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January 28, 2002

Mrs. Blanca S. Bayó
Director, Division of the Commission
Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 990649A-TP (UNE Docket)

Dear Mrs. Bayó:

Enclosed is an original and fifteen copies of BellSouth Telecommunications, Inc.'s Motion for Leave to file Amended Cost Study and Testimony which we ask that you file in the captioned docket.

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,

Andrew D. Shore

Andrew D. Shore
(2L)

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

CERTIFICATE OF SERVICE
Docket No. 990649A-TP

I HEREBY CERTIFY that a true and correct copy of the foregoing was served via Email and Federal Express this 28th day of January, 2002 to the following:

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Andrew D. Shore (SL)

(+) Signed Protective Agreement

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into pricing of unbundled network element)	Docket No.: 990649A-TP
)	Filed: January 28, 2002

BELLSOUTH 'S MOTION FOR LEAVE TO FILE AMENDED COST STUDY AND TESTIMONY

BellSouth Telecommunication, Inc. ("BellSouth") hereby respectfully moves pursuant to Rule 28-106.204 of the Florida Administrative Code for leave to file its amended cost study and testimony and exhibits that it amended as a result of its amended cost study. In further support of this motion, BellSouth shows the Commission that:

1. By letter dated January 24, 2002, BellSouth advised the Commission and the parties that it was revising certain inputs into its cost study filed in this proceeding in order to correct errors discovered during the course of this case. The letter, which is attached hereto and incorporated herein by reference, explains the reasons for those changes.

2. BellSouth served the parties electronically with a file containing its revised inputs on January 24, 2002.

3. On January 25, 2002, AT&T and MCI served BellSouth with data requests seeking information regarding BellSouth's revised inputs. BellSouth served responses to those data requests on Monday, January 28, 2002, answering all of AT&T and MCI's questions.

4. AT&T and MCI have stated that they may request permission to present live rebuttal testimony at the hearing dealing specifically with the issues of BellSouth's revised inputs. BellSouth would not object to that request.

5. BellSouth's cost witness, Daonne Caldwell amended her testimony to make it consistent with BellSouth's revised inputs. Redlined copies of Ms. Caldwell's amended direct and surrebuttal testimony are attached. Exhibits DDC-1 and DDC-3 to Ms. Caldwell's testimony have also been amended to reflect the cost model run with the revised inputs.

6. BellSouth seeks permission to file its revised cost study and exhibits so that it may enter them into the record in this proceeding.

7. The revisions were made in order to correct errors discovered during the course of this case. Also, BellSouth answered immediately the ALECs' questions about its revised inputs and does not object to them presenting live rebuttal testimony on these issues.

8. Pursuant to Rule 28-106.204(3) of the Florida Administrative Code, BellSouth conferred with counsel for AT&T and MCI regarding this motion and they advised that their clients do not have a position with respect to this motion.

Respectfully submitted this 28th day of January, 2002.

BELLSOUTH TELECOMMUNICATIONS, INC.

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January 24, 2002

Mrs. Blanca S. Bayó
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Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
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Re: Investigation into Pricing of Unbundled Network Elements (BellSouth Track), Docket No. 990649A-TP

Dear Mrs. Bayó:

The purpose of this letter is to inform the Commission and parties to this proceeding of changes BellSouth has made to certain inputs in its cost-study filed in this proceeding and to explain the reasons for the changes.

First, the engineering factors BellSouth used in its original cost study are the same factors used in BellSouth's internal cost estimating system, OSPCM. In gathering information for a Staff-requested late-filed deposition exhibit, BellSouth learned of a discrepancy in the way the OSPCM system applies the factors and the way the BSTLM© applies the factors. The engineering factors in the OSPCM are applied to Telco labor plus contractor costs. The BSTLM©, however, was programmed to apply the factors to Telco labor, contractor costs, and material cost. Thus, application of the factors from BellSouth's OSPCM resulted in an overstatement of the engineering costs for copper and fiber cable accounts. In order to address this problem, BellSouth has developed engineering factors based on relationships between engineering costs and total non-engineering investments for each plant account. A worksheet setting forth the development of these factors is attached.

Second, BellSouth has made two of the BSTLM© logic changes addressed by Mr. Pitkin in his rebuttal testimony and by Mr. Stegman in his surrebuttal testimony. Those two changes address the cell reference problem with the fiber cable, EF&I calculation and the cell reference problem with the structure sharing calculation.

Third, BellSouth is correcting an error with respect to Feeder/Distribution Interface (FDI) placing hours. BellSouth uses contractors to place FDI's with placement costs based on the weight of the cabinets. Since the BSTLM input tables for FDI placement assume Telco placement, BellSouth had to convert contractor costs to Telco placement hours by dividing contractor costs by the Telco labor rate. BellSouth made an error in that calculation, resulting in a slight overstatement of FDI cost. BellSouth's revised inputs reflect the a correction of the referenced error.

Lastly, BellSouth changed inputs regarding its underground excavation costs and manhole costs. BSTLM© calculates all conduit duct costs, underground excavation costs and manhole costs as engineering, furnished and installed (EF&I) (rather than distinguishing between material and labor), because BellSouth's contracts with outside vendors provide for these items on a furnished and installed basis that includes the material and labor associated with installing the material. Since the BSTLM© applies loadings (e.g., sales tax, exempt material, supply expense) to material only, this would result in an understatement of these miscellaneous loading costs in the BSTLM©. BellSouth developed a 4C loading factor to account for these loadings and applied that factor to the BSTLM inputs in its cost study filing in this proceeding. BellSouth later learned that this loading was not applied to Type 1 and Type 2 manholes or to the underground excavation costs per foot. BellSouth is correcting this problem by applying the loading to all manhole sizes, to duct costs per foot. and to underground excavation costs per foot. BellSouth is also revising manhole costs as set forth in the surrebuttal testimony of BellSouth witness Daonne Caldwell.

BellSouth is in the process of re-running its cost models with the revised inputs discussed above and plans to file an amended cost study as well as an amended Exhibit DDC-3 to Ms. Caldwell's testimony. However, due to the processing times associated with running the cost models and the logistics of making electronic copies and transporting them to Tallahassee, BellSouth will be unable to file its amended cost study and exhibit, which is the cost output summary, until Monday, January 28, 2002. We did, however, want to get this information to the Commission and the parties even before those cost study runs can be completed. We are providing to all parties today via e-mail an executable file, FI_Network_Version_Changes.exe, to replace a user's Invest Logic.xls file, as well as with three new .mdb data bases (1 for each BSTLM© scenario) with BellSouth's revised inputs so that parties can see these revisions and run them in the cost model if they wish. This file contains proprietary information and is being provided pursuant to a Notice of Intent being filed today as well as to the terms of the Protective Agreement.

I would appreciate your marking a copy of this letter as "filed" and returning it to me. If you have any questions or need any further information, please do not hesitate to contact me.

Sincerely,

Andrew D. Shore (FB)

Andrew D. Shore

cc: All Parties of Record (via e-mail and overnight mail)
Marshall M. Criser III
R. Douglas Lackey
Nancy B. White

BELLSOUTH TELECOMMUNICATIONS, INC.

DIRECT TESTIMONY OF D. DAONNE CALDWELL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 990649A-TP

(120-DAY ITEMS)

NOVEMBER 8, 2001

AMENDED JANUARY 28, 2002

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.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. In its May 25, 2001 Order No. PSC-01-1181-FOF-TP ("Order") in this docket, the Florida Public Service Commission ("Commission") outlined a number of issues that required responses by BellSouth within 120 days. The Order listed the

following as 120-day items: (1) Hybrid Copper/Fiber xDSL-capable loop, (2) xDSL nonrecurring costs that exclude the Design Layout Record ("DLR"), test point, and order coordination, (3) network security and inventory issues, (4) network interface device ("NID") costs, (5) explicit modeling of loops, and (6) inflation. On September 24, 2001, BellSouth filed cost studies in this docket to address these "120-day" issues. On October 2, 2001, however, the Commission reversed its ruling on inflation in Order No. PSC-01-2051-FOF-TP; therefore, revised cost studies were filed on October 8th to include the impact of inflation. Further, on October 23, 2001, the Commission identified a number of issues precipitating from BellSouth's filing, with the objective of resolving them during this phase of the docket. My testimony responds to those issues associated with cost development. In doing so, I will present and support the ~~revised~~ cost studies filed on October 8, 2001 and subsequently revised on January 28, 2002.

Issue 1(a): Are the loop cost studies submitted in BellSouth's 120-day filing compliant with Order No. PSC-01-1181-FOF-TP?

Q. PLEASE EXPLAIN WHY THE LOOP COST STUDIES BELLSOUTH FILED ON OCTOBER 8, 2001, AND SUBSEQUENTLY REVISED ON JANUARY 28, 2002, ~~2001~~COMPLY WITH ORDER NO. PSC-01-1181-FOF-TP.

A. The Commission outlined a number of modifications that impact both the recurring and nonrecurring cost results for loops. Some of these adjustments are relatively easy to implement, while others required BellSouth to not only expend

substantial resources, but also to alter the manner in which costs were developed. The simpler Commission-ordered modifications reflected in BellSouth's October 8th and January 28, 2002 cost studies include:

Cost of Capital – The Commission set the forward-looking cost of capital for BellSouth at 10.24% (60/40 equity/debt ratio, debt = 7.3%, equity = 12.2%).

Depreciation - The Commission adjusted the economic lives for metallic cable accounts and digital switching equipment. The Commission accepted BellSouth's salvage values. The chart below compares BellSouth's initially proposed economic lives and the ones ordered by the Commission. The Commission-ordered lives are reflected in the studies filed on October 8, 2001 and January 28, 2002.

	BellSouth	**Commission –Ordered**
Digital Switching	10	13
Aerial Metallic Cable	15	18
Underground Metallic Cable	14	23
Buried Metallic Cable	15	18
Submarine Metallic Cable	15	18

BellSouth asked for reconsideration on two other depreciation modifications originally reflected in the Commission-ordered rates; i.e., modifications to analog switching equipment and to submarine fiber cable. In its October 2, 2001 ruling

(Order PSC-01-2051-FOF-TP), the Commission agreed that the analog switching equipment economic life should be retained as BellSouth's input. In that ruling, however, the Commission rejected the other request and stated that the Order did alter the submarine fiber cable life and that it should be set at 20 years. The cost study ~~filed on October 8, 2001~~reflects the analog switching equipment life of 1.6 years and the submarine fiber cable life of 20 years.

Taxes – The Commission ordered Florida-specific tax rates as follows: a combined state and federal income tax rate of 38.57% and an ad valorem tax rate of .9515%. Also, the "gross receipts tax" factor was set at .15%. The cost study reflects these modifications.

Each of the Commission-ordered adjustments discussed above impact the development of the shared and common cost factors. Thus, BellSouth appropriately reflected these modifications in the Shared and Common Application, which develops the shared and common cost factors. Additionally, the deaveraging of loops was based upon the methodology adopted by the Commission and the details provided in Appendix B of the Order, which listed the wire centers by zone.

