

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into  
pricing of unbundled network  
elements.

DOCKET NO. 990649-TP  
ORDER NO. PSC-00-1655-PHO-TP  
ISSUED: September 18, 2000

Pursuant to Notice and in accordance with Rule 28-106.209, Florida Administrative Code, a Prehearing Conference was held on August 28, 2000, in Tallahassee, Florida, before Commissioner E. Leon Jacobs, Jr., as Prehearing Officer.

APPEARANCES:

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On behalf of BellSouth Telecommunications, Inc.

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On behalf of Florida Competitive Carriers Association,  
Intermedia Communications, Inc, and Z-Tel.

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On behalf of MCI WorldCom, Inc.

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On behalf of MCI WorldCom, Inc. and Rhythms Links, Inc.

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On behalf of Rhythms Links Inc.

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On behalf of Intermedia Communications, Inc.

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On behalf of DIECA Communications, Inc. d/b/a Covad  
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5116  
On behalf of Broadslate Networks of Florida, Inc.,  
Cleartel Communications, Inc., and Florida Digital  
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On behalf of Florida Cable Telecommunications  
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On behalf of Time Warner Telecom of Florida, L.P.

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On behalf of Supra Telecommunications & Information  
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Florida 32399-0850  
On behalf of the Commission Staff.

#### PREHEARING ORDER

##### I. CONDUCT OF PROCEEDINGS

Pursuant to Rule 28-106.211, Florida Administrative Code, this Order is issued to prevent delay and to promote the just, speedy, and inexpensive determination of all aspects of this case.

##### II. CASE BACKGROUND

On December 10, 1998, in Docket No. 981834-TP, the Florida Competitive Carriers Association (FCCA), the Telecommunications Resellers, Inc. (TRA), AT&T Communications of the Southern States, Inc. (AT&T), MCIMetro Access Transmission Services, LLC and WorldCom Technologies, Inc. (MCI WorldCom), the Competitive Telecommunications Association (Comptel), MGC Communications, Inc.

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(MGC), Intermedia Communications Inc. (Intermedia), Supra Telecommunications and Information Systems (Supra), Florida Digital Network, Inc. (Florida Digital Network), and Northpoint Communications, Inc. (Northpoint) (collectively, "Competitive Carriers") filed their Petition of Competitive Carriers for Commission Action to Support Local Competition in BellSouth's Service Territory. Among other matters, the Competitive Carriers' Petition asked that this Commission set deaveraged unbundled network element (UNE) rates.

On May 26, 1999, this Commission issued Order No. PSC-99-1078-PCO-TP, granting in part and denying in part the Competitive Carriers' petition. Specifically, the Commission granted the request to open a generic UNE pricing docket for the three major incumbent local exchange providers, BellSouth Telecommunications, Inc. (BellSouth), Sprint-Florida, Incorporated (Sprint), and GTE Florida Incorporated (GTEFL). Accordingly, this docket was opened to address the deaveraged pricing of UNEs, as well as the pricing of UNE combinations and nonrecurring charges. An administrative hearing was held on July 17, 2000, on the Part One issues identified in Order No. PSC-00-2015-PCO-TP, issued June 8, 2000. Part Two issues, also identified in Order No. PSC-00-2015-PCO-TP, are scheduled for an administrative hearing on September 19-22, 2000. On August 18, 2000, Order No. PSC-00-1486-PCO-TP was issued granting Verizon Florida Inc.'s (formerly GTE Florida Incorporated) Motion to Bifurcate and Suspend Proceedings, as well as Sprint-Florida Incorporated's and Sprint Communications Company Limited Partnership's Motion to Bifurcate Proceedings, for a Continuance and Leave to Withdraw Cost Studies and Certain Testimony.

Prehearing statements were filed by the parties on August 21, 2000. A joint prehearing statement was filed by the FCCA, AT&T, MCI WorldCom, Intermedia, and Z-Tel, referred to herein as "FCCA Group." Individual witnesses are, however, sponsored separately by members of this group, as set forth in subsequent sections of this Order. BlueStar Networks, Inc., DIECA Communications, Inc. d/b/a Covad Communications Company, and Rhythms Links Inc. also filed a joint prehearing statement. This group is referenced herein as the "Data ALECs." A joint prehearing statement was also filed by Broadslate Networks of Florida, Inc., Cleartel Communications, Inc. and Florida Digital Network, collectively referenced herein as the "Joint ALECs."

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III. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Section 364.183(4), Florida Statutes.

B. It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 364.183(4), Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

1. Any party intending to utilize confidential documents at hearing for which no ruling has been made, must be prepared to present their justifications at hearing, so that a ruling can be made at hearing.

2. In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

- a) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 364.183(4), Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.
- b) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to

present evidence which is proprietary confidential business information.

