I may have written this down wrong, but I think you told him that if the Commission had ordered changes to Bell's cost study in that proceeding that you would incorporate them here. Was that your testimony?

A Yes. I'm not sure exactly how the time frame on that would be, but any changes the Commission orders in a cost study I am going to incorporate it into every one of that type.

Q Now, BellSouth filed a cost study for line sharing in the Covad arbitration, correct?

A Yes.

Q And are you aware that in that arbitration the

Commission ordered changes to BellSouth's study?

A Yes.

Q And similarly you filed a cost study regarding collocation in that arbitration, correct?

A Correct.

Q And the Commission ordered changes to your collocation cost elements in that case, did they not?

A Yes.

Q And ultimately you will come up with the rates that result from the Commission's decision, correct?

A Correct.

Q And they are not the rates that you have filed in this proceeding?

A Yes, because the order didn't come out in time for me to get any type of those changes into this hearing.

Q Do you know when the vote was in that case?

A I do not know. I only saw the order last night.

Q Okay. Well, would you accept subject to check that it was mid-September?

A I don't know, I just don't know. I work off the final order as to what I'm supposed to include in my study.

Q So if the recommendation came out mid-September and you were advised of the Commission's decision you would still wait for the final order before attempting to do anything with those Commission-approved rates?

A I believe so, especially having read that Covad order. There was a lot of changes to the cost studies that are going to take me quite a substantial amount of time to incorporate into the study.

Q The reason for this line of questioning was just to be sure that we were clear that it was not if the Commission ordered changes, but they have ordered changes to those studies, and I just want to be sure that you agreed with that?

A Oh, no, I didn't mean to imply if. Yes, I do know they have ordered changes, and I will make all of those changes in the Covad studies, and I will incorporate those changes into here. I believe when I used the word I said if was, say, for instance, the staff or Commission was to rule -- staff recommend and the Commission rule on possible changes, additional changes that they found here, I would incorporate all of those at any point in time, too.

Q I understand. I just wanted to clear about the effect of the Covad arbitration, and the fact that it is not, as we sit here today, incorporated in the rates that we are discussing here?

A That is correct.

MS. KAUFMAN: Thank you.

CHAIRMAN JACOBS: Staff.

CROSS EXAMINATION

BY MS. KEATING:

Q Good evening, Ms. Caldwell.

A Good evening.

Q And let me preface my questions by saying I'm sorry if I'm beating a dead horse, but I'm just still not real clear when and how you plan to update your cost studies and SGAT for that matter. The Commission made changes in the UNE docket on reconsideration fairly recently, and is it correct you do intend to make changes to your cost study to incorporate those changes, right?

A Okay. Wait a minute.

Q On reconsideration --

A On the reconsideration the Commission actually issued rates, and those rates -- if they don't require me to make a new cost study run, these rates are the rates that will be incorporated into the SGAT.

Q You are not going to plan to make any changes to your cost study, though, in this docket to sync it up with the changes that were made in the UNE docket, just to the SGAT, you are just going to incorporate the rates in the SGAT?

A For the rates that were in the reconsideration, like the existing loops and ports, the A1 loop, the stand-alone loop, the UNE port/loop, all of those, that will be the rates in the recon, and they will be incorporated into the SGAT.

Q Okay. When do you plan to do that?

A I don't know if there is an exact schedule on that, I

will have to get with Ms. Cox and discuss when we will do that.

Q Do you know how BellSouth plans to submit that in this proceeding?

A I'm afraid not.

Q How about the changes as a result of the Covad decision, do you know when BellSouth plans to submit that?

A Well, in terms of the Covad decision, I am at a little bit of a loss there exactly when to submit those, as well. Because the order gives 30 days from the date of the order to do a cost study, and one of the things in that order is, like, I've got to change the type splitter, so I've got to gather some information on splitter prices, things of that type. And that is going to take me awhile to do that. It's not something I have like readily available on the shelf, and to lay those down. So I felt that that would be some time to actually do those studies. And then once I have them ready, we will definitely make the 30-day filing. And I was hoping at that point in time they would be incorporated into this docket as the appropriate cost studies.

Q So you would anticipate doing a simultaneous filing in the Covad docket and this docket?

A I would hope so in terms of the line sharing and collocation elements associated with -- and at that point in time I could also make the -- the only thing left is the unbundled copper loop nondesigned, so the only thing I would

have to do would be to incorporate the change for the reconsideration, and I could do that at that time point in time for my cost studies.

Q Well, I just have one more question, then, and this is on a different topic. What are BellSouth's recurring and nonrecurring rates for OLNS, are there any?

A I do not know.

Q Do you know where we could find those?

A No, I do not.

Q Do you know another witness that could answer the question?

A No, I really don't. I mean, I would be glad to find out for you myself, I just can't tell you today.

MS. KEATING: I hate to do this, but I would like to ask for a late-filed hearing exhibit. And, Mr. Chairman, if I could have that identified, I believe it would be Number 20.

CHAIRMAN JACOBS: Show that marked as Late-filed 20.

MS. KEATING: And it could just be recurring and nonrecurring rates for OLNS.

(Late-filed Exhibit 20 marked for identification.)

CHAIRMAN JACOBS: OLNS?

MS. KEATING: OLNS, yes, sir.

And with that, thank you, Ms. Caldwell, that is all that staff has.

THE WITNESS: Thank you.

CHAIRMAN JACOBS: Very well. Commissioners.

COMMISSIONER PALECKI: I have just one question. I believe that you agreed on cross-examination by one of the parties that in Tennessee there was a ruling by the Commission that UNE combinations that are, quote, ordinarily combined, end quote, were allowed by that Commission.

I was under the impression that there was binding legal precedent that required the state commissions to rule that ALECs are only entitled to combinations of UNEs that are, quote, actually combined, end quote. Do you know the status of that Tennessee ruling? And, if not, I will just ask the parties to brief it.

THE WITNESS: Okay, because I do not know the status. I wasn't really clear on that particular one.

COMMISSIONER PALECKI: If the parties could brief that issue, I would appreciate it. That's all I have. Thank you.

CHAIRMAN JACOBS: Ms. Caldwell, very briefly, in the recent reconsideration we had a great discussion about your implementation of inflation.

THE WITNESS: Yes.

CHAIRMAN JACOBS: And it was my understanding that in your calculations the telecommunication indexes do not have, they do not incorporate estimates of productivity or economies in those indices. Are you familiar with what I'm speaking of?

THE WITNESS: Yes, I am familiar with that.

CHAIRMAN JACOBS: And is it your understanding as well that those are not included in those inputs?

THE WITNESS: In terms of the telephone plant indices?

CHAIRMAN JACOBS: Yes.

THE WITNESS: The ones that we use are the ones that are applied against material prices, so it's not going to reflect any productivity associated with the BellSouth people installing the efficiency.

CHAIRMAN JACOBS: And does your labor inflation rates do that also?

THE WITNESS: The actual labor itself just takes into consideration the increase in the labor rate that we actually pay the individuals. There is not productivity in that, that is associated in adjustments to the work time.

CHAIRMAN JACOBS: Thank you. Redirect.

MS. WHITE: Thank you.

REDIRECT EXAMINATION

BY MS. WHITE:

Q Ms. Caldwell, I just have a couple. The rates that are currently in the SGAT now, are those cost-based rates?

A Yes, they are. They are cost-based in that they are based on proposed cost studies. They are not the rates, though, that the Commission has approved as a result of their

TELRIC docket.

MS. WHITE: Nothing further. Thank you.

CHAIRMAN JACOBS: Exhibits.

MR. LAMOUREUX: AT&T would move Exhibit, I think it was 19.

CHAIRMAN JACOBS: That's correct. Without objection show Exhibit 19 is admitted.

(Exhibit 19 admitted into the record.)

MS. WHITE: And BellSouth moves Exhibit 18.

CHAIRMAN JACOBS: Without objection show Exhibit 18 is admitted.

(Exhibit 18 admitted into the record.)

CHAIRMAN JACOBS: Staff, you had Exhibit 2 that was to be admitted?

MS. KEATING: Yes, sir. Actually at this time we would ask that Hearing Exhibit 2 be moved into the record with the clarification that it does not include Item 3 on Point 1, which is BellSouth's responses to FDN's first request for production of documents.

CHAIRMAN JACOBS: Any objection? Without objection, then, show that Exhibit 2 is admitted as modified.

(Exhibit 2 admitted into the record.)

MS. WHITE: May Ms. Caldwell be excused?

CHAIRMAN JACOBS: She may. Thank you, you are excused, Ms. Caldwell. That takes us through the evening. We

will recess now and congregate again at 8:30 in the morning.

(The hearing adjourned at 6:13 p.m. to reconvene at 8:30 a.m., Friday, October 12, 2001 at the same location.)

(Transcript continues in sequence in Volum 5.)

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Office of Hearing Reporter Services, FPSC Division of Commission Clerk and Administrative Services, do hereby certify that the foregoing proceeding was heard 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 constitutes a true transcription of my notes of said proceedings.

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 15th day of October, 2001.

JANE FAUROT, RPR
Chief, Office of Hearing Reporter Services
FPSC Division of Commission Clerk and
Administrative Services
(850) 413-6732