Q. YOU MENTIONED THAT THERE WERE ADDITIONAL COMMISSION-ORDERED MODIFICATIONS THAT WERE MORE DIFFICULT TO MAKE. WHAT WERE THOSE MODIFICATIONS?

A. The first modification that was more difficult to incorporate into the studies was the

nonrecurring work time estimates. The Order detailed the extensive examination of three representative UNEs; the ADSL loop, CCS7 Signaling and Interoffice Transport – DS0. Based on the Commission's analysis of these three UNEs, adjustments to the work time estimates were recommended and outlined as listed below (Order, page 364):

Category	Approved Adjustments for BellSouth's Installation and Disconnect Work Groups and Work Times
CRSG Incremental Time	Eliminate work times
CRSG	Reduce work times by 55%
LCSC	Reduce work times by 75%
SAC	Reduce work times by 50%
AFIG	Reduce work times by 50%
CPG	Reduce work times by 50%
UNEC Provisioning Variables	Eliminate work times
UNEC	Reduce work times by 45%
WMC	Reduce work times by 65%
CO I&M	Reduce work time by 20%
SSI&M	Reduce work times by 35%

Category	Approved Adjustments for BellSouth's Installation and Disconnect Work Groups and Work Times
Travel	No Adjustment
All other work groups	Reduce work times by 45%

These are the modifications BellSouth used to develop the nonrecurring costs contained in the ~~October 8~~th cost studies. In order to implement these reductions, BellSouth went into each input file and recalculated the originally proposed time estimates. In fact, in order to allow review of BellSouth's calculations, the input files show the Commission's modifications in red. The Commission also ordered a 50/50 sharing of the cost of access to sub-loop elements, which is also reflected in both BellSouth's input files and cost results.

The other Commission-ordered modification that was difficult to implement was one specifically listed as a "120-day" item – the explicit modeling of "all cable and associated supporting structure engineering and installation placements." (Order, Page 242) BellSouth has provided, as ordered by the Commission, a "bottoms-up" study of outside plant cable and structures using the BellSouth Telecommunications Loop Model ("BSTLM©"). Whenever possible, either actual data or subject matter experts' estimates have been used in the BSTLM. Execution of the "bottoms-up" directive required activities such as: code modifications to the

BSTLM, which BellSouth witness Mr. Stegeman addresses, review of outside contractor contracts, weighting of contractor prices by relative use, development of structure sharing percentages, estimation of BellSouth placing and splicing hours, and determination of probabilities by terrain and density.

Q. ARE THERE OTHER MODIFICATIONS THAT HAVE BEEN MADE TO THE NONRECURRING COSTS IN ADDITION TO THOSE CONTAINED IN THE ORDER?

A. Yes. As noted in the cost study there were further changes to nonrecurring cost development that need to be considered. These modifications reduce the provisioning time and thus, should reduce the nonrecurring cost. These additional input changes are detailed on pages 25-30 of the cost study. For example, the amount of time a loop is not found in LFACS was lowered from 58% to 20% and Work Management Center ("WMC") time was set at 2 minutes (down from 15).

Q. PLEASE PROVIDE AN OVERVIEW OF THE INPUTS USED IN BELLSOUTH'S "BOTTOMS-UP" COST DEVELOPMENT.

A. BellSouth's "bottoms-up" inputs were obtained from two basic sources. First Outside Plant Contractor costs for each district in Florida were reviewed. These contracts provided the individual work item price, e.g. the price to place a pole, to bore a driveway, or to bury a cable. BellSouth then used the amount of usage that occurred during 2000 to develop an average contractor cost for each type of activity.

Attachment 3 in Appendix B of the cost study details the calculations performed to develop the contractor cost input associated with pole placement, conduit, manhole, and their placements, buried cable placement, etc.

The second input source was the Outside Plant Construction Management ("OSPCM") system. The OSPCM is the same system used by BellSouth's Network organization to estimate job costs. Attachment 4 in Appendix B of the cost study provides the source code data and assumptions taken from the OSPCM system for the development of splicing and placing time inputs.

Q. CAN YOU PROVIDE A DESCRIPTION OF THE SOURCES AND ASSUMPTIONS USED IN THE DETERMINATION OF EACH CATEGORY OF INPUT IN THE "BOTTOMS-UP" ANALYSIS?

A. Yes. The following discussion will describe how each category of input, as they correspond to the BSTLM input tables, was derived. Attachment 1 in Appendix B of the cost study displays the resulting input.

Aerial Structure Contract Labor

Contract labor costs for placing poles were obtained from actual outside contractor contracts in each district in Florida. Each district contractor's price was weighted by the amount of usage in the district in 2000 to arrive at a weighted average price for an average size pole placement in the state. Contract labor associated with placement of anchors was also obtained from the outside contractor contracts in each district in Florida. Guys are placed by BellSouth personnel, and the time

required to install a guy was obtained from the OSPCM system.

Aerial Structure (Material)

Pole material prices were also obtained from actual outside contractor contracts in each district in Florida. Each district contractor's price was weighted by the amount of usage in the district in 2000 to determine a weighted average material price for an average size pole in the state. The material costs of anchors and guys are exempt material and are captured in the exempt material loading for poles.

Buried Excavation Contract Labor

While the BSTLM input tables were modified to allow contractors' buried excavation prices to vary dependent on the terrain type, agreements between BellSouth and its outside contractors do not differentiate prices by terrain type. Therefore, all excavation cost values are the same, regardless of terrain type. Excavation costs were determined in the same manner as the aerial structure contract labor costs. Contract labor costs for buried excavation activities were obtained from actual outside contractor contracts in each district in Florida. Each district contractor's price was weighted by the amount of usage in the district in 2000 to arrive at a weighted average price per foot for buried excavation in the state.

Underground Excavation Contract Labor

While the BSTLM input tables were modified to allow contractors' underground excavation prices to vary dependent on the terrain type, the agreements between BellSouth and its outside contractors do not differentiate prices by terrain type.

Therefore, all underground excavation cost input is the same regardless of terrain type. Underground excavation costs were determined in the same manner as the buried excavation contract labor costs. Contract labor costs for underground excavation activities were obtained from actual outside contractor contracts in each district in Florida. Each district contractor's price was weighted by the amount of usage in the district in 2000 to calculate a weighted average price per foot for underground excavation in the state.

Structure Sharing

BellSouth only expects to share in the cost of buried structure approximately 6% of the time in Florida. When sharing occurs, BellSouth has assumed that BellSouth and two other parties will share in the cost of buried placement. Therefore, buried sharing is calculated as follows:

94% X 100%	= 94%
6% X 33.33%	= 2%
Total	96%

The 96% reflects the amount of buried structure cost assigned to BellSouth.

For aerial plant sharing, BellSouth owns approximately 40% of the poles in its territory in Florida. Therefore, BellSouth has used 40% as the amount of pole costs assigned in its cost studies.

For underground sharing, BellSouth rarely, if ever, shares conduit placement costs with another party. BellSouth does lease a small amount of its conduit space to others and has included that amount in the underground sharing percentage as

follows:

Duct feet in Florida	192,128,640
Leased to others	129,754
Assigned to BellSouth	99.93%

Facility Sharing (between feeder and distribution)

The BSTLM provides the ability for sharing of structure between feeder and distribution cables when both are located along the same path; however, this type of sharing of structure rarely occurs according to Network subject matter experts. This lack of sharing between feeder and distribution occurs for many reasons including the fact that placement of feeder and distribution cables do not always coincide in timing, often access to distribution cables is needed more frequently than manhole spacing for feeder cable would allow, etc. Based on the fact that experts predict very little sharing of structure between distribution and feeder, BellSouth has assumed that when both are found on the same path that sharing of structures occurs 25% of the time in a forward-looking environment. While BellSouth believes the actual sharing will be less, the 25% reflects the expected upper limit.

Media Sharing

In BellSouth's previous filing, the Media Sharing table was populated with input values that resulted in a 50%/50% sharing of structure between copper and fiber when both copper and fiber cables were placed on, or in, the same structure. These values were not used in previous filings since all structure costs resulted from

either in-plant factors or pole/conduit factors in the BellSouth Cost Calculator rather than from the BSTLM, itself. However, since the BSTLM is calculating structure costs in this filing, the BSTLM approach was changed to improve the logic previously provided through this table. Now, instead of using the Media Sharing table, the logic of the updated BSTLM apportions, on both distribution and feeder routes that have both copper and fiber cables, the costs of structure (poles, trenching, etc.) between the media based on the number of DS0 equivalents on each cable. This is consistent with how DLC common equipment, fiber, and the structure for fiber are apportioned in the model. Additionally, in its Order in this docket, the Commission found with respect to the use of DS0 equivalents: "Of 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, Page 134)

Feeder Distribution Interface (FDI) Placing Hours

The BSTLM is designed to assume that FDIs are placed by telephone company personnel (i.e., placement hours X labor rate), however, FDIs are typically placed by outside contractors in BellSouth. This inconsistency in the BSTLM approach and BellSouth input was not discovered in time to correct the model. Therefore, BellSouth has taken contractor costs and converted them to hours by dividing the contractor costs by the BellSouth installation labor rate. Further, the outside plant contracts have a fixed placement cost for FDIs weighing between 101 and 800 pounds, another cost for 801 to 1700 pounds, and a third price for 1701 to 4000 pounds. These contractor costs for various weights have been used for each

applicable FDI size in the BSTLM after being converted to labor hours to fit the format of the BSTLM input table.

Aerial Structure Placing Hours (Telco)

Since outside contractors place poles for BellSouth, this table is only used for the time to place a guy, which is handled by BellSouth personnel.

DTBT Splicing and Placing Hours

Times for closure and setup, cross connects and splicing were obtained from the OSPCM system used by BellSouth to estimate job costs for internal purposes. While the material prices for terminals of sizes 100 pairs or less are exempt material, the labor to install these terminals is not. Therefore, the times are populated for all sizes of terminals.

Media Splicing and Placing Hours

Times for placing and splicing aerial, buried and underground copper and fiber cables were obtained from the OSPCM system used by BellSouth to estimate job costs for internal purposes. Since outside contractors place buried cable, buried placing costs are zero in this table.

FDI Splicing

Times for FDI splicing were obtained from the OSPCM system used by BellSouth to estimate job costs for internal purposes.

Percent Activities

Similar to other proxy-type cost models, the BSTLM requires knowledge of not

only the cost of various activities associated with placing the structure for cable, but also the likelihood that each of those activities will occur in various density zones and various terrain types. Actual data regarding these probabilities by density and terrain type does not exist. However, BellSouth's subject matter experts previously reviewed the default percentages used in the BenchMark Cost Proxy Model ("BCPM") and found them to be a reasonable reflection of BellSouth experience in various terrain and density combinations. Additionally the Commission approved the use of these "percent activities" in the Universal Service Fund ("USF") Docket No. 980696-TP. BellSouth used those same percentages in this filing. Modifications were required, however, since the BCPM included nine density zones and separated feeder from distribution. The BSTLM, on the other hand, includes a breakdown into three density groups (which are groupings of the density zones) – urban, suburban and rural – and combines feeder and distribution into one table. Thus, BellSouth combined the feeder percent activities previously approved by the Commission such that areas with fewer than 200 lines per square mile are classified as rural, areas with between 201 and 5000 lines per square mile are treated as suburban, and areas with more than 5000 lines per square mile are considered urban.

Other Material Loadings

While BellSouth has used the capabilities of the BSTLM to develop a "bottoms-up" approach to determining installation and engineering costs, there remain certain items of investment that are calculated via factors. Those items include sales tax, exempt material, supply expense, and other items such as indirect labor costs, right of way and tree trimming associated with initial cable placements, and

interest during construction. These items are included in this filing in the Material Loading table. Attachments 5 and 5A in Appendix B to the cost study provide a description and explain the development of these factors.

Pole, Guy and Anchor, and Manhole Spacing

Pole spacing was determined by examining 12/31/00 ARMIS Report 43-08 for Florida to determine the number of poles in the state relative to the sheath distance of aerial cable in the state. Worksheets displaying the development of the pole spacing input are shown in Attachment 1 of Appendix B to the cost study. The number of poles owned by BellSouth in Florida were adjusted by the percentage of poles owned by BellSouth to arrive at the total number of poles to which BellSouth cable is attached in Florida. Then, this adjusted number of poles was divided into the aerial sheath feet in Florida. The result was 112 feet of aerial sheath per pole. BellSouth rounded this up to an even 120 feet. This result is extremely conservative given the fact that this methodology assumes only one existing BellSouth sheath on each pole line route, when in reality there are often two or more sheaths on a given pole line. If one were to assume 1.5 sheaths, on average, per pole line, the spacing interval would drop to approximately 75 feet.

Anchor and guy spacing is estimated to be every 500 feet (roughly every 4 poles) and manhole spacing is assumed to be every 625 feet based on subject matter expert estimates.

Underground Conduit and Manhole Contractor Costs

Conduit duct costs and manhole costs, like the underground excavation contract

labor costs, were also obtained from actual outside contractor contracts in each district in Florida. Each district contractor's price was weighted by the amount of usage in the district in 2000 to determine a weighted average price for furnishing and installing conduit and manholes in the state. As specified in the contracts, contractors charge to place manholes on a per cubic foot basis. Therefore, the BSTLM inputs for manhole costs were based upon the total cubic feet of the different sizes.

Engineering

The BSTLM's internal logic in the previous filing (August 2000) calculated engineering as a loading on material. For the 120-day filing, the BSTLM logic has been modified to now calculate engineering costs by applying factors to the total of non-engineering investments (i.e., as a loading on material, installation labor, sales tax, and other loadings.) The engineering factors used and included in the January 28, 2002 filing are account-specific and were developed from the same data source previously used to derive in-plant factors, the 1998 State and Local Sales Taxes, Resource Tracking Analysis and Planning ("RTAP") System, and Special Report/File 542 - 1998 Investments. The basic factor calculation is (TELCO Engineering + Vendor Engineering)/(TELCO Labor + Vendor Labor + Exempt Material + Non-exempt Material + Other)

~~**Engineering**~~

~~Engineering costs were obtained from the OSPCM system. While previous filings treated engineering as a linear factor of non-exempt material, the engineering input from OSPCM is applied as a factor of total non-engineering investments (i.e., as a loading on non-exempt material, exempt material, labor, contractor costs, sales tax,~~

~~and other loadings). The BSTLM logic in the previous filing calculated engineering as a loading on material. For this filing, the BSTLM logic has been modified to now calculate engineering in the same manner as the OSPCM by applying the factor to the total of non-engineering investments.~~

Outside Contractor Use (Engineering Rules)

This input table was not used in the previous filing by BellSouth since all contractor and BellSouth labor was calculated via in-plant factors in the Cost Calculator. This table directs the BSTLM to use either contractor installation or BellSouth personnel installation ("Y" indicates contractor while "N" indicates BellSouth personnel). Since poles are placed by contractors and guys are placed by BellSouth personnel, the table was modified to include a third option for Poles ("B" indicates that both contractor and BellSouth installation is required). Additionally, even though not used, this table was populated in the previous filing and two entries required correction. The indicators for DTBT and FDI were changed from "Y" to "N" to reflect the fact that BellSouth personnel placed FDIs (see discussion of FDI placing hours above) and terminals.

Q. HOW DO THE RECURRING COSTS OBTAINED FROM USE OF THE "BOTTOMS-UP" APPROACH COMPARE TO COSTS USING IN-PLANT FACTORS?

A. Some of the element costs have increased, while others have decreased, even though all costs are based on the same "bottoms-up" input values and BSTLM algorithms. For example, the Service Level 1 ("SL1"), SL2, ISDN, and 4 wire

DS1 loops have increased in every zone as compared with the current Commission-ordered rates. On the other hand, 2 wire and 4 wire UCL-Long loops have decreased in every zone. Additionally, for a given element, one deaveraged zone cost may have increased while another zone cost has decreased. For example, the 2 wire UCL-Short loop's zone 1 cost increased while zones 2 and 3 decreased. Exhibit DDC-1_120 compares BellSouth's "bottoms-up" cost study to the revised Commission-ordered rates contained in Appendix A of Order PSC-01-2051-FOF-TP. (The Commission-ordered rates are those that reflect the impact of inflation.) As one can see from reviewing this exhibit, the differences do not seem to follow any pattern.

Issue 1(b): Should BellSouth's loop rates or rate structure previously approved in Order No. PSC-01-1181-FOF-TP be modified? If so, to what extent, if any, should the rates or rate structure be modified?

Q. FROM A COST PERSPECTIVE, WHAT IS YOUR OPINION ON THIS ISSUE?

A. First, the Commission must also consider Order PSC-01-2051-FOF-TP, which re-instated the impact of inflation. Once the decisions contained in that ruling are considered, there is no reason to modify the loop rates or the rate structure. From the discussion I have presented on the input development, one can see that the "bottoms-up" approach taken by BellSouth is a much more complex study of loop costs than the previously filed study based upon the use of in-plant factors and structure loading factors. BellSouth continues to believe, however, that the use of

in-plant factors and structure loading factors produces reasonable, accurate results and that the ordered rates should remain as is. Cost studies produce estimates of cost, not absolute results. While the "bottoms-up" approach produces very specific results, these results are a combination of a much larger number of influencing variables and inputs than was present under the factor approach. Under the "bottoms-up" method, depending upon the customer location, the type and size of facilities, and number of services, the costs can vary substantially, as Exhibit DDC-1_120 illustrates. In contrast, in-plant and loading factors reflect experienced cost relationships between material prices and labor/engineering costs.

Furthermore, the "bottoms-up" approach introduces an extensive set of new inputs that can be questioned, criticized and manipulated by intervening parties. While BellSouth is not afraid of this scrutiny, it does not believe that the end-result of such an effort will produce either a better quality result or a more "TELRIC-compliant" result.

Issue 2(a): Are the ADUF and ODUF cost studies submitted in BellSouth's 120-day filing compliance filing appropriate?

Q. WHY DID BELLSOUTH FILE ADUF AND ODUF COSTS IN THIS PHASE OF THE DOCKET?

A. Even though the Commission's Order did not specifically include these elements in the 120-day requirement, substantial changes to the study inputs necessitated that BellSouth advise the Commission. The costs for the DUF elements BellSouth filed ~~on October 8, 2001~~ reflect the applicable Commission-ordered modifications

I discussed previously. As I explain below, BellSouth is revising the DUF element costs further and is filing a revised cost study simultaneously with this testimony (Cost Study - Revision 2).

Q. PLEASE BRIEFLY EXPLAIN WHAT THE ADUF AND ODUF ELEMENTS ARE AND HOW THE COSTS WERE DEVELOPED.

A. In fact, there are three different daily usage offerings; Access Daily Usage Files ("ADUF"), Optional Daily Usage Files ("ODUF"), and Enhanced Optional Daily Usage Files ("EODUF"). Each of the offerings provides electronic billing data to the ALECs:

ADUF – information of end user's daily originating and terminating access carrier messages. BellSouth extracts and distributes call detail on these access messages.

ODUF – call detail information for billable messages transported through BellSouth's network and processed in BellSouth's CRIS (Customer Records Information System) billing system. BellSouth extracts and distributes call detail on messages such as, Measured Local, IntraLATA Toll, and operator-handled calls if the ALEC purchases Operator Services from BellSouth. This element is applicable to both UNEs and resale.

EODUF – usage data for local calls that originate from resold, flat-rated business and residential lines. BellSouth extracts and distributes call detail on these messages.

BellSouth has developed unique programs at the ALEC's request in order to extract the billing data they requested, in a format such that they can bill their end-users. The costs associated with this on-going process and the computer resources required to implement and support the programs are reflected in BellSouth's cost study. These costs are incremental to BellSouth's normal billing process.

Q. WHY WERE THESE COST STUDIES FOR THE DAILY USAGE FILE ("DUF") ELEMENTS REVISED?

A. When BellSouth developed the cost study inputs in the original filing (August 2000), the actual number of records was low and rather stagnant. The projected demand reflected this trend. Since the time the original cost study was filed in this docket, however, BellSouth experienced a dramatic increase in the number of message records. The increase in the number of resale to UNE-P (combination) conversions may have caused this upswing. Since the cost results for the DUF elements are demand-dependent, BellSouth included the DUF elements as part of the 120-day items. In fact, in gathering cost input for the most recently initiated generic cost docket in BellSouth's region (Georgia Docket No. 14361-U), projected demand for ADUF and ODUF has increased over what was filed on October 8th in Florida. (The EODUF demand has decreased, increasing the costs slightly.) Exhibit DDC-1_120 displays the results of updating this demand. As I mentioned previously, concurrent with the filing of this testimony, BellSouth is filing its revised cost study to incorporate this change in demand to the DUF elements. Only the DUF results changed from the study filed on October 8, 2001.

The DUF elements were not impacted by any of the revisions made with the January 28, 2002 filing.

Issue 2(b): Should BellSouth's ADUF and ODUF rates or rate structure previously approved in Order No. PSC-01-1181-FOF-TP be modified? If so, to what extent, if any, should the rates or rate structure be modified?

Q. WHAT IS YOUR OPINION ON THIS ISSUE?

A. The Commission should consider the updated information on DUF costs filed here. BellSouth, in good faith, has advised this Commission of a supportable change to a cost study input. Since the change results in a reduction of ADUF and ODUF rates, the intervening parties would not be adversely affected by a decision to consider the revised cost study. Let me clarify one point, the issue here is whether or not the rates should be revised. It is NOT a question of whether or not DUF rates are appropriate. This issue has already been litigated in the first phase of this proceeding and the Commission established rates in both Order No. PSC-01-1181-FOF-TP and in Order No. PSC-01-2051-FOF-TP, which considered inflation.

Issue 3(a): Are theUCL-ND loop cost studies submitted in BellSouth's 120-day filing compliant with Order No. PSC-01-1181-FOF-TP?

Q. WHY DID BELLSOUTH FILE A COST STUDY FOR UCL-ND IN THIS PHASE OF THIS DOCKET?

A. One of the "120-day" requirements identified by this Commission was to determine xDSL nonrecurring costs that exclude the Design Layout Record ("DLR"), test point, and order coordination. The Unbundled Copper Loop – Non-Designed ("UCL-ND") fulfills that obligation. In addition, this all copper loop offering satisfies the Commission's requirement that BellSouth provision SL1 loops and guarantee not to roll them onto another facility or convert them to another technology. The UCL-ND gives the ALECs what they need to provide xDSL service, but does not unduly restrict BellSouth in providing voice grade service over the most efficient technology.

Q. HOW DOES THE UNBUNDLED COPPER LOOP – NON-DESIGNED DIFFER FROM THE UNBUNDLED COPPER LOOPS PREVIOUSLY FILED BY BELLSOUTH IN THIS DOCKET?

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 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 generally will be 18,000 feet or less. However, in some cases, the length may be longer based on gauge.

Even though the DLR is not provided with the UCL-ND loop, ALECs may request an Engineering Information document from BellSouth (element A.1.8). This document provides loop make-up information, similar to a DLR. The October 8th

cost study also includes the cost development for this optional element. The cost of Element A.1.8 was not impacted by the January 28, 2002 revision.

Q. HOW DOES THE RECURRING COST OF UCL-ND LOOPS COMPARE TO OTHER TYPES OF LOOPS?

A. The table below compares the statewide average recurring cost of an SL1, SL2, ADSL, HDSL, UCL-Short and UCL-Long to the UCL-ND loop based on the "bottoms-up" approach.

A.1.1	2-Wire Analog Voice Grade Loop - Service Level 1	$19.52
A.1.2	2-Wire Analog Voice Grade Loop - Service Level 2	$21.72
A.6.1	2-Wire Asymmetrical Digital Subscriber Line (ADSL) Compatible Loop	$15.66
A.7.1	2-Wire High Bit Rate Digital Subscriber Line (HDSL) Compatible Loop	$13.60
A.13.1	2-Wire Copper Loop – short	$15.66
A.13.7	2-Wire Copper Loop – long	$32.19
A.13.12	2-Wire Copper Loop – ND	$15.21

Note that the UCL-ND loop is less than both an UCL-Short loop and an SL1 loop, and significantly less than the UCL-Long loop. This is consistent with the fact that test points have been removed and that the UCL-ND has no length restriction, but is generally less than 18,000 feet because of the 1300-ohm resistance limit. In running the Copper-Only scenario in the BSTLM, the loop limit was set at 24,000 feet in order to capture those loops that potentially would still meet the 1300-ohm restriction, but exceed the 18,000 feet limit. In fact, the average loop length for the

UCL-ND generated by the BSTLM is 13,258 feet.

Q. HOW DOES THE NONRECURRING COST OF UCL-ND LOOPS COMPARE TO OTHER TYPES OF LOOPS?

A. The nonrecurring cost of an UCL-ND is less than the nonrecurring costs associated with designed loops. Additionally, it is less than the SL1 because it is an all-copper loop and thus, a plug-in does not have to be provisioned in the digital loop carrier system.

Q. ARE THERE OTHER ADJUSTMENTS TO THE COST STUDY THAT ARE REQUIRED DUE TO THE UCL-ND OFFERING?

A. Yes. As I mentioned previously, this type of loop is non-designed. Thus, no test point is provisioned. 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 this docket. 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). ~~Exhibit DDC-1_120 illustrates the difference in the A.19 costs between the current Commission-ordered rates and the latest cost study~~.

Issue 3(b): What modifications, if any, are appropriate and what should the rates be?

Q. SHOULD THIS COMMISSION USE THE COSTS FILED HERE TO SET RATES FOR UCL-ND ELEMENTS?

A. No. As discussed in response to Issue 1(b), BellSouth does not believe that the "bottoms-up" approach develops a more representative result than the use of factors. Let me note that BellSouth has also filed the UCL-ND elements in Docket No. 960786-TP (271 docket) based on the use of in-plants and loading factors. Those cost studies reflect the Commission-ordered adjustments except for the re-instatement of inflation. BellSouth requests that the Commission establish rates for the UCL-ND related elements in Docket No. 960786-TP once inflation is considered.

Issue 4(a): What revisions, if any, should be made to NIDs in both the BSTLM and the stand-alone NID cost study?

Issue 4(b): To what extent, if any, should the rates or rate structure be modified?

Q. ARE REVISIONS REQUIRED TO THE CALCULATION OF BOTH TYPES OF NID COSTS?

A. No. Adjustments are not required to both the NID cost considered in the BSTLM and to the stand-alone NID costs. The stand-alone NID costs, however, do require

revision. Let me explain.

At pages 192-93 of Order No. PSC-01-1181-FOF-TP, the Commission noted an inconsistency in the treatment of exempt/miscellaneous material for the stand-alone NID and the exempt/miscellaneous material associated with the NID when it is provisioned with the loop (via the BSTLM).

Typically, the NID is provisioned with the loop at the time the residence or business is constructed and the drop wire is placed and treated as capitalized investment. For most cable placements in BellSouth's studies, exempt material is recovered through an In-Plant factor; however, a different approach is taken for the NID and drop. BellSouth, in the BSTLM, directly identifies items normally captured in an In-Plant factor (labor, exempt materials, sales tax, etc.) for the capitalized drop and NID.

Thus, because the NID investment generated by the BSTLM already considers exempt material, taxes, labor, etc., the BellSouth Cost Calculator does not need to apply the In-Plant factors to drop and NID investments. BellSouth reflected this by assigning special "sub-FRCs" to the drop and NID. These special sub-FRC codes are 22C-01 or 45C-01. The "01" sub-FRCs instruct the BellSouth Cost Calculator not to apply In-Plant factors to those items of plant. Therefore, BellSouth's NID costs associated with unbundled loops are correct and no "double-counting" of In-Plant costs associated with the NID or drop occurs.

On the other hand, Stand-Alone NID/NID Access is a separate UNE offering designed for situations where the existing NID is not suitable for ALEC connection

and where BellSouth terminates its loop directly to the inside wire, or at the ALEC's request. BellSouth charges a nonrecurring fee for the installation of, material for, and cross connect (if appropriate) to the stand-alone NID. The stand-alone NID material (housing, interface, and protectors) is exactly the same as the NID placed with the loop. As found by the Commission in its Order, BellSouth did not apply exempt materials in the stand-alone NID study. In fact, BellSouth should indeed have included exempt material in its stand-alone NID costs. BellSouth has included this adjustment in this filing. Further, these are the appropriate costs to be used to establish rates for Stand-Alone NID/NID Access elements.

Issue5 (a): ***What is a "hybrid copper/fiber xDSL-capable loop" offering and is it technically feasible for BellSouth to provide it?***

(b) Is BellSouth's cost study contained in the 120-day compliance filing for the "hybrid copper/fiber xDSL-capable loop" offering appropriate?

(c) What should the rate structure and rates be?

Q. THE COMMISSION'S ORDER STATED "WE BELIEVE BELLSOUTH IS OBLIGATED, IF TECHNICALLY FEASIBLE, TO PROVIDE HYBRID COPPER/FIBER xDSL-CAPABLE LOOPS TO DATA ALECS." WHAT COST SUPPORT HAS BELLSOUTH FILED IN SUPPORT OF THE HYBRID COPPER/FIBER LOOP?

A. BellSouth filed the recurring and nonrecurring costs associated with providing data ALECs the ability to utilize a loop served by fiber-fed digital loop carrier ("DLC") systems (i.e., loops comprised of fiber feeder and copper distribution) to offer digital subscriber line ("DSL") services to their end-users, without unbundling packet switching. The distribution portion of the loop is comprised of a dedicated 2-wire physical transmission facility which is connected to a dedicated 16-port Digital Subscriber Line Access Multiplexer ("DSLAM"). From the DSLAM, a dedicated DS1 is required through the DLC remote terminal ("RT") to the central office terminal ("COT") to the ALEC's collocated space in the central office. Exhibit DDC-2_120 depicts the components of the Hybrid Copper/Fiber loop. BellSouth witness Mr. Jerry Kephart addresses the feasibility issue and discusses why this configuration fulfills the Commission's directive. I address how the costs were developed.

The BSTLM developed the investments associated with the DS1 component of the Hybrid Copper/Fiber Loop. Let me note that this sub-loop feeder DS1 is not the same as the unbundled sub-loop feeder – 4-wire DS1 (element A.9.2) also filed in this docket. The sub-loop feeder DS1 (A.9.2) includes the feeder portion of all DS1 loops. These include DS1 loops served by both copper feeder and those served by fiber feeder facilities to a remote DLC terminal. The Hybrid Copper/Fiber DS1 (element A.20.1), on the other hand, only considers locations served via a remote DLC terminal served by fiber. Thus, all of the locations used in the calculation of the sub-loop feeder – 4-wire DS1 are not included in the cost calculation of the Hybrid Copper/Fiber DS1. The material prices for the 16-port

DSLAM were obtained from vendor contracts.

The nonrecurring costs reflect the work activities required to connect and turn-up the DS1 and the 2-wire transmission facility onto the DSLAM. In order to make this a functional loop and to reflect the manner in which the loop will be provisioned, the individual network components must be summed into (1) System, (2) DS1, and (3) Activation elements.

Q. PLEASE DESCRIBE WHICH COMPONENTS ARE CONSIDERED IN THE SYSTEM, DS1, AND ACTIVATION COSTS.

A. The System element represents the cost of the DSLAM (element A.20.3) with an administrative DS1 (A.20.1), which is used for BellSouth's management of the DSLAM. This administrative DS1 does not terminate at the ALEC's collocation space. Instead, it terminates into a DSL hub bay in order to allow BellSouth to control the provisioning, maintenance, and repair of the xDSL Hybrid Copper/Fiber loop. The cost of the administrative DS1 does not differ from the DS1 that terminates into the ALEC's collocation space.

The DS1 element accounts for the cost of the fiber DS1 that essentially connects the DSLAM at the RT to the ALEC's collocated space in the central office. The recurring cost is equal to the Hybrid Copper/Fiber DS1 (element A.20.1). The nonrecurring cost is the sum of the DS1 establishment element (A.20.2) and the nonrecurring cost associated with the Sub-loop Feeder per 4-wire DS1 element (A.9.2). Let me note that the nonrecurring cost for A.9.2 was not restudied since the Commission has set a rate for this element. Rather, the rate ($133.77) was

hard-coded into the Final Cost Summary.

The Activation nonrecurring cost is the sum of the channel activation cost (element A.20.4) and the nonrecurring cost associated with the 2-wire distribution sub-loop (element A.2.2). ~~As with element A.9.2, the nonrecurring cost for A.2.2 was not restudied since the Commission has set a rate for this element. Rather, the rate ($60.19) was hard-coded into the Final Cost Summary.~~

Issue 6: In BellSouth's 120-day filing, has BellSouth accounted for the impact of inflation consistent with Order No. PSC-01-2051-FOF-TP?

Q. WHAT IS YOUR RESPONSE TO THIS ISSUE?

A. BellSouth's cost studies are in compliance with the Commission's directive on inflation. Order No. PSC-01-2051-FOF-TP states: "we hereby reconsider our decision to reject BellSouth's proposed inflation factor, because it was based upon a misinterpretation and misrepresentation of the facts presented." (Page 5) Thus, the Commission found that the application of inflation factors to both the investment and to labor rates is appropriate. The cost study filed on October 8, 2001 reflects the impact of inflation based on factors originally filed in this docket. BellSouth made no adjustment to the inflation application in the January 28, 2002 filing.

Issue 7: Apart from issues 1-6, is BellSouth's 120-day filing consistent with the orders in this docket?

Q. WHAT IS YOUR RESPONSE TO THIS ISSUE?

A. The cost studies filed by BellSouth incorporate all of the adjustments ordered by this Commission. I have described the modifications as part of this testimony. Further, the cost study contains a detailed discussion of the adjustments made by BellSouth in order to comply with the Commission's directive.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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BELLSOUTH TELECOMMUNICATIONS, INC.

SURREBUTTAL TESTIMONY OF D. DAONNE CALDWELL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 990649A-TP

(120-DAY ITEMS)

DECEMBER 26, 2001

AMENDED JANUARY 28, 2002

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

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to respond to cost development issues raised in the testimony filed by intervening parties. Specifically, I respond to allegations made by AT&T/MCI WorldCom witnesses Greg Darnell, John Donovan, and Brian

Pitkin and Florida Digital Network ("FDN") witness Michael Gallagher.

MULTIPLE SCENARIOS

Q. MR. DARNELL CLAIMS THAT THE FLORIDA PUBLIC SERVICE COMMISSION ("COMMISSION") FOUND THAT "BELLSOUTH'S METHOD OF DEVELOPING UNE LOOP RATES WAS NOT ACCEPTABLE." (PAGE 2, LINES 20-21) DO YOU AGREE?

A. Absolutely not. First, the argument presented by Mr. Darnell concerns multiple scenario use by the BellSouth Telecommunications Loop Model© ("BSTLM"). This issue was not identified by the Commission as a "120-day" issue and thus, is not properly before the Commission. Mr. Darnell is attempting to argue a topic that has been reviewed, resolved, reconsidered, and rejected by the Commission. Second, Mr. Darnell has selectively extracted a single statement contained in the discussion of this issue from the order and has ignored the Commission's conclusion. In fact, the Commission stated: "Accordingly, at this time we find that the record supports that the BST2000 is an appropriate basis for determining the costs of stand-alone UNE loop offerings, while the Combo run is appropriate only for certain integrated loop/port combinations." (Page 155, Order No. PSC-01-1181-FOF-TP) Further, WorldCom argued the same points contained in Mr. Darnell's testimony in its request for reconsideration on this issue. After review of the reconsideration arguments, the Commission ruled:

> the Movants' Motion for Reconsideration on this point is denied. The Movants

have not identified a mistake of fact or law in our decision. Disagreement with our interpretation of the law does not equate to [a] mistake in our decision. (Page 19, Order No. PSC-01-2051-FOF-TP)

Lastly, every Commission in BellSouth's region that has considered the argument raised again (and inappropriately) by Mr. Darnell has, like this Commission, rejected the argument and ruled that it is appropriate to use multiple scenarios in the BSTLM to calculate rates for different UNEs. Mr. Darnell offers nothing in his testimony that should cause the Commission to overturn its previous ruling.

DAILY USAGE FILES ("DUFs")

Q. MR. DARNELL ASSERTS: "DUF CHARGES ARE THE SAME COSTS THAT BELLSOUTH USED IN ITS DEVELOPMENT OF THE COMMON COST FACTOR." (PAGE 11, LINES 17-18) IS HE CORRECT?

A. No. Mr. Darnell is wrong. As the input sheets to the DUF studies filed as part of BellSouth's cost study show, the costs reflect the computer resources, programming effort and support labor directly attributable to the processing and delivery of the ALECs' daily usage files ("DUFs"). These costs are incremental to costs associated with normal call measurement detail. BellSouth developed unique programs at the ALECs' request in order to extract the billing data they requested, in a format they can use to bill their end-users. 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. Also, the cost of recording is not included in the DUF studies. There is a separate element for

recording (element M.2.1) that is only charged to facility-based providers who purchase operator services from BellSouth. Second, the DUF products were developed to extract data in a format unique to the ALEC. For example, Enhanced Optional Daily Usage File ("EODUF") is designed to capture the call details from what would have "normally" been a flat-rated customer. It is evident that these ALEC-caused costs are in addition to BellSouth's normal billing process and therefore are appropriately charged to the ALEC.

Even though Mr. Darnell provides no support for his argument, he may have based his "double recovery" claim on the fact that the same expense accounts (6124, 6623, and 6724) appear in both the DUF studies and in the shared and common cost factors. However, BellSouth identified and **removed** costs that are directly assigned in the cost studies from the development of the shared and common factors. In fact, file EXPPRJ00.XLS, contained in the cost study, outlines the adjustments BellSouth made to remove the directly identified costs. Thus, BellSouth's "currently approved common cost factor does not include certain forward-looking common costs," as Mr. Darnell contends. (Darnell Testimony, Page 11, Lines 21-22)

Finally, Mr. Darnell's recommendation that "[I]f the amount of the cost directly assigned to DUF charges is so insignificant that it does not effect the common cost percentage when this cost is removed from the percentage, the Commission should reject DUF charges" is both a self-serving pronouncement and a faulty conclusion. (Darnell Testimony, Page 12, Lines 17-20) ALECs directly cause these costs to be incurred and BellSouth does not benefit from the production of daily usage files.

Thus, BellSouth may appropriately recover these costs. Mr. Darnell's accusation of BellSouth engaging in "costing mischief" is wholly unfounded.

HYBRID COPPER/FIBER LOOP

Q. MR. DARNELL AND MR. GALLAGHER COMMENT ON THE HYBRID COPPER/FIBER LOOP FILED BY BELLSOUTH. PLEASE RESPOND TO THEIR CRITICISMS.

A. My response will center on the way in which the costs were developed. BellSouth witness Jerry Kephart will comment on the product design and network requirements of this offering and Tommy Williams will discuss BellSouth's unbundling requirements as and expand on how it relates to Line Sharing and Line Splitting.

Mr. Darnell claims that the nonrecurring charge for channel activation (A.20.4) should be set to zero since "the nonrecurring charges for element A.2.2 subloop already recover those costs." (Darnell Testimony, Page 17, Lines 22-23) Mr. Darnell's contention that these costs have already been recovered is wrong. The input file for the A.20.4 element clearly identifies a work group and associated work activity not contained in the input file of the sub-loop element A.2.2. The Data Support Group (wage scale 32) was not a component of the A.2.2 cost development. Clearly since the Hybrid Copper/Fiber Loop is designed to handle data transmissions, while the distribution sub-loop is primarily designed to carry only voice traffic, it is not surprising that additional work activity by the Data Support Group is required. Mr. Darnell makes the same incorrect allegation

concerning the nonrecurring costs associated with the Hybrid Copper/Fiber DS1, i.e., that an incremental cost does not exist. Again, Mr. Darnell is wrong. The same Data Support Group activity is required on the DS1 as on the distribution portion of the Hybrid Copper/Fiber Loop.

Both Mr. Darnell and Mr. Gallagher question the difference in recurring costs between the Hybrid Copper/Fiber DS1 and the sub-loop feeder DS1. Their concern is unfounded. As I explained in my direct testimony: "this sub-loop feeder DS1 is not the same as the unbundled sub-loop feeder – 4-wire DS1 (element A.9.2) also filed in this docket. The sub-loop feeder DS1 (A.9.2) includes the feeder portion of all DS1 loops. These include DS1 loops served by both copper feeder and those served by fiber feeder facilities to a remote DLC terminal. The Hybrid Copper/Fiber DS1 (element A.20.1), on the other hand, only considers locations served via a remote DLC terminal served by fiber. Thus, all of the locations used in the calculation of the sub-loop feeder DS1 (A.9.2) are not included in the cost calculation of the Hybrid Copper/Fiber DS1." Therefore, Mr. Gallagher's conclusion that this difference is due to BellSouth's "fail[ure] to utilize a single unified design in the determination of its unbundled DS1 subloop rates" is incorrect. (Gallagher Testimony, Page 26, Lines 22-23) Even if BellSouth had used only one scenario in running the BSTLM, there would still have been a difference between the two DS1 elements because they are defined differently. The sub-loop DS1 (A.9.2) considers both copper and fiber facilities, while the hybrid DS1 (A.20.1) is purely fiber and is longer in length since, in the BSTLM, DS1s are provisioned on fiber-fed digital loop carrier systems ("DLCs") only if the DS1 loop length is greater than 12,000 feet. In fact, the average length of the DS1

sub-loop (A.9.2) is 10,407 feet while the average length of the hybrid DS1 (A.20.1) is 21,029 feet.

Mr. Darnell's contention on page 18 of his testimony that the inclusion of a portion of the remote terminal costs violates TELRIC principles because the remote terminal is "scorched" is incorrect. In a long-run study, such as a TELRIC study, all costs are considered variable, i.e., that they will exhaust. Since the deployment of the Hybrid Copper/Fiber loop utilizes components of the remote terminal, they are appropriately considered in the cost development.

Finally, without any evidence, Mr. Darnell alleges that; "the material prices (i.e. DSLAM, Hub Bay and DS1 Card) and installation times (i.e. service inquiry) that BellSouth has used for the development of proposed DSLAM recurring and non-recurring rates do not reflect those of a forward looking, least cost telecommunications service provider." (Darnell Testimony, Page 18, Lines 21-25) Since Mr. Darnell did not provide an example of what he believes are "forward looking, least cost" rates I cannot specifically address his concerns. Thus, I can only state that the cost study accurately reflects the product description provided by the product team and the equipment and labor resources identified by subject matter experts in BellSouth's Network department.

In preparing the cost study that was filed on November 8, 2001, the Final Cost Summary failed to reflect the total System, DS1, and Activation costs associated with the Hybrid Copper/Fiber Loop; i.e., the individual components were not summed. Exhibit DDC-3_120 Day, filed on a separate CD, explains how to

manually correct the rate list file, contains a corrected rate list file, and includes the revised Final Cost Summary. A paper copy of the revised Final Cost Summary is also attached to my testimony.

"BOTTOMS-UP INPUTS"

LOADING FACTORS

Q. MR. PITKIN CONTENDS THAT BELLSOUTH'S MATERIAL LOADING FACTORS ARE OVERSTATED. (PAGES 8-12) IS HE CORRECT?

A. No. First, he alleges that because these ratios are developed based on historical data that makes their application embedded. That is not true. The Miscellaneous Material loading factor develops a relationship between exempt material and non-exempt material. Thus, when these factors are applied to forward-looking material prices the result is forward-looking. Mr. Pitkin also criticizes BellSouth for using only one-year's worth of data. This criticism is also unfounded. By using the latest data available at the time of the study's filing, the resulting factors are the best indication of future trends.

Both Mr. Donovan and Mr. Pitkin advocate the inclusion of exempt material cost in the labor rates. In addition, Mr. Donovan throws out an unsupported cap on his proposed Exempt Material load on labor rates of 20%. Besides being arbitrary, Mr. Donovan's method is inappropriate. Exempt material varies by field reporting code; the amount of exempt material associated with aerial placements is not the same as buried or underground placements. Furthermore, the amount of exempt material associated with cable provisioning varies vastly between copper and fiber

placements. On the other hand, labor rates do not vary. A splicer is paid the same per hour whether he is splicing aerial, buried, or underground cable. Mr. Donovan's method distorts these facts. Thus, BellSouth's use of the ratio of exempt to non-exempt material produces representative results.

Q. MR. PITKIN ASSERTS THAT "BECAUSE THE BSTLM EXPLICITLY MODELS THE COSTS OF NIDs AND DROPS, THE EXEMPT MATERIAL LOADING FACTOR SHOULD EXCLUDE THESE ITEMS." (PAGE 10, LINES 12-13) IS THIS TRUE?

A. No. Mr. Pitkin pulls a quote from my reply affidavit filed in connection with BellSouth's current application with the FCC to provide in-region long distance service. The affidavit, however, fully explains why he is wrong. As I stated:

> The labor-related costs of placing service drop wires and the associated NIDs are assigned to Asset Category Code ("ACC") 248 (Aerial cable – Metallic Drop) and ACC 548 (Buried Cable – Metallic Service Drop). The material costs of the service drop wires and associated NID units are classified to exempt material. The cost of exempt material, however, is distributed as part of the monthly allocations process to the various ACCs (including ACC 248 and ACC 548) based on the direct labor dollars associated with each ACC. In the development of in-plant factors for ACC 022 (Aerial Cable – Metallic) and ACC 045 (Buried Cable – Metallic), BellSouth does not include any of the assignments to ACC 248 or ACC 548. Therefore, the costs of placing service drops and NIDs are **not** reflected in the in-plant factors. (Caldwell Reply Affidavit, CC Docket 01-277, ¶ 37, emphasis added)

Again, BellSouth excluded ACCs 248 or 548, the asset accounts containing NID/drop costs, in the development of the material loading factors. Thus, Mr.

Pitkin's claim is without merit.

Q. MR. DONOVAN STATES THAT "EXEMPT MATERIAL IS ALREADY INCLUDED IN THE FULLY LOADED LABOR RATE PROPOSED BY BELLSOUTH." (PAGE 53, LINES 6-7) PLEASE COMMENT.

A. Mr. Donovan is wrong. The following extract from the original cost study narrative (Section 5) filed in this docket details the categories of costs included in the labor rates:

DIRECT SALARIES AND WAGES

1. Direct Labor - Productive (RESOURCE TYPE CODE (RTC) 111, 121)
Represents the wage and salary costs associated with work reporting employees for regularly scheduled time and overtime spent performing productive work. Also includes the costs of salaries paid to management employees when performing productive work. Classified and unclassified productive hours are used as the basis for Direct Labor Costs.

2. Direct Labor - Premium (RTC 122)
Represents the wage and salary costs associated with premium hours paid for hours worked beyond the normally scheduled work period.

3. Direct Labor - Other Employee (RTC 199, 19B, 19C, 193)
Covers the costs associated with the periodic incentive compensation payments made to management employees based on corporate service and financial performance, the annual bonus paid to non-management employees, all costs associated with commissions paid to employees, cash awards paid for any approved program, etc.

4. Direct Labor - Annual Paid Absence (RTC 132, 19E)
Identifies the cost of payments to be made over the year to occupational work reporting employees for accrued costs of holidays, vacations, and excused days.

5. Direct Administration (RTC 111, 121, 122, 199, 19B, 19C, 19E, 193, 132)
Identifies the costs of salaries paid during the month to the first level of supervision responsible for supervising occupational work reporting employees, and salaries and wages paid to employees and immediate supervisors who perform

basic office services for occupational work reporting employees. Also included are the wages paid to occupational work reporting employees loaned to perform supervisory or clerical functions.

6. Other Tools - Salaries (RTC CQR)
Identifies the salary portion of the distributed costs associated with tools.

7. Motor Vehicles - Salaries (RTC CQM)
Identifies the salary portion of the plant motor vehicle expenses distributed to construction, removal or plant specific operations expense accounts based on the classified productive hours of the labor groups using the motor vehicles.

OTHER DIRECT

1. Direct Labor - Other Costs (Various RTCs)
Identifies the costs incurred for office, traveling and other costs of employees whose wage and salary costs are direct labor.

2. Other Tools - Benefits (RTC CQS)
Identifies the distributed benefits costs associated with tools.

3. Other Tools - Rents (RTC CQK)
Identifies the distributed rent costs associated with tools.

4. Other Tools - Other (RTC CQL)
Identifies the distributed other expense costs associated with tools.

5. Motor Vehicles - Benefits (RTC CQN)
Identifies the benefits portion of the plant motor vehicle expenses distributed to construction, removal or plant specific operations expense accounts based on the classified productive hours of the labor groups using the motor vehicles.

6. Motor Vehicle - Rents (RTC CQP)
Identifies the rents portion of the plant motor vehicle expenses distributed to construction, removal or plant specific operation expense accounts based on the classified productive hours of the labor groups using the motor vehicles.

7. Motor Vehicle - Other (RTC CQQ)
Identifies the other costs portion of the plant motor vehicle expenses distributed to construction, removal or plant specific operations expense accounts based on the classified productive hours of the labor groups using the motor vehicles.

8. Benefits (RTC KB1)
Identifies amounts for the payroll related benefits and taxes. These costs include pension accruals; company matching portion of savings plan; dental, medical, and

group insurance plan reimbursements; and company portion of social security and unemployment payroll taxes.

As can be ascertained from reviewing this list, exempt material is not included. On page 54, Mr. Donovan also claims "direct supervision and other indirect expenses are already components of BellSouth's fully loaded labor rate." While it is true that direct supervision is included in the labor rates, it is not included in the Other – Indirect factor created for this filing. As explained in Appendix B, Attachment 5 of the cost study filed on November 8, 2001, the salaries, benefits, and other indirect costs are for "supervision and support **above the first level** of work reporting plant labor employees." (Emphasis added) These costs are not direct supervision costs, as Mr. Donovan claims.

Q. IN DISCUSSING THE INTEREST DURING CONSTRUCTION COMPONENT OF THE OTHER FACTOR, MR. DONOVAN STATES "BELLSOUTH INPUTS HAVE MISAPPLIED SUCH A CHARGE IN THIS CASE." (PAGE 55, LINES 2-3) IS HIS CLAIM CORRECT?

A. No. BellSouth adheres to the rules outlined by the Federal Communications Commission ("FCC") Part 32 Rules and Regulations that discusses such costs as described below:

> FCC Part 32 Rules 32.2000 (c)
>
> (1) Telecommunications plant represents an economic resource which will be used to provide future services, the cost of which will be allocated in a rational and systematic manner to the future periods in which it provides benefits. In accounting for construction costs, the utility shall charge to the

telecommunications plant accounts, where applicable, all direct and indirect costs.

(2) Direct and indirect costs shall include, but not be limited to:

...(x) Allowance for funds used during construction ("AFUDC") provides for the cost of financing the construction of telecommunications plant. AFUDC shall be charged to Account 2003, Telecommunications Plant Under Construction, and credited to Account 7340. The rate for calculating AFUDC shall be determined as follows: If financing plans associate a specific new borrowing with an asset, the rate on that borrowing may be used for the asset; if no specific new borrowing is associated with an asset or if the average accumulated expenditures for the asset exceed the amounts of specific new borrowing associated with it, the capitalization rate to be applied to such excess shall be a weighted average of the rates applicable to other borrowing of the enterprise. The amount of interest cost capitalized in an accounting period shall not exceed the total amount of interest cost incurred by the company in that period.

Mr. Donovan offers no support for his criticism. Furthermore, Interest During Construction constitutes a small fraction of the sum of the Other loading factor. Also, the source of the data used in the development of these "bottoms-up" factors is the same source as originally used in the development of the in-plant factors – a 1998 base year extract from the Resource Tracking Analysis and Planning ("RTAP") system. Thus, no new system, extract, or methodology was used to gather the data needed to develop this factor.

Q. MR. PITKIN CLAIMS THAT "BELLSOUTH USES INFLATION RATES THAT ARE TOO HIGH AS WELL AS UNRELIABLE." (PAGE 12, LINE 15) PLEASE COMMENT.

A. This Commission has extensively reviewed the inputs and methodology used by BellSouth to account for changes in the price of goods in this proceeding. In fact,

the Commission's decision with respect to the application of inflation factors was a specific issue for which BellSouth sought reconsideration. Thus, the Commission not only reviewed inflation factors in issuing its original order, but also reviewed them again as part of BellSouth's request for reconsideration. In Order No. PSC-01-2051-FOF-TP, this Commission stated: "we hereby reconsider our decision to reject BellSouth's proposed inflation factor, because it was based upon a misinterpretation of the facts presented." (Page 5) Thus, this Commission has ruled that BellSouth's inflation factors, as originally filed, are appropriate.

Mr. Pitkin claims that "BellSouth has provided no information supporting its development of these inflation factors." (Pitkin Testimony, Page 13, Lines 3-4) Mr. Pitkin is wrong. BellSouth has provided the spreadsheet used to develop its inflation factors as part of the original cost study filed in this docket, file InflnLv2.xls. Additionally, BellSouth has responded to data requests in this docket concerning inflation factor development and application. Indeed, in response to Staff's 10th set of interrogatories/ production of documents ("PODs"), BellSouth provided the back up to the development of these factors. (POD Item #94) In fact, it is Mr. Pitkin who offers no evidence or support for his inflation factors beyond a vague reference to C. A. Turner Telephone Plant Indices. Further, Mr. Pitkin's "inflation factors" as shown in Exhibit BFP-5 do not even differentiate by field reporting code. To imply that computer equipment (530C), a declining account, and copper cable, increasing accounts, experience the same trend in material prices is simply wrong. Further, to present an almost 5% decline for 2000 for any account makes little sense. Exhibit DDC-4_120 Day illustrates the actual trend in cable-related accounts for 1995-1997. (This is an extract from the Inflation Factor

Methodology contained in the BellSouth Cost Calculator. Also, refer to BellSouth's response #105 to the Staff's 7th Set of Interrogatories.) Note that with the exception of the digital carrier equipment (357C), not one of the accounts reflects an overall decrease of 5%. It is improbable that from 1998-2000 the trends would change dramatically. In reviewing Mr. Pitkin's comparison of inputs, Exhibit BFP-7, it is interesting to note that he uses different inflation factors for different accounts, but never explains how he transitions from one exhibit to the other. For these reasons, Mr. Pitkin's concerns are unfounded and his proposed adjustments should be ignored.

OTHER BSTLM "BOTTOMS-UP" INPUTS

Q. ON PAGES 11 THROUGH 16 OF MR. DONOVAN'S TESTIMONY, HE DISCUSSES BELLSOUTH'S ENGINEERING FACTORS USED IN ITS FILING. PLEASE COMMENT.

A. First, Mr. Donovan claims that "BellSouth has ignored the Commission's FL UNE Order, and has filed costs using a linear Engineering Factor." (Donovan Testimony, Page 11, Lines 4-5) I disagree with Mr. Donovan. The underlying premise of this 120-day proceeding was that since BellSouth had a model (the BSTLM) with the functionality to do a bottoms-up study, BellSouth should make use of that functionality so as to allow the Commission to compare the results produced using that methodology with those produced using in-plant factors currently adopted by the Commission.

The BSTLM, as originally filed, was designed to calculate engineering as a

percentage of non-exempt material in the same manner as the BellSouth Cost Calculator functions. However, upon embarking on the Commission-ordered bottoms-up study, BellSouth discovered that the BSTLM contained only one engineering factor that would be applied to all categories of plant. While modifying the model to allow for multiple engineering factors for various plant types, BellSouth attempted to add modifications to make the engineering expense less linear by reflecting engineering costs as a factor of material and installation costs. ~~The engineering factors used in the bottoms-up study are the same factors used in BellSouth's Outside Plant Construction Management ("OSPCM") system. BellSouth witness Mr. Kephart discusses the OSPCM system in further detail in his testimony.~~

Q. ON PAGE 16, MR. DONOVAN FINALLY RECOMMENDS TO THE COMMISSION THAT AN ENGINEERING FACTOR OF 10% BE USED. PLEASE COMMENT.

~~A.~~A. The 10% is an arbitrary factor selected by Mr. Donovan simply because the Federal Communications Commission ("FCC") uses that figure in its universal service model. He provides no other support for using 10%. Mr. Donovan states that BellSouth, as a co-sponsor of the BCPM advocated the use of an engineering component of 5% of outside plant costs. While it is true the BCPM was populated with a 5% default value, BellSouth did not use that input when running the model. In fact, BellSouth does not use a 5% engineering factor in any of its UNE, retail service, or universal service (BCPM) cost studies. In all of these situations, engineering costs have been captured through in-plant factors developed as a percentage of material

costs. The engineering factors used by BellSouth in the "bottoms-up" study reflect values consistent with previously used in-plant factors. ~~BellSouth engineers have found to best estimate actual engineering costs incurred. These factors, as Mr. Kephart discusses, are used in BellSouth's own planning tools.~~

A. MR. DONOVAN CLAIMS THAT BELLSOUTH IS ATTEMPTING TO RECOUP NON-TELRIC EXPENDITURES THROUGH A "CLOSING FACTOR" SPREAD OVER ALL STRUCTURE COSTS. (PAGE 18) IS HE CORRECT?

A. Absolutely not. BellSouth developed outside plant contractor costs by reviewing the actual activity occurring in Florida and developing BSTLM inputs based on those activities. It is true that BellSouth included miscellaneous contractor costs totaling 25.43% of costs. These are real costs that are often overlooked in other proxy models such as the HAI and the FCC's Synthesis Model. However, as Mr. Kephart explains, these are legitimate costs, and they certainly belong in a TELRIC study. A complete list of all miscellaneous items was included in Attachment 3 to BellSouth's bottoms-up filing (CostCode Misc).

Q. MR. DONOVAN STATES THAT BELLSOUTH HAS INCORRECTLY ASSIGNED RESTORATION COSTS ONTO "BURIED CABLE" AND "BORE BURIED CABLE" ACTIVITIES RATHER THAN REFLECTING THOSE COSTS UNDER THE PROPER CATEGORIES IN THE BSTLM. (PAGE 23) DO YOU AGREE?

A. No. While Mr. Donovan seems to agree that these restoration costs are appropriate costs to include in the bottoms-up study, he appears to disagree with the manner in which BellSouth has spread those costs over buried cable placement and boring costs. Rather than argue about subject matter expert based estimates in the BSTLM of how often these restoration costs actually occur, BellSouth chose to spread these costs out over buried cable placements, underground placements, buried boring and underground boring to develop the average placement costs based upon what actually occurred in Florida. If one accepts Mr. Donovan's argument, that restoration costs should not be associated with boring and chooses to spread all restoration costs over the remaining excavation activities (less boring), the result is an increase in the costs of those remaining activities. That is apparently what Mr. Donovan has recommended since costs in the urban and suburban zones increase after his modifications. However, BellSouth's proposed method of recovering these restoration costs is a straightforward accurate method that reflects actual data and should be adopted by this Commission.

Q. ON PAGE 25, MR. DONOVAN CONTENDS THAT BURIED SPLICE PIT COSTS BE EXCLUDED FROM THE STUDY. IS HE CORRECT?

A. No. Mr. Donovan states that buried splice pits are not needed for normal buried splicing operations because such splices are routinely placed in above ground pedestals. Further, he states that since pedestals are exempt materials, all such costs should be excluded from the study. First, the actual data, i.e., the 2000

contractor activity in Florida (Attachment 3 of BellSouth's filing), clearly shows that costs associated with buried splice pits, including digging, shoring and other costs, do occur. Furthermore, even if the Commission were to accept Mr. Donovan's recommendation that all buried splices should occur above ground in pedestals, he has not accounted for all of the costs in his proposed inputs. While the pedestal material would be captured through the Miscellaneous Material loading (i.e., the exempt material is calculated), the labor associated with placing the pedestal is not currently reflected in the model. These pedestal placing costs would need to be identified and included in the BSTLM costs.

Q. MR. DONOVAN, ON PAGE 25, CLAIMS THAT BELLSOUTH SHOULD HAVE INCLUDED THE COST OF STEEL PIPE, PVC PIPE AND FLEX-PIPE IN WITH THE "PUSH PIPE AND PULL CABLE" CATEGORY OF COSTS RATHER THAN SPREADING THE COST OF SUCH PIPE OVER THE TOTAL BORING ACTIVITY COSTS. DO YOU AGREE?

A. No. BellSouth's approach is based upon the contract, which lists the referenced Steel Pipe, PVC pipe, and Flex pipe as added costs in the Bidding Agreement. That is, these are actual incurred costs as a result of directional boring. As a result, BellSouth loaded these added costs appropriately into the boring activity. This resulted in every foot of boring assuming a fraction of pipe costs (less than 25%). This is a reasonable and factually based approach for identifying the pipe costs. It does not imply that every foot of boring requires a pipe of some sort. Mr. Donovan prefers to identify the cost of the pipe in the push pipe pull cable category, in reality ignoring the contractual facts. In effect, Mr. Donovan's

approach is not based on fact and will result in inaccuracies. BellSouth sees no reason for the Commission to require that BellSouth re-do its cost studies with Mr. Donovan's approach since it is not factually based and is less accurate than BellSouth's method.

Q. MR. DONOVAN, ON PAGE 30 OF HIS TESTIMONY, STATES THAT HE WAS UNABLE TO DETERMINE HOW BELLSOUTH WENT FROM ITS PROPOSED CONDUIT MATERIAL COST PER FOOT PLUS THE 25.43% MISCELLANEOUS LOADING TO THE INPUT VALUES USED IN THE BSTLM FOR CONDUIT MATERIAL COST. CAN YOU EXPLAIN?

A. Yes. The attached exhibit to this testimony, Exhibit DDC-5_120 Day, displays the development of a factor applied to the conduit material costs.

Q. WHY IS THIS LOADING APPROPRIATE?

A. The miscellaneous material, sales tax, supply expense, and other loadings factors, which provide for exempt material, sales tax, right of way, indirect plant labor, interest during construction, etc., are developed as a ratio of non-exempt material for all plant categories. The BSTLM then applies these factors to non-exempt material computed by the model. However, BellSouth used the contracted conduit costs as input into the model. The BSTLM, as currently constructed, places all contractor costs into the EF&I columns in the model. Since these Conduit (and for that matter, Manhole) material costs do not appear in the BSTLM's material fields, the miscellaneous factor is not applied. Hence, if the miscellaneous loading

factors were applied to the conduit account (4C) as it applies to other accounts, the factor would be multiplied by $0 material costs and miscellaneous costs would not be captured. Therefore, to properly capture these incurred miscellaneous material costs for conduit, BellSouth developed a miscellaneous loading factor for Field Reporting Code ("FRC") 4C as a percentage of total contractor installation costs (which includes labor and material) and then applied these factors to the contractor conduit costs (which include labor and material) outside of the BSTLM to properly compute conduit miscellaneous costs. BellSouth's 40% factor for these loadings is based on calculations set forth in Exhibit DDC-5_120 Day. This 40% value is conservative and approximately equals the data for 1998. As can be seen on DDC-5_120 Day, if later data had been used the factor would have been even higher (49%).

In fact, in reviewing the above noted Conduit loading approach, BellSouth discovered that it failed to apply the proper loading to the smaller manhole sizes (1, 2, and 3) and to the underground excavation labor. Since the 4C loading was based upon incurred contractor costs (material and labor), BellSouth intended to apply it to all contractor costs. However, inadvertently the factor was only applied to Conduit and the largest manhole. Thus, in effect BellSouth understated its miscellaneous material costs associated with smaller sized manholes and all underground excavation costs in the filed cost study. This error has been corrected in the January 28, 2002 filing in order to accurately reflect the costs associated with underground excavation and structure.

Q. ON PAGES 33 AND 34, MR. DONOVAN RECOMMENDS THAT BELLSOUTH'S PROPOSED STRUCTURE SHARING PERCENTAGES BE REJECTED AND REPLACED WITH HIS PROPOSED SHARING FACTORS. ARE HIS PROPOSALS REALISTIC AND APPROPRIATE FOR THE COMMISSION TO ADOPT?

A. No, they are not realistic and should not be adopted by this Commission. BellSouth witness Mr. Kephart explains why Mr. Donovan's proposed inputs are inappropriate. However, I will comment on his claim that BellSouth is "creating severe barriers to entry" based on the amount structure sharing assumed in the cost study. (Donovan Testimony, Page 33, Line16) Mr. Donovan compares BellSouth cost study assumption that only .07% of conduit space is leased to Verizon's claim that "more than 30 different companies occupy its conduits in Manhattan" to arrive at his faulty conclusion. (Donovan Testimony, Page 33, Lines 14-15) First, it is not valid to compare the entire state of Florida to Manhattan. Customer density and dispersion and intensity of competition are very different between the two areas. Second, without further information, it is impossible to know exactly what Verizon was discussing. In other words, does the "30 different company" figure reflect actual leasing arrangements in duct space in Verizon-owned conduit, sharing of costs and ownership of underground excavation and conduit systems with other companies, or merely access to conduit systems through the purchase of unbundled elements?

Leasing of duct space is not the same as sharing the construction cost and ownership of conduit. Duct leasing is included in BellSouth's studies in the Conduit Plant-Specific factor. Expenses associated with BellSouth leasing duct

space in other parties' ducts are netted with revenues received from other parties leasing BellSouth owned ducts and included in the conduit (4C) plant-specific expenses. BellSouth used the percentage of duct space leased to other parties in Florida as a surrogate of potential opportunities for underground structure sharing. In effect, Mr. Donovan's proposal will double count the actual sharing since he made no adjustment to the expense factors which already reflect sharing of structures. As Mr. Kephart explains, Mr. Donovan's recommendation of assuming a 50%/50% sharing in rural density zones is completely unrealistic and the 33%/33%/33% sharing in suburban and urban density zones is even less credible. Such sharing assumptions along with the double counting would clearly result in a significant under-recovery of a major portion of BellSouth's investments.

Q. EXHIBIT BFP-8F REFLECTS A 50% REDUCTION TO MANHOLE MATERIAL AND PLACING COSTS. IS THIS APPROPRIATE?

A. No. The implication of such an adjustment is that BellSouth and the ALEC jointly own the structure (i.e., the manhole). To my knowledge, no FCC or Commission rule mandates that BellSouth "sell" a piece of the network to an ALEC. Further, if BellSouth were to share in the material cost of the manhole, it implies that the ALEC would have a free reign to go and come as it pleases. This "joint ownership" arrangement is unmanageable, a security risk, and as stated previously, is not required by any Commission or FCC order. From a cost perspective, the only appropriate sharing of underground structures occurs on a very limited basis through the leasing of conduits. Further, it is my understanding that the BSTLM sizes the manhole based only upon BellSouth's conduit demand. This sizing

routine does not incorporate any conduits "owned" by ALECs. Thus, if Mr. Pitkin wishes to adjust the manhole price for sharing, he must also adjust the manhole sizing routine in the BSTLM, something he has not done. Therefore, Mr. Pitkin's 50% adjustment to the manhole material price is totally inappropriate and should be discarded by this Commission.

Q. MR. DONOVAN CLAIMS ON PAGES 30-32 THAT THE MANHOLE COST DEVELOPMENT IS FLAWED. FROM A COST DEVELOPMENT PERSPECTIVE, CAN YOU RESPOND?

A. Yes. Mr. Donovan states, on pages 31 and 32, that BellSouth distributed the costs of 207 manhole covers and collars over 7 installed manholes. While this is mathematically correct, one must consider that it was BellSouth's aim in the input development to create simple, understandable, and supportable inputs. In regard to Manhole costs, BellSouth originally chose to use cubic feet as the approach to develop costs. Thus, all incurred manhole costs were divided by the installed cubic feet. In most areas and circumstances this simple method is appropriate.

If the Commission finds that BellSouth's approach is improper, then it still should not accept Mr. Donovan's inputs. In fact, Mr. Donovan failed to recognize that BellSouth's simplified inputs also resulted in a "distortion" of the costs for large manholes (Size 5) and the smaller manholes (Sizes 1, 2 and 3). According to the contract, BellSouth incurs a much lower per cubic foot cost for the larger manholes (above 351 cubic feet) than for smaller manholes (under 351 cubic feet). Thus, if the Commission attempts to override BellSouth's simplified inputs on the manhole

covers, it must also take the step of applying the appropriate contractor costs for the size of the manhole.

Q. IF THE COMMISSION DECIDES TO IMPLEMENT MR. DONOVAN'S METHODOLOGY, DO YOU HAVE ANY RECOMMENDATIONS?

A. Yes. Given the findings stated above (and BellSouth's failure to accurately apply the Miscellaneous loading factor, discussed previously) the following tables reflect the development of the inputs that should be used~~, if Mr. Donovan's method is accepted.~~ These values are based upon the actual contractor incurred costs, the appropriate size manholes, the use of one (1) cover and collar per manhole (as Mr. Donovan advocates), and the proper application of the miscellaneous material loading.

Unit Cost Development from Contractor Table

(Attachment 3 of Appendix B of BellSouth's Cost Study details)

Contract Unit Cost	Source (see descriptions below table)	Applicable Manhole sizes	Contractor costs with Miscellaneous loading (Column a *(1+ 0.2543))	Contractor costs with miscellaneous loading and miscellaneous material loading (Column d * (1+0.4))
$ 48.06	1	351 cu.ft. <	$ 60.28	$ 84.39
$ 16.90	2	>= 351 cu.ft.	$ 21.20	$ 29.68
$ 246.48	3		$ 309.16	$ 432.82

Sources:

1: Per Cubic Foot based on M031A value in State Total sheet of the Contractor tables

2: Per Cubic Foot based on M031B value in State Total sheet of the Contractor tables

3: Per Cover costs developed as the sum of total incurred cover costs divided by the number of covers using M045-M056 entries in the State Total sheet of the Contractor tables

BSTLM Input Development

Conduit Size	Manhole Dimensions	Manhole Cubic Feet (based on Column b)	Applicable Cubic Foot Costs	Manhole costs based on Total Cubic Feet (Column c * Column d)	Manhole Cover Costs	BSLTM Underground Contract Labor Inputs: Total Manhole Cost with Cover (Column e+ Column f)
1	3*4*6	72	$ 84.39	$ 6,076.39	$ 432.82	$ 6,509.21
2	3*4*6	72	$ 84.39	$ 6,076.39	$ 432.82	$ 6,509.21
3	4*8*7	224	$ 84.39	$ 18,904.33	$ 432.82	$ 19,337.15
5	6*12*7	502	$ 29.68	$ 14,897.72	$ 432.82	$ 15,330.54

BellSouth's revised cost study dated January 28, 2002 reflects the inputs shown in the above table.

Q. MR. DONOVAN, ON PAGES 36 AND 37 STATES THAT BELLSOUTH'S POLE SPACING "DOES NOT APPEAR TO PASS THE 'RED-FACE' TEST." ADDITIONALLY, HE PROPOSES THAT SPACING FOR ANCHORS AND GUYS IS 1,200 FEET RATHER THAN

THE VALUE OF 500 FEET RECOMMENDED BY BELLSOUTH. PLEASE COMMENT.

A. Mr. Donovan notes that none of the BCPM, HAI and HCPM default values for pole spacing are less than 150 feet. As Mr. Donovan points out, BellSouth had previously also agreed with pole spacing defaults used in the BCPM. However, upon analysis of the number of poles owned by BellSouth in Florida, the number of poles owned by power companies in Florida to which BellSouth cable is attached, and the number of sheath feet of aerial cable in Florida, the facts clearly reveal that these other model default values are understated. Clearly, some span lengths may be 150, 200 or 250 feet depending on the size cables carried on the span and a host of other factors. However, there are also those areas of the network - for example, a road intersection with multiple cable routes intersecting - where there are several poles at various corners of the intersection all in close proximity to one another. While BellSouth agrees it is a simple task to ride in one's car for a mile and count poles per mile, as Mr. Donovan suggests, this is in no way superior to basing cost study inputs on real data. Spacing for both poles and manholes are actually "designed" for each installation. For example, mid-span clearances, joint use clearances, and right-of-way limitations drive most of the design requirements for poles. Installations have unique characteristics for these elements. In this case, the data speaks for itself – BellSouth's pole spacing of 120 feet is an accurate depiction of the reality of the number of poles required to provide the number of sheath feet of aerial cable placed in the network and should be accepted by the Commission.

BellSouth does not maintain records of the number of anchors and guys used, so an approach to determine average spacing similar to that taken for poles was not possible. Furthermore, the 1,200 foot anchor and guy spacing included as a filler in the BSTLM was never modified or evaluated since BellSouth had no intention of using that variable prior to this Commission's order for a bottoms-up study. To refer to that value of 1,200 feet as a "default", as Mr. Donovan does, implies that it is a recommended value when it certainly was not.

Spacing distances were previously reviewed and approved by the Florida Public Service Commission in the Universal Service proceeding, Docket No. 980696-TP.

> Furthermore, we reiterate that this is a model, and every spacing scenario cannot be duplicated. We find that territory-specific pole spacing, guy spacing, and relative pole units are appropriate and recommend accepting the values as submitted by GTEFL and BellSouth. (Order No. PSC-99-0068-FOF-TP, Page 114)

In an effort to provide more accurate data, BellSouth sought when possible to supplement data previously approved by the Commission with actual data and mathematically derive inputs. Therefore, ARMIS data was used to determine the average spacing of poles. Since no such data exists for anchors and guys, BellSouth relied on these previously reviewed and approved inputs from the BCPM model. Since the BSTLM does not provide for spacing by density zones, averages of all densities were used from the BCPM to derive spacing for the anchors/guys.

Q. MR. PITKIN'S EXHIBIT BFP-7 REDUCES BELLSOUTH'S MATERIAL COSTS FOR POLES FROM $300.16 TO $239.31. IS THIS CONSISTENT WITH TESTIMONY FILED ON BEHALF OF AT&T?

A. No. In fact, Mr. Donovan makes "no issues or recommendations" in his testimony with regard to aerial structure material costs. (Donovan Testimony, Page 20, Line 1) Further, Mr. Pitkin does not provide justification for this reduction. Thus, based on this unsupported modification and the numerous other erroneous adjustments advocated by Mr. Donovan and Mr. Pitkin, the Commission should ignore the results of Mr. Pitkin's BSTLM run.

Q. HAVE THE LOGIC CHANGES TO THE BSTLM REFERENCED IN MR. PITKIN AND MR. STEGEMAN'S TESTIMONIES BEEN INCORPORATED IN THE JANUARY 28, 2002 REVISED FILING?

A. Yes. The two applicable logic changes are reflected in this revised filing. Specifically, the cell reference problems with the fiber cable EF&I calculation and with the structure sharing calculation have been made.

Q. HAS BELLSOUTH MADE ANY OTHER REVISIONS TO THE COST CALCULATIONS IN THE JANUARY 28, 2002 FILING?

A. Yes. BellSouth also modified the Hybrid Copper/Fiber Loop costs to modify work times. In my direct testimony I stated that commission-ordered reductions to work times were considered. While this is true for the unbundled network elements

previously reviewed by the Commission, BellSouth failed to consider all of these modifications in the Hybrid Copper/Fiber loop costs. Thus, in accordance with the Commission's previous ruling, the applicable work times were reduced. Additionally, input errors in the location lives were corrected.

Finally, the Feeder/Distribution Interface ("FDI") input to the BSTLM was revised. BellSouth uses contractors to place FDIs with placement costs dependent upon the weight of the equipment being installed. The BSTLM, however, assumes that the TELCO place the FDI. Thus, BellSouth had to convert contractor costs to TELCO placement hours, the BSTLM required input. In performing this conversion calculation, BellSouth made a mathematical error, overstating the placement hours. This has been corrected.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.