- c) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.
- d) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.
- e) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Division of Records and Reporting's confidential files.

#### IV. POST-HEARING PROCEDURES

Each party shall file a post-hearing statement of issues and positions. A summary of each position of no more than 50 words per subissue, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of the prehearing order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than 50 words, it must be reduced to no more than 50 words. If a party fails to file a post-hearing statement, that party shall have waived all issues and may be dismissed from the proceeding.

Pursuant to Rule 28-106.215, Florida Administrative Code, a party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 80 pages, and shall be filed at the same time.

V. PREFILED TESTIMONY AND EXHIBITS; WITNESSES

Testimony of all witnesses to be sponsored by the parties has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Such summary shall be limited in time to seven minutes, with the exception of the summary of Rhythms/BlueStar/Covad witness Riolo, who will be allowed 15 minutes to perform a demonstration of removing load coils and bridged tap from a cable, subject to appropriate objections. Such demonstration shall be videotaped by the proffering party, and the videotape entered into the record as an exhibit. BellSouth will also be afforded the opportunity to perform a 15 minute counter-demonstration by one of its witnesses during that witness's summary, subject to appropriate objection. Upon insertion of a witness's testimony, exhibits appended thereto may be marked for identification. After all parties and Staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn.

VI. ORDER OF WITNESSES

Prior to the presentation of witnesses, the collective ALECs will be afforded 20 minutes to make their opening statement, with

BellSouth then having 20 minutes for its opening statement, after which time witnesses for the parties will follow in the order below:

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
<u>All Direct and/or Rebuttal</u>		
Alphonso J. Varner	BellSouth	1,2,4,9,10,11,12
D. Daonne Caldwell	BellSouth	2,3,4,7,8,9,10,11,12
James W. Stegeman	BellSouth	7
Joseph H. Page	BellSouth	7
Ronald M. Pate	BellSouth	7,8
William H. B. Greer	BellSouth	8
Wiley G. Latham	BellSouth	7,8
Walter S. Reid	BellSouth	7
W. Keith Milner	BellSouth	3,4,7
Joseph Gillan	FCCA	1,12
John C. Donovan and Brian F. Pitkin	AT&T & MCI WorldCom	1,7(a),7(e,f,g,h,i,j,k,l,m,n,s),8
Catherine E. Pitts	AT&T & MCI WorldCom	7(o)
Greg Darnell	AT&T & MCI WorldCom	2(a),7(t),7(u)
Brenda J. Kahn	AT&T & MCI WorldCom	4
Jeffrey King	AT&T & MCI WorldCom	8,9(a),10,11,12
Dr. George S. Ford	Z-Tel	1,7(o)
Terry L. Murray	Data ALECS	1,3(b),7(a),7(m),8(a),8(b),8(d),8(e),9(a),11
Joseph P. Riolo	Data ALECS	1,3(a),3(b),7(a),7(m),8(a),8(b),8(d),9(a),11
Eric McPeak	Joint ALECS	3,4,9 and 11
Mark Stacy (Rebuttal only)	Joint ALECS	3,4,9 and 11



<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
James W. Sichter (Rebuttal only)	Sprint	1, 2(a), 2(b)
Kent W. Dickerson	Sprint	3(a), 3(b), 4(a)
Steven M. McMahon	Sprint	8, 11
Talmage O. Cox	Sprint	7(n), 7(r)
William J. Barta (Rebuttal only)	FCTA	1, 2(a), 2(b), 7(a), 7(e), 7(g), 7(t), and 7(u)
David Nilson (Rebuttal only)	Supra	1, 2(a), 2(b), 3(a), 3(b), 4(a), 4(b), 10, 11, 12

## VII. BASIC POSITIONS

### BELLSOUTH:

The Commission's goal in this proceeding is to establish rates for unbundled network elements and interconnection that are "just and reasonable" within the meaning of Section 252(d) of the Telecommunications Act of 1996 ("1996 Act"). BellSouth has conducted and submitted comprehensive forward-looking cost studies in compliance with the pricing rules established by the Federal Communications Commission ("FCC"). Although BellSouth is willing to have the Commission establish rates using BellSouth's cost studies and BellSouth's proposed inputs, it may be necessary for the Commission to revisit such rates at a later date in light of the decision of the United States Court of Appeals for the Eighth Circuit in *Iowa Utilities Board vs. FCC*, 2000 U.S. Appeal Lexis 17234 (Eighth Circuit), July 18, 2000.

### SPRINT:

The 1996 Telecommunications Act, the FCC rules and orders implementing the Act and the court decisions interpreting the Act, require that each ILEC provide new entrants ("ALECs" or "CLECs") with unbundled network elements ("UNEs") at cost using a forward-looking cost standard. This forward-looking cost standard is applicable both to recurring prices and non-

recurring charges, and is also to be used in determining which UNE costs vary significantly on a geographic basis for purposes of deaveraging. The Commission should ensure that the UNE recurring and non-recurring prices to be charged by each ILEC are developed using a consistent forward-looking cost methodology and deaveraging standard.

**FCCA ALECS:**

Only by establishing rates for unbundled network elements that are based on appropriate economic costs can the Commission provide the framework for meaningful competition in the local market in Florida. In this proceeding BellSouth has proffered a new cost model that, as a consequence of improved methods in such areas as customer locations and road networks, generally "builds" a network requiring far fewer materials than did its prior model. In this respect the model itself is an improvement. Yet, counter intuitively, the overall costs claimed by BellSouth in this case--and the UNE rates proposed by BellSouth--are similar to the very high costs and rates proffered by BellSouth in the past. An analysis explains this paradox. BellSouth has artificially inflated the network costs by injecting into its new model a myriad of unrealistic, inappropriate, and inefficient assumptions, methods, factors and inputs. Even though BellSouth prevented parties from accessing all areas of the model necessary to accomplish all needed reforms, witnesses representing ALECs have made and substantiated many corrections that reveal the extent of BellSouth's excesses and that translate into prices for UNEs that are significantly lower than those proposed by BellSouth.

**DATA ALECS:**

This docket will establish recurring rates and nonrecurring charges for unbundled network elements (UNEs) that are critical to the development of competition within the state of Florida. The Commission should rigorously review the cost studies filed in this proceeding to ensure that both recurring rates and non-recurring charges are based on the same forward-looking network design, and that prices are set at a level that recovers only efficient, forward-looking costs in strict accordance with the requirements of the Telecommunications Act of 1996.

**JOINT ALECS:**

Phase II of this proceeding addresses a number of issues concerning UNEs necessary for ALECs to provide advanced services to consumers Florida. It is the Coalition's position that the non-recurring charges associated with the provision of many of these UNEs are significantly overinflated. In particular, BellSouth's proposed non-recurring charges for Unbundled Copper Loops, loop conditioning charges and charges for the Unbundled Subloop Intrabuilding Wire and Cable border on cost prohibitive for the Coalition. Over the past few years, the FCC has aggressively sought to promote competition in the provision of advanced services as required by Section 706 of the Telecommunications Act of 1996. State commissions such as the Florida Public Service Commission ("Commission") play an important role in requiring ILECs to make their networks available to competitive providers on a non-discriminatory basis and at reasonable rates to ensure that competition flourishes and Florida customers can avail themselves of the most advanced telecommunications services. BellSouth's proposed rates do not allow for and in fact stifle competition in Florida.

**ALLTEL:**

Throughout this proceeding, the Commission should follow the following basic principles: (1) only ILECs with approved agreements to provide UNEs should be required to deaverage UNEs; (2) for those ILECs, UNEs should be deaveraged where significant cost differences exist into at least three zones; (3) where there are no significant cost differences, no geographic deaveraging should be required; (4) forward looking costs should be used to determine whether significant cost differences exist and (5) the Commission's final order in this docket should make it clear that rural companies retain their right under Section 251(f)(2) to seek a modification of the deaveraging requirements established in this proceeding under the standard in Section 251(f)(2).

**FCTA:**

BellSouth has submitted recurring and nonrecurring cost studies in response to the Commission's list of issues outlined in its March 16, 2000 Order. The companies have also advanced their

proposals for geographically deaveraging UNEs. BellSouth, in particular, argues that the geographic deaveraging of UNE rates should be accompanied by rate rebalancing and the establishment of a State universal service fund.

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

BellSouth's "rate group to zone mapping" methodology blurs the distinction of cost differences among wire centers and between geographic zones. In order to send the correct pricing and investment signals to CLECs, the companies should geographically deaverage UNE rates based upon a methodology that logically groups wire centers with similar cost characteristics together.

**TIMEWARNER:**

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

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**SUPRA:**

The Commission's goal in this proceeding is to establish rates for unbundled network elements and interconnection that are "just and reasonable" within the meaning of Section 252(d) of the Telecommunications Act of 1996. Although some questions have been raised regarding the methodology of pricing as a result of the recent decision of the United States Court of Appeals for the Eighth Circuit in *Iowa Utilities Board vs. F.C.C.*, Case No. 96-3321 (8th Cir., July 18, 2000), Supra Telecom is of the opinion that this Commission can still render a valid decision on the pricing of unbundled network elements based upon the information set forth in the record.

**STAFF:**

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions. Staff has no position at this time.

VIII. ISSUES AND POSITIONS

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

**POSITIONS**

**BELLSOUTH:**

In establishing rates for unbundled network elements and interconnection, the Commission must apply the factors set forth in 47 U.S.C. § 252(d) and applicable FCC regulations (to the extent they have not been vacated by the United States Court of Appeals for the Eighth Circuit). The Commission also should consider the Eighth Circuit's admonition that "it is the cost of providing the actual facilities and equipment that will be used by the competitor (and not some state of the art presently available technology ideally configured but neither deployed by the ILEC nor to be used by the competitor) which must be ascertained and determined." See *Iowa Utilities Board vs. FCC*, 2000 U.S. Appeal, Lexis 17234 (Eighth Circuit), July 18, 2000. The Commission also must ensure that rates are established at such a level so as to implement local competition in a fair and balanced manner.

**SPRINT:**

The only factors which the Commission should consider are the forward-looking cost standards authorized by Section 252(d)(1) of the 1996 Telecommunications Act, the FCC's rules and orders implementing that section of the Act, and the court decisions interpreting the Act.

**FCCA ALECS:**

The Commission should focus on the forward-looking costs that would be incurred by the ILEC when an ALEC obtains an unbundled network element or combination of such elements. Forward-looking costs are the best measurement of the relevant and pertinent costs that an ILEC incurs to provide a UNE, because those are the only costs that affect future decisions. Use of embedded costs would violate accepted economic theory, overstate UNE prices and impede competition. With respect to combinations, BellSouth's concept of "full market value" is

another attempt at abandoning cost-based pricing. BellSouth's proposal to set combination rates equal to the value of its retail services would cripple the development of competition and would fail to meet the requirement of the Act to establish forward-looking cost-based UNE rates. The Commission should combine the forward-looking cost methodology it has historically embraced, the experience it has gained since the early arbitrations, and the better data that has become available since then to set cost-based UNE rates that will promote the development of local competition in Florida.

**DATA ALECS:**

Adopt FCCA position. Moreover, the Commission should adopt recurring and nonrecurring charges for all elements, including xDSL capable loops, that reflect the efficient provisioning on a single, consistent, forward-looking network architecture.

**JOINT ALECS:**

No position at this time.

**ALLTEL:**

The factors which the Commission should consider are the cost Standards as set forth in Section 252(d)(1) of the 1996 Telecommunications Act, the FCC's rules and orders implementing that section of the Act, and the court decisions interpreting the Act and the FCC's rules. Cost differences are the only meaningful way to deaverage UNEs.

**FCTA:**

The primary consideration of the Commission in its efforts to establish permanent rates for unbundled network elements and UNE combinations is to base the rates upon fully supported cost studies that closely follow the appropriate costing methodology. If appropriate cost-based rates are developed, then the attendant concerns of regulators, the incumbent local exchange carriers, and other parties should be satisfied. Appropriate cost-based rates will promote fair and responsible competitive entry under the requirements of the Telecommunications Act of 1996 and will protect the incumbent local exchange carriers as the providers of the facilities necessary to provision the unbundled network elements and UNE combinations.

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

However, BellSouth is opposed to the establishment of UNE rates based upon forward-looking, economic costs. BellSouth states that a forward-looking, economic cost methodology will not provide for the full recovery of the carriers' costs in the provision of UNEs.

It is improper to include the embedded costs of the ILEC in the development of UNE rates. By definition, embedded costs reflect historical purchase prices, network configurations, and operating procedures. To the extent that these cost areas reflect any past inefficiencies, prices based upon embedded costs will lead to inappropriate cost recovery and would not be recovered in a competitive market. On the other hand, prices based upon forward-looking, economic costs give the appropriate signals to producers and consumers and ensure efficient entry and utilization of the telecommunications infrastructure.

Additionally, BellSouth states that optimizing competitive development would require prices to be set, at a minimum, to cover the embedded costs incurred by the Incumbent Local Exchange Carrier ('ILEC')." BellSouth apparently believes that a forward-looking, economic cost methodology prevents it from recovering its shared and common costs.

The incumbent carriers can recover a reasonable share of their forward-looking joint and common costs under the forward-looking, economic cost methodology. Most parties, including CLECs, acknowledge that the incumbent local exchange carriers are entitled to recover an appropriate portion of their forward-



looking joint (i.e. shared) and common costs.

Finally, it is BellSouth's perception that a forward-looking, economic cost methodology does not provide BellSouth the opportunity to earn a reasonable profit as permitted by the 1996 Act. But BellSouth, as well as all other ILECs should not be allowed to include an economic profit in their proposed UNE rates. A more reasonable view with respect to profits that exceed a company's cost of capital holds that such profits are considered supra-normal and temporary. Absent artificial barriers to entry (e.g. monopoly status of the market provider) in the marketplace, the firm will only realize the supra-normal profits in the short-term because other capable firms will be attracted to the prospect of earning supra-normal profits. As more firms enter and compete in the marketplace, prices will be driven back towards the level where only the fair and reasonable cost of capital is being recovered.

Reasonable, forward-looking rates for unbundled network elements should make it possible for CLECs to reach a wider range of consumers because the economies of scale and scope that were referred to earlier will be available on competitive terms. With reasonable, economic cost-based rates, CLECs will be in a better position to profitably serve the average consumer, not just the high revenue-high margin subscriber.

**TIMEWARNER:**

The primary consideration of the Commission in its efforts to establish permanent rates for unbundled network elements and UNE combinations is to base the rates upon fully supported cost studies that closely follow the appropriate costing methodology. If appropriate cost-based rates are developed, then the attendant concerns of regulators, the incumbent local exchange carriers, and other parties should be satisfied. Appropriate cost-based rates will promote fair and responsible competitive entry under the requirements of the Telecommunications Act of 1996 and will protect the incumbent local exchange carriers as the providers of the facilities necessary to provision the unbundled network elements and UNE combinations.

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economic costs, then competing telecommunications service providers should have the opportunity to capture the same types of economies of scale and scope that the incumbent local exchange carrier benefits from. As a result, the telecommunications carriers requesting unbundled network elements should be able to produce more efficiently and compete more effectively - all to the ultimate benefit of the consumer of telecommunications services. In addition, prices based upon a forward-looking costing methodology reduce the ability of the incumbent local exchange carrier to engage in anti-competitive pricing behavior.

However, BellSouth is opposed to the establishment of UNE rates based upon forward-looking, economic costs. BellSouth states that a forward-looking, economic cost methodology will not provide for the full recovery of the carriers' costs in the provision of UNEs.

It is improper to include the embedded costs of the ILEC in the development of UNE rates. By definition, embedded costs reflect historical purchase prices, network configurations, and operating procedures. To the extent that these cost areas reflect any past inefficiencies, prices based upon embedded costs will lead to inappropriate cost recovery and would not be recovered in a competitive market. On the other hand, prices based upon forward-looking, economic costs give the appropriate signals to producers and consumers and ensure efficient entry and utilization of the telecommunications infrastructure.

Additionally, BellSouth states that optimizing competitive development would require prices to be set, at a minimum, to cover the embedded costs incurred by the Incumbent Local Exchange Carrier ('ILEC')". BellSouth apparently believes that a forward-looking, economic cost methodology prevents it from recovering its shared and common costs.

The incumbent carriers can recover a reasonable share of their forward-looking joint and common costs under the forward-looking, economic cost methodology. Most parties, including CLECs, acknowledge that the incumbent local exchange carriers are entitled to recover an appropriate portion of their forward-looking joint (i.e. shared) and common costs.

Finally, it is BellSouth's perception that a forward-looking, economic cost methodology does not provide BellSouth the

opportunity to earn a reasonable profit as permitted by the 1996 Act.

But BellSouth, as well as all other ILECs should not be allowed to include an economic profit in their proposed UNE rates. A more reasonable view with respect to profits that exceed a company's cost of capital holds that such profits are considered supra-normal and temporary. Absent artificial barriers to entry (e.g. monopoly status of the market provider) in the marketplace, the firm will only realize the supra-normal profits in the short-term because other capable firms will be attracted to the prospect of earning supra-normal profits. As more firms enter and compete in the marketplace, prices will be driven back towards the level where only the fair and reasonable cost of capital is being recovered.

Reasonable, forward-looking rates for unbundled network elements should make it possible for CLECs to reach a wider range of consumers because the economies of scale and scope that were referred to earlier will be available on competitive terms. With reasonable, economic cost-based rates, CLECs will be in a better position to profitably serve the average consumer, not just the high revenue-high margin subscriber.

**SUPRA:**

Under the TELRIC model and the FCC's previous pricing rules this Commission should only consider a forward-looking network design based upon the most efficient technology currently available. Under the *Iowa Utilities Board* case, current costs are also now relevant as long as the existing equipment is being depreciated. Thereafter, an ILEC must invest in the most efficient equipment and design available. There should be no non-recurring costs when such costs will never be incurred; such as conversions of service "as is". Finally, network upgrades, such as line-conditioning, should be amortized over the life of the asset.

**STAFF:**

No position at this time.

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

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

- (1) loops (all);
- (2) local switching;
- (3) interoffice transport (dedicated and shared);
- (4) other (including combinations).

**POSITIONS**

**BELLSOUTH:**

(a) Because of the longstanding policy of purposely pricing some services in Florida markedly above costs (e.g., rates for business service) in order to price other services at or below cost (e.g., rates for residential service), the Commission should adopt a deaveraging methodology that provides consistency between the structure of existing retail rates, resale, and prices for unbundled network elements. To ensure this consistency and to reduce the opportunity for arbitrage, the Commission should utilize existing local exchange rate groups to define three deaveraged zones for deaveraging purposes as proposed by BellSouth.

(b) Because the recurring costs of unbundled loops and local channels (including combinations involving these elements) vary by geographic location, the recurring costs of these elements should be deaveraged, consistent with BellSouth's proposed methodology. Other unbundled network elements either do not display a significant level of cost variation by geographic location (such as local switching) or have price structures that already account for geographic cost differences (such as interoffice transport).

**SPRINT:**

(a) Prices for UNEs should be deaveraged to the degree necessary to avoid significant deviations between the rate charged and the actual forward-looking costs of providing that UNE in a specific geographic area. The appropriate deaveraging

should be on a wire center-by-wire center basis, with wire centers grouped into UNE zones, subject to the constraints that (a) the average rate for a UNE zone should not deviate by more than 20% from the wire center forward-looking cost of that UNE for any wire center included in that zone and (b) the number of zones should not be administratively cumbersome.

(b) The forward-looking economic costs for unbundled loops, subloops, local switch ports and local switching usage, common and dedicated transport, and dark fiber all vary significantly by geographic area and, therefore, should be deaveraged. Additionally, any UNE platforms or combinations which include UNES that exhibit significant geographic cost variances should likewise be deaveraged.

**FCCA ALECS:**

(a) The requirement that a UNE rate be based on forward-looking costs is applicable to all UNE rates, including deaveraged rates. Accordingly, the Commission should select a methodology that focuses solely on identified geographical differences between forward-looking costs. BellSouth's proposal fails this criterion. BellSouth proposes to stratify wire centers on the basis of its common retail rate groups, and then calculate the average costs of the wire centers in each resulting group. However, areas used for retail service often include both low cost and high cost areas. Accordingly, this method of dividing geographic areas would place greater emphasis on consistency of retail revenues than on differences in economic costs.

The Commission should prescribe a minimum of three geographical areas within the service area of each ILEC that would be differentiated on the basis of variances in forward-looking economic costs.

(b) The rates for all loops of every type should be deaveraged.

**DATA ALECS:**

(a) Adopt FCCA position.

(b) Adopt FCCA position.

**JOINT ALECS:**

No position at this time.

**ALLTEL:**

a) Prices for UNEs should be deaveraged where measurable cost differences exist into at least three zones. The zones to be established were at the wire center level and are determined by company, not by state. In other words, each incumbent LEC in a state will establish at least three UNE price zones based on cost differences.

b) The rates for all loops of every type should be deaveraged. The same zones should exist for all loops i.e. 2 wire loops for a given wire center should be grouped in the same wire center zone as 4 wire loops.

**FCTA:**

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

BellSouth advocates that the wire centers within its existing rate groups be classified into one of three zone designations. BellSouth's rate group to zone mapping approach results in geographic zones that include wire centers with wide-ranging average monthly loop costs. The extent of the low cost/high cost wire center combination within each proposed geographic zone is material and blurs the distinction of cost differences among wire centers and between geographic zones. There should be a more homogenous classification of wire centers to geographic zones based upon the cost characteristics of the individual wire centers.

The FCTA recommends that the methodology adopted as part of the stipulation reached among the parties in support of interim UNE rates in Florida be used for permanent pricing purposes. In the stipulation methodology, the deaveraging of the unbundled loop is based upon the ratio of an individual wire center's average monthly loop cost to the statewide average monthly loop cost. All wire centers with costs of 0% to 100% of the statewide average loop cost are assigned to Zone 1. All wire centers with average loop costs ranging from 101% to 200% of the statewide average are classified to Zone 2. Finally, all wire centers with average loop costs in excess of 200% of the statewide average cost are placed in Zone 3.

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

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

(b) (1) The rates for an unbundled network element should be deaveraged where significant cost variations are present. For instance, the cost attributes of a loop reflect geographic differences. In highly concentrated urban areas, loop lengths tend to be shorter than in the more sparsely populated rural areas. Since loop length is considered to be a major cost driver in the provision of a loop, it is reasonable for the Commission to geographically deaverage the rates for an unbundled loop.

(2) One would not expect switching costs to differ materially between similarly configured switches whether they are deployed in an urban market or a rural wire center.

(3) Other UNEs, such as interoffice transport, already have rate structures (i.e. on a per mile basis) that account for geographic cost variations.

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

**TIMEWARNER:**

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

BellSouth advocates that the wire centers within its existing rate groups be classified into one of three zone designations. BellSouth's rate group to zone mapping approach results in geographic zones that include wire centers with wide-ranging average monthly loop costs. The extent of the low cost/high cost wire center combination within each proposed geographic zone is material and blurs the distinction of cost differences among wire centers and between geographic zones. There should be a more homogenous classification of wire centers to geographic zones based upon the cost characteristics of the individual wire centers.

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(b)(1) The rates for an unbundled network element should be deaveraged where significant cost variations are present. For instance, the cost attributes of a loop reflect geographic differences. In highly concentrated urban areas, loop lengths tend to be shorter than in the more sparsely populated rural areas. Since loop length is considered to be a major cost driver in the provision of a loop, it is reasonable for the Commission to geographically deaverage the rates for an unbundled loop.

(2) One would not expect switching costs to differ materially between similarly configured switches whether they are deployed in an urban market or a rural wire center.

(3) Other UNEs, such as interoffice transport, already have rate structures (i.e. on a per mile basis) that account for geographic cost variations.

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

**SUPRA:**

The appropriate methodology for deaveraging UNEs is one that attempts to accurately assess the true potential cost of the UNE utilizing the TELRIC model assumptions. Loops should be deaveraged based upon categories of loop length. Local switching need not be deaveraged, while shared and dedicated

transport should be priced per distance and usage of trunk capacity. Considerations and price reductions should also be given for line sharing; including line sharing using Digitally Added Main Lines.

**STAFF:**

No position at this time.

**ISSUE 3:** (a) What are xDSL capable loops?

(b) Should a cost study for xDSL-capable loops make distinctions based on loop length and/or the particular DSL technology to be deployed?

**POSITIONS**

**BELLSOUTH:**

(a) The following are xDSL capable loops offered by BellSouth and ordered by requesting carriers: (1) High Bit-Rate Digital Subscriber Line (HDSL) compatible loop; (2) Asymmetrical Digital Subscriber Line (ADSL) compatible loop; (3) Unbundled Copper Loop (UCL) - Long; (4) Unbundled Copper Loop - Short; (5) Integrated Services Digital Network (ISDN) capable loop; and (6) Universal Digital Channel (UDC) capable loop. Requesting carriers can order other loops from BellSouth that may or may not support the particular xDSL technology that the carrier seeks to deploy.

(b) Because the cost of provisioning xDSL capable loops is a function of both the loop length and the particular xDSL technology to be deployed, it is appropriate for a cost study for xDSL capable loops to recognize these factors in developing costs.

**SPRINT:**

(a) At the current time, xDSL capable loops are copper loops that are 18,000 feet in length or shorter and do not contain any devices which impede the xDSL frequency signaling such as repeaters, local coils or excess bridged taps; or have been conditioned to remove such impeding devices.

(b) Other than the 18,000 feet distinction and the need for conditioning, a cost study for xDSL-capable loops need not make any such distinction.

**FCCA ALECS:**

(a) Adopt the positions of Covad, BlueStar, and Rhythms Links as their positions on Issues 3(a) and 3(b).

(b) Adopt the positions of Covad, BlueStar, and Rhythms Links as their positions on Issues 3(a) and 3(b)

**DATA ALECS:**

(a) xDSL capable loops are loops that can be used to provide xDSL services. In a forward-looking network, the loops used to provide xDSL services are identical or nearly identical to those used to provide voice grade services. In a forward-looking network, such facilities include both "clean copper loops" and fiber-fed digital loop carrier (DLC) based loops.

(b) No. The Commission should adopt costs for all loops, including xDSL capable loops, that reflect the efficient provisioning of such loops in a forward-looking network architecture. In a forward-looking network, a cost study for xDSL-capable loops should not make distinctions based on loop length or on the particular xDSL technology to be deployed.

**JOINT ALECS:**

(a) No position at this time.

(b) The costs of xDSL-capable loops should neither be based upon the length of the loop nor the type of DSL technology deployed.

**ALLTEL:**

(a) xDSL capable loops are copper loops that are less than 18,000 feet in length and are not conditioned. They do not contained any devices, such as repeaters, load coils and/or bridge taps, which impede the xDSL frequency.

(b) The cost methodology for a xDSL-capable loop should be the same as other loops, less conditioning.

**FCTA:**

No position at this time.

**TIMEWARNER:**

No position at this time.

**SUPRA:**

xDSL capable loops are copper loops with no load coils, and in some instances no bridge taps. The length of xDSL capable loops should not be arbitrarily set at any distance since some equipment can provision service up to 33,000 feet. Loops should be priced based upon length with line conditioning being amortized over the economic life of the loop. Different classes or grades of xDSL capable loops can be specified based upon loop length and modulation capability.

**STAFF:**

No position at this time.

**ISSUE 4:** (a) Which subloop elements, if any, should be unbundled in this proceeding, and how should prices be set?

(b) How should access to such subloop elements be provided, and how should prices be set?

**POSITIONS**

**BELLSOUTH:**

(a) BellSouth should be required to unbundle subloop elements consistent with the FCC's Third Report and Order in CC Docket 96-98, Implementation of the Local Competition Provisions of the Telecommunications Act of 1996. There has been no showing that any additional subloop elements are "necessary" or that BellSouth's failure to provide any such additional subloop elements would "impair" the ability of an efficient carrier to provide telecommunications services in Florida. Prices for unbundled subloop elements should be established using the same cost methodology used for other unbundled network

elements consistent with BellSouth's position on Issues 1, 7, and 8.

(b) Access to subloop elements should be provided in a similar manner as approved by this Commission in Docket No. 990149-TP, which involved the use of an access terminal to provide MediaOne with access to Network Terminating Wire in multiple dwelling units. The concept of an access terminal by which ALECs can access other subloop elements reasonably balances the need for such access with the need to protect network reliability.

**SPRINT:**

(a) Because subloop elements are a newly defined UNE - FCC Rules: Section 51.319(a)(2) - it is not possible, at this time, to determine which subloop elements will be required or in what amounts.

(b) No position at this time.

**FCCA ALECS:**

(a) The following sub-loop elements must be unbundled:

**Sub-Loops**

Sub-Loop Feeder Per 2-Wire Analog Voice Grade Loop  
Sub-Loop Distribution Per 2-Wire Analog Voice Grade Loop  
Sub-Loop Distribution Per 4-Wire Analog Voice Grade Loop  
Network Interface Device Cross Connect  
2-Wire Intrabuilding Network Cable  
4-Wire Intrabuilding Network Cable  
Sub-Loop - Per Cross Box Location - CLEC Feeder Facility Set-Up  
Sub-Loop - Per Cross Box Location - Per 25 Pair Panel Set-Up  
Sub-Loop - Per Building Equipment Room - CLEC Feeder Facility Set-Up  
Sub-Loop - Per Building Equipment Room - Per 25 Pair Panel Set-Up  
Sub-Loop - Per Cross Box Location - CLEC Distribution Facility Set-Up  
Sub-Loop - Per Building Equipment Room - CLEC Distribution Facility Set-Up  
Sub-Loop - Per 2-Wire Analog Voice Grade Loop SL2/Feeder Only

Sub-Loop - Per 4-Wire Analog Voice Grade Loop/Feeder Only  
Sub-Loop - Per 2-Wire ISDN Digital Grade Loop/Feeder Only  
Sub-Loop - Per 4-Wire 56 or 64 Kbps Digital Grade Loop/Feeder Only  
Sub-Loop - Per 2-Wire Copper Loop short/feeder Only  
Sub-Loop - Per 4-Wire Copper Loop short/feeder only  
Sub-Loop - Per 2-Wire Copper Loop short/distribution only  
Sub-Loop - Per 4-Wire Copper Loop short/distribution only  
Network Interface Device - 2 line  
Network Interface Device - 6 line

**Loop Channelization and CO Interface (inside Central Office)**

Unbundled Loop Concentration - System A (TR008)  
Unbundled Loop Concentration - System B (TR008)  
Unbundled Loop Concentration - System A (TR303)  
Unbundled Loop Concentration - System B (TR303)  
Unbundled Loop Concentration - DS1 Line Interface Card  
Unbundled Loop Concentration - POTS Card  
Unbundled Loop Concentration - ISDN (Brite Card)  
Unbundled Loop Concentration - SPOTS Card  
Unbundled Loop Concentration - Specials Card  
Unbundled Loop Concentration - TEST CIRCUIT Card

**Concentration per system per feature activated (outside Central Office)**

Unbundled Loop Concentration - Digital 19, 56, 64 Kbps Data  
Unbundled Loop Concentration - System A (TR008)  
Unbundled Loop Concentration - System B (TR008)  
Unbundled Loop Concentration - System A (TR303)  
Unbundled Loop Concentration - System B (TR303)  
Unbundled Sub-Loop Concentration - USLC Feeder Interface  
Unbundled Loop Concentration - POTS Card  
Unbundled Loop Concentration - ISDN (Brite Card)  
Unbundled Loop Concentration - SPOTS Card  
Unbundled Loop Concentration - Specials Card  
Unbundled Loop Concentration - TEST CIRCUIT Card  
Unbundled Loop Concentration - Digital 19, 56, 64 Kbps Data

**Unbundled Terminating Wire**

Unbundled Network Terminating Wire (NTW) per Pair

(b) As the FCC has recognized, access to subloop elements is likely to be the catalyst that will allow competitors to deