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April 4, 2003

BY HAND DELIVERY

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

Re: Undocketed Standardization of Unbundled Network Element Costing

Dear Ms. Bayo:

Enclosed for filing in the above, undocketed matter are the original and fifteen (15) copies of Reply Comments of Sprint-Florida, Incorporated.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning the same to this writer.

Thank you for your assistance in this matter.

Yours truly,

John P. Fons

Enclosures

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In RE: Undocketed
Standardization of Unbundled
Network Element Costing

Filed: April 4, 2003

REPLY COMMENTS OF SPRINT-FLORIDA, INCORPORATED

Sprint-Florida, Incorporated (Sprint) respectfully submits the following reply comments in response to comments filed by AT&T and WorldCom on February 28, 2003, relating to the standardization of unbundled network element (UNE) costing.

I. INTRODUCTION

The foundation for AT&T and WorldCom's comments in this proceeding is an unsubstantiated and factually flawed assertion that use of separate cost models by the ILECs resulted in "inaccurate" UNE prices. AT&T and WorldCom use this conclusion to support their position that a single cost model will result in "comparable and consistent UNE prices." In its reply comments, Sprint will demonstrate that the ILECs' use of their individual cost model is not the cause for differences in UNE prices. Rather, legitimate cost differences, driven by the territories served by the three companies, economies of scale and other factors, cause the differences in input values to the cost models. It is these real-world differences in input values and rate structures that drive the differences in UNE prices. Because these differences are a true reflection of differences in the cost of constructing and maintaining the underlying network, they are entirely consistent with TELRIC and should not be the basis for any claim that a standard cost model for all ILECs is required. Sprint's analysis, which includes information produced by the same

cost models advocated by AT&T and WorldCom, refutes the claim that cost models alone drive differences in costs.

AT&T and WorldCom further assert that the implementation of a single cost model will provide a number of benefits. AT&T and WorldCom's suggested benefits, however, ignore many real-world impacts and resulting costs to ILECs, and blindly assume that litigation costs will dramatically decrease. Their perceived benefits reflect a naïve, one-sided view of the world from AT&T and WorldCom's perspective, and do not consider the real-world impact of requiring that all ILECs use a single cost model. The suggested benefits will either not materialize, or will be more than offset by inefficiencies created by the use of a single cost model.

As recommended in its Initial Comments, Sprint does not support the development of one standard cost model, or the development of a single set of standard inputs. Sprint is, however, supportive of the adoption of a single cost methodology, and of the creation of a tool to accumulate the total charges for a few key ordering scenarios. AT&T comments that the development of a single cost methodology will require significant up-front costs by requiring numerous extensive workshops to develop appropriate standards. While Sprint agrees that there will be work involved in the development of a single cost methodology, it is incredible to suggest that this effort will compare to the huge undertaking and expense that will be involved in developing and implementing a standard cost model, as detailed in Sprint's Initial Comments. Further, it should again be pointed

out that the Commission now has much bigger and immediate issues to pursue in meeting the requirements of the FCC's order in its Triennial Review.

II. DIFFERENCES IN INPUTS, NOT DIFFERENCES IN COST MODELS, DRIVE DIFFERENCES IN COST STUDY RESULTS

AT&T and WorldCom contend that the primary cause of the different results obtained in the Florida UNE proceedings of Sprint, BellSouth and Verizon, is that three different costing methodologies or models were used. They further suggest that the costs and resulting UNE rates should be consistent and comparable if they are based on the same interpretation of TELRIC. These assertions are factually unsupported by AT&T and WorldCom, and, more importantly, ignore the fact that differences in company-specific inputs drive the differences in cost model results.

There has been a great deal of discussion before almost every state utility commission and the FCC in Universal Service Fund proceedings and proceedings for pricing unbundled network elements as to why and how loop costs differ at a wire center level and between companies. In each of those proceedings, the parties recommended the use of various cost models. In USF proceedings, and Florida's is a prime example, the parties recommended different models and inputs, and the commission ordered one model and one set of inputs. The same thing occurred before the FCC, in which HCPM and the default inputs were selected by the FCC. In each of those proceedings, there was one constant that pervaded: rural wire centers are typically more expensive to serve than urban wire centers. In fact, the difference in costs between wire centers is the basis for

the FCC's order that ILECs deaverage UNE loop prices into at least three rate zones—because costs differ substantially from rural to urban wire centers.

