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June 26, 2001

Mrs. Blanca S. Bayó
Director, Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 990649-TP (UNEs)

Dear Ms. Bayó:

Enclosed please find the original and fifteen copies of BellSouth Telecommunications, Inc.'s Motion to Conform Staff Analysis and Cost Model Run to Order No. PSC-01-1181-FOF-TP which we ask that you file in the above referenced matter.

A copy of this letter is enclosed. Please mark it to indicate that the original was filed and return the copy to me. Copies have been served to the parties shown on the attached Certificate of Service.

Sincerely,

Nancy B. White
Nancy B. White (KA)

cc: All Parties of Record
Marshall M. Criser III
R. Douglas Lackey

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**CERTIFICATE OF SERVICE
Docket No. 990649-TP**

I HEREBY CERTIFY that a true and correct copy of the foregoing was served via

U.S. Mail this 26th day of June, 2001 to the following:

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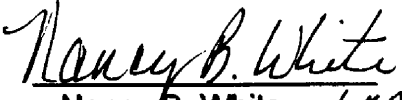
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into)
Pricing of Unbundled Network) Docket No. 990649-TP
Elements)
_____) Filed: June 26, 2001

**BELLSOUTH TELECOMMUNICATIONS, INC.'S
MOTION TO CONFORM STAFF ANALYSIS AND
COST MODEL RUN TO ORDER NO. PSC-01-1181-FOF-TP**

BellSouth Telecommunications, Inc. ("BellSouth") respectfully requests that the Commission direct the Staff to conform its analysis and cost model run to the provisions of Order No. PSC-01-1181-FOF-TP in Docket No. 990649-TP In re: Investigation Into Pricing of Unbundled Network Elements ("UNE Order"). In reviewing the Staff's analysis and cost model run issued after the adoption of the UNE Order, BellSouth has determined that there are several inconsistencies between the Staff's cost model run and the Commission's order. BellSouth is not in any way suggesting that the Staff intended to deviate from the UNE Order. Rather, in implementing the various adjustments ordered by the Commission, certain errors appear to have been made.

In the UNE Order, the Commission stated the following concerning BellSouth's development of shared and common factors:

[W]e find that no appropriate adjustments to the shared and common cost factors have been identified, other than any adjustments that may be necessitated to remove inflation for the reasons identified in the previous sections of this decision. Thus, for purposes of this cost study, BellSouth's shared and common cost factors are accepted. Again, we note that the inflation and deflation factors have also been removed from the shared and common cost portion of the cost study.

UNE Order at pp. 281-282. BellSouth interprets this statement to mean that the only ordered adjustment to the shared and common factors is the removal of the impact of inflation.

Subsequent to the issuance of the UNE Order, the Commission Staff released a list of adjustments that reportedly implements the Commission's decisions. (Staff Memorandum, dated May 31, 2001) There appears to be a conflict between the above statement made by the Commission and certain of the Staff's adjustments.

Under the Shared and Common Cost Factor section, the Staff states that "the changes made above flowed into the shared and common cost calculator, the values were overridden to reflect those initially filed by BellSouth." Staff Memorandum at p. 4. BellSouth's Shared and Common cost model is specifically designed to "flow-through" cost of capital and depreciation inputs. To do otherwise would create inconsistencies on the cost results. The Commission, however, concluded that the only adjustment to the shared and common factors would be the elimination of the impact of inflation/deflation. The Staff's analysis appears to disregard the Commission's rulings on depreciation and cost of capital when developing the shared and common factors. Therefore, in the Staff's analysis and cost model run, depreciation and cost of capital should be reflected in the adjusted shared and common factors.

It also appears that the Staff did not implement the Commission's directive with respect to the elimination of the impact of inflation because the Staff merely set the shared and common factors to those filed by BellSouth. The development of the Shared and Common cost factors uses Current Cost/ Book Cost ("CC/BC") ratios in order to bring all investments to the same vintage. In fact, the Commission discussed CC/BC ratios in the Order ("[t]he Current Cost/Book Cost ratios represent weighted averages or composite Telephone Plant Indices (TPIs) of all existing historical vintages." UNE Order at p. 225). Because TPIs are indicative of inflation, the

CC/BC ratios already reflect an impact of inflation and, to be consistent with this Commission's Order, the CC/BC ratios should be eliminated. The Staff has not done this. The Staff, in fact, recognizes that CC/BC ratios must be set to 1 in order to remove the effect of inflation in the context of the Plant Specific factors. In the copy of the Staff's file PLSP99Ey2.xls, the file that calculates the Plant Specific factor, the CC/BC ratios have been set to 1. (Attached) It is BellSouth's opinion that the same treatment of CC/BC ratios should apply to the Shared and Common factors.¹

The Staff's analysis and cost model run also appears to have changed the economic life for Analog Switching from 1.6 years (as filed by BellSouth) to 7.5 years. Nowhere in the UNE Order did the Commission disapprove of BellSouth's proposed economic life for Analog Switching. Accordingly, BellSouth's proposed economic life should be included in the Staff's cost model run.

One final issue relative to the Staff's cost model concerns an apparent error in the UNE Order relative to Submarine Cable Fiber. The Commission expressly adopted BellSouth's proposed lives for the fiber cable accounts. UNE Order at p. 145 ("For the fiber cable accounts, we find it appropriate to use BellSouth's proposed lives from its 2000 Florida Depreciation Study"). BellSouth proposed a 15 year life for Submarine Cable Fiber. Yet, the chart on page 146 of the UNE Order entitled "Comparison of Lives" incorrectly lists BellSouth's proposed life for such cable as 20 years. In its cost model run, the Staff has picked up the incorrect 20 year life for Submarine Cable Fiber. The Commission should correct the "Comparison of Lives" chart to conform to its decision to accept BellSouth's proposed life for Submarine Cable Fiber (15 year life) and direct the Staff to use the correct figure in its cost model run.

¹ This is not an endorsement of the removal of inflation from the cost development process. BellSouth maintains that inclusion of inflation in both recurring and nonrecurring cost development is appropriate.

BellSouth is continuing to analyze the Staff's analysis and cost model run. It is possible that additional issues may arise. BellSouth will notify the Commission of any such issues.

CONCLUSION

For the foregoing reasons, the Commission should grant BellSouth's request for an order directing the Staff to conform its analysis and cost model run to the provisions of the UNE Order.

Respectfully submitted this 26th day of June, 2001.

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