As Sprint discussed in its previously filed comments, the three Florida ILECs have legitimate differences in their territories in terms of geography, customer density, and local market conditions. There are also significant differences in size, economies of scale and purchasing power among the three companies. These input differences appropriately should, and do, drive differences in UNE prices. Following TELRIC standards, the UNE rates of Sprint, BellSouth and Verizon are not, could not, and should not be the same.

On pages 10 and 11 of AT&T and WorldCom's comments, they present UNE rates for three wire centers (Bushnell for Sprint, Brooksville for BellSouth and Zephyrhills for Verizon) located along a fifteen mile stretch of US 301 north of Tampa and make the audacious claim that the costs for these wire centers should be comparable. Because the UNE prices for these three wire centers are different, AT&T and WorldCom amazingly reached the self-serving conclusion that it is the use of different cost models that caused this result. They further make the outrageous claim that these differences cause "unreasonable discriminatory conditions to exist in Florida." Sprint's analysis of the cost differences for these three wire centers reveals that it is not the cost models that drive the cost differences, but the unique operating characteristics of these wire centers. As such, the differences in UNE prices are appropriately based on costs, not cost study models, and in no way can they be considered discriminatory.

Sprint's analysis included two components. First, a comparison of the demographic and geographic characteristics clearly demonstrates that cost differences between the three wire centers are entirely consistent with the differences in the areas being served. Second, analysis of the results from cost models supported by AT&T and WorldCom (HCPM and HAI5.0a) reveals similar cost differences for the three wire centers to those resulting from the use of each ILEC's cost model.

Wire Center Demographics and Geography

AT&T and WorldCom's comments show that they either do not understand or choose to ignore the fact that costs differ between wire centers and between companies. To explain these differences, one must look at the demographic and geographic characteristics of the wire centers and the area. According to HCPM, Bushnell covers about 211.8 square miles and 7,987 access lines while Brooksville covers about 298.6 square miles and 30,039 access lines. From these simple statistics, the customer density in Brooksville is almost three times that of Bushnell. On average, there are 37.7 access lines per square mile in Bushnell and 101.3 access lines per square mile in Brooksville. The reason for these differences in population density is that Bushnell is more isolated and rural than the other wire centers.

On one hand, the Bushnell wire center is a rural farming community with the main growth taking place in the town itself. Leaving the town in any direction demonstrates that Bushnell is an isolated community that is separated from other towns in the area by farmland to the north and east, the Wahoo swamp to the west, and the Withlacoochee

Forest to the south. Brooksville, on the other hand, is less rural than Bushnell and is experiencing more growth from the Tampa area. Zephyrhills is the most quickly developing area of the three wire centers. It has been a retirement community, but is becoming more of a bedroom community for Tampa.

Suggesting that Bushnell, Brooksville, and Zephyrhills should have the same loop cost because the wire centers are located along the same highway corridor and that the houses are similarly situated from the road, shows that AT&T and WorldCom do not understand, or choose to ignore, all of the factors that influence cost.

Wire Center Costs from AT&T and WorldCom's Own Models Demonstrate Similar Variability

An analysis of the results of the very models advocated by AT&T and WorldCom provides further evidence that it is not the models that drive the cost differences between the three wire centers. Sprint's analysis of HCPM and HAI5.0a default results for each of the wire centers discussed in AT&T and WorldCom's comments supports the fact that loop costs differ by wire center. While Sprint believes that HCPM and HAI do not accurately reflect costs, and have been shown to systematically understate costs (either through poor assumptions and/or inaccurate inputs), the models can be used to prove a point: costs vary by wire center. The table below illustrates that when HCPM and HAI 5.0a default inputs and settings are used for all companies, the cost results for the three wire centers differ by about the same magnitude found in the current prices that the commission approved and the differences cited by AT&T and WorldCom as being

discriminatory. These cost differences reflect the reality that the wire centers have different geographic and demographic characteristics.

Cost Comparison

Central Office	HCPM CLLI Code	HCPM Cost of Service	HCPM Switched Lines	HCPM Square Miles	Lines/ Square Mile	HAI5.0a Cost of Service
Bushnell	BSHNFLXA	$42.74	7,987	211.8	37.7	$42.93
Brooksville	BKVLFLJF	$29.76	30,039	298.6	101.3	$25.04
Zephyrhills*	ZPHYFLXA	$25.15				$21.19

*ZPHYFLXA is not found in the HCPM or HAI geographic data files. However, based on the distribution of Census Block Groups, the wire center is split between LKLDFLXN, PTCYFLXA, THNTFLXA, and WLCHFLXA. Based on this data, there is an error with the wire center boundary files used in HCPM and HAI.

According to HCPM default results for total cost of service, it is approximately 44% more expensive to provide service in Bushnell than in Brooksville. When only the loop cost is compared, the difference is consistent with that found in the current commission-approved prices and the difference calculated by AT&T and WorldCom.[1] Further, even the model that AT&T and WorldCom built for UNE and USF cost development purposes, HAI5.0a, produces results (using default inputs) that reflect a difference in cost between the three wire centers consistent with that found in the currently approved prices. According to HAI5.0a, the cost of providing service in Bushnell is about 71% higher than in Brooksville. Thus, calculating costs with two of the three models that AT&T and WorldCom support (HCPM and HAI) with consistent inputs/model settings for each wire center, the results show that the differences currently reflected in the commission-

[1] The HCPM loop cost for Bushnell is $38.03 while HAI5.0a produces a loop cost of $38.01. The HCPM loop cost for Brooksville is $24.54 while HAI5.0a produces a loop cost of $20.77. The HCPM estimated loop cost for Zephyrhills is $20.39 while HAI5.0a produces a loop cost of $16.79.

approved prices reflect the differences of the wire centers. Forcing the costs to be similar would distort the fact that these wire centers are simply different topographically, geographically and demographically, and that the costs should be different as well.

Sprint is not proposing that either the HCPM or HAI cost model be used. Sprint is providing these results as an illustration of differences in cost when consistent inputs are used in the same model for all three companies. Despite the fact that costs can be differentiated using HAI or HCPM given valid inputs, the inefficiencies of implementing a unique model for one state and the resulting impacts to ILEC ordering, billing, provisioning and information systems cannot be ignored. In it's Initial Comments, Sprint described at length the system and process changes that would be required in order to implement a single cost model.

Overall Drivers for Cost Differences Between the ILECs

The differences between the three wire centers discussed previously are just a small example of the differences between the Florida serving territories of BellSouth, Sprint and Verizon. Using MapInfo's LECInfo data on the area covered and the approximate access line counts used in Docket No. 990649-TP, the following information reveals the overall differences between the companies' Florida territories:

- Sprint's territory in Florida covers 22,060 square miles and approximately 2,200,000 access lines, reflecting a density of 99.7 access lines per square mile.

- BellSouth's territory in Florida covers 20,392 square miles and 6,900,000 access lines, reflecting a density of 338.4 access lines per square mile. Stated another way, BellSouth serves over three times as many access lines as Sprint in an area that is only eight percent smaller.
- BellSouth's Florida territory is about 3.4 times more densely populated than Sprint's territory.
- Verizon's territory in Florida covers 5,123 square miles and approximately 2,500,000 total access lines, reflecting a density of 488 access lines per square mile.
- Verizon's Florida territory is about 4.9 times more densely populated than Sprint's territory. Stated another way, Verizon serves about 300,000 more access lines than Sprint in an area almost one fifth the size of Sprint's.

The above data is also representative of the companies' national territory and purchasing capacity. Sprint, nationally and in Florida, is the smallest of the three companies and therefore commands less negotiating power for materials and labor. According to fourth quarter 2002 financial statements, Sprint's Local Telephone Division provides about 15 million access line equivalents in 18 states, BellSouth provides about 70 million access line equivalents in nine states, and Verizon provides about 136 million access line equivalents across the United States. BellSouth and Verizon are much larger than Sprint, provide service in many more areas than Sprint, and therefore command better purchasing power and economies of scale than Sprint. These differences in the purchasing power and serving territory of each company further supports the fact that there should be differences between Sprint, BellSouth and Verizon. Thus, there is no

discrimination as suggested by AT&T and WorldCom. Rather, the cost differences between the companies are a reflection of the unique characteristics of different companies serving different markets. These cost differences are real and, as demonstrated with data from several cost models (including HCPM and HAI), are a function of the characteristics of areas being served and not a function of the different cost models.

III. THE SUGGESTED BENEFITS OF ADOPTING A SINGLE MODEL WILL NOT BE REALIZED.

AT&T and WorldCom's suggested benefits from use of a single cost model ignores many real impacts and resulting costs to ILECs and blindly assumes that litigation costs will dramatically decrease. These perceived benefits reflect a naïve, one-sided view of the world from AT&T and WorldCom's perspective, and do not consider the real-world impacts of a requirement that all ILECs use a single cost model. As stated previously, the suggested benefits will either not materialize, or will be more than offset by other inefficiencies created by the use of a single cost model.

Standardization Will Not Reduce Costs

AT&T and WorldCom argue in their comments that the Commission's reliance on a single standardized cost model will reduce the costs for all parties. As Sprint, BellSouth and Verizon all demonstrate in their initial comments, this is clearly not true. All three parties outlined the significant additional costs that would be incurred to implement a standard model, including system modifications, OSS, training, methods and procedures updates, product guides, and billing. Furthermore, additional costs would be incurred

due to the obligation to maintain and operate a cost model solely for use in Florida, unique from the cost models used by the ILECs in the other states in which they operate.

Additionally, as recognized by AT&T and WorldCom, technology and regulation are continually evolving, which will require constant modification of the costing process. Substantial resources will be required to maintain a standard model and the question remains as to who will shoulder the burden of maintaining the model. As was discussed previously, each change to the model will involve an additional proceeding for Staff and the ILECs to reach agreement on the appropriate modifications that will accurately capture costs for each ILEC. AT&T and Worldcom fail to recognize that the ILECs incur all of the costs for developing and maintaining UNE cost models today. There is a significant difference in the resources required to develop, maintain and process UNE cost models than the ALECs and Commission Staff currently commit to reviewing and evaluating ILEC cost models in time-defined UNE cost proceedings.

As AT&T and WorldCom accurately pointed out in their comments, an ILEC may have taken years to design its cost models. It is illogical to abandon these efforts in favor of a standard cost model that sacrifices company-specificity in favor of standard results and cannot accurately calculate the costs which individual ILECs actually incur to provide UNEs. Sprint, BellSouth and Verizon all have operations across multiple states and efficiently employ company-standard UNE cost modeling for all their states. If forced to implement a Florida-specific cost model, each ILEC will have no choice but to spend significant resources on a unique model for Florida, including making changes to OSS,

billing, training, methods and procedures and other related operational areas as discussed in Sprint's initial comments.

AT&T and WorldCom argue that because ALECs will be able to use a standard process for all ILECs in Florida, ALECs will have more incentive to offer telecommunications services across the state rather than only serving the territory of one ILEC. They state that this will reduce the costs to an ALEC for bill audits and ordering. The fallacy of this argument is that ALECs doing business with Sprint rarely do business in only one state. These ALECs will be forced to use multiple processes with Sprint in order to do business in the multiple states in which Sprint operates. This is clearly inefficient for the both the ALEC and the ILEC.

AT&T and WorldCom's claim that use of a single model results in lower costs for all parties is also questionable when one considers that it is unlikely that all three ILECs will be before the Commission at the same time to set UNE rates. The Telecom Act established a process for setting UNE rates that contemplates arbitrations, not generic cost proceedings, as the vehicle for resolving interconnection negotiation stalemates, including those associated with rates. Further, Sprint believes that UNE rate-setting proceedings should be staggered by ILEC and any rates should be effective for at least three years. Given these parameters, there are no compelling reasons for committing the significant resources needed to develop a single cost model for which is there is no immediate need and would not generate the efficiencies for all parties as claimed by AT&T and WorldCom.

Standardization Will Not Reduce Litigation

AT&T and WorldCom comment that standardization of the UNE costing models will decrease litigation expenses by eliminating disputes and by eliminating the discrimination that results from drastic variances in UNE rates. On the contrary, litigation expenses will increase because ILECs will not willingly agree to prices that understate their costs. ILECs will not accept a standard cost model and inputs that sacrifice accuracy and company-specificity for the sake of standard results. Additionally, any changes or updates to the model will require an additional proceeding and have the potential for litigation if all parties don't agree.

Further, AT&T and WorldCom discuss discrimination against the ALECs due to variances in UNE rates. As discussed above at length, it is not a valid expectation that UNE costs should be consistent across ILECs and across the state. Adhering to TELRIC standards and considering the differences in density, territory, and economies of scale, the UNE rates of Sprint, BellSouth and Verizon should never be equal. Forcing a standard cost model and standard inputs on the ILECs will discriminate against Sprint, forcing pricing that understates its costs.

IV. PROCESS TO CHOOSE A SINGLE COST MODEL WOULD BE COMPLICATED AND COSTLY.

The process of choosing a single cost model would be complicated and costly for all parties. ALECs and ILECs would necessarily need to be provided the opportunity to present and defend their own models. AT&T and WorldCom suggest in their comments that the HAI Model 5.3, the FCC's Synthesis Model and BellSouth BSTLM Model

should be included in any model review. It would be patently unfair to start with a restricted list of models to be reviewed based on AT&T and WorldCom's suggestions. Sprint and Verizon would need to be provided the opportunity to support their cost models as well. This would mean that all parties would be required to review and evaluate the functioning of at least five separate models.

All of the cost models that would be introduced in a model review proceeding are complex computer models. Although AT&T and WorldCom claim that there is "inadequate documentation" for the ILEC cost models, Sprint's model, and those of the other ILECs, are thoroughly supported and explained in hundreds of pages of documentation. All parties would need to commit significant resources to review and evaluate each of these models. Although AT&T and WorldCom suggest that this review could be accomplished with a series of workshops, they have understated the amount of effort that would be required to complete a thorough analysis of each of the competing models. They further suggest that the Commission could "develop" one, standard cost model. Although not articulated in their comments, this suggests they contemplate a new model being developed as a product of this process that would then be used by all parties. However, they have failed to provide any solution to the issues of which party would be responsible for the "development" of the model and how the costs for "developing" this model would be funded.

The effort that would be required to arrive at a single UNE cost model for Florida would be extensive for all parties: ALECs, ILECs and the Commission. Given the significant

costs that would be involved in selecting one model, the inefficiencies created for ILECs in adopting a unique model for Florida and the lack of true benefits from use of a single model, there is no compelling reason for the Commission to pursue an objective of selecting a statewide UNE cost model.

V. CONCLUSION

Sprint has demonstrated that the foundation for AT&T and WorldCom's call for a single cost model is based on unsubstantiated and factually flawed claims that UNE prices are "inaccurate" and do not reflect TELRIC principles. Contrary to AT&T and WorldCom's claims, use of different cost models does not drive differences in UNE prices among the ILECs. Rather, it is the legitimate and very real differences in costs driven by the territories served, economies of scale, and other factors that drives the UNE price differences. Hence, adoption of a single cost model will not change these true cost drivers.

No one cost model can accurately and efficiently calculate the costs that all ILECs incur to provide UNEs. There are legitimate, real-world differences in ILECs network technologies, rate structures, provisioning systems and billing systems, which, according to TELRIC standards, should be accounted for in UNE pricing. Sprint does not support the development of one standard cost model to be used by all companies.

No one set of standard inputs will accurately reflect the operations of an individual ILEC. There are differences in geography, customer density, local market conditions, and

economies of scale that legitimately drive differences in UNE pricing, as demonstrated in these reply comments. Sprint does not support the development of a single set of standard inputs.

Standardization of the costing model and inputs will result in significant additional costs by the ILECs to implement. As detailed in Sprint's Initial Comments, a significant number of system and process changes would be required, costing several million dollars. Additionally, standardization forces the ILECs to sacrifice the efficiencies they have gained in their current costing process and requires instead that they implement a unique and inefficient process for one state. It is noteworthy that Sprint, BellSouth and Verizon each detail the same inefficiencies associated with the implementation of a standard cost model. If the Commission were to order use of a single cost model, new costs would be imposed on the ILECs without providing any vehicle for recovering these costs. The ILECs would be forced to reflect such costs in UNE rates. Each company should be responsible for developing its own model and inputs in accordance with TELRIC standards.

An attempt to implement a standard cost model and inputs will involve a protracted proceeding and serve to increase litigation expenses. Any changes or updates to the model will require an additional proceeding and have the potential for litigation. The development of a single cost methodology, allowing each company to utilize its own processes rather than attempting to force a standard model and inputs, will significantly

reduce litigation expenses while achieving the consistency of costing principles and methodology desired by the ALECs, ILECs and the Commission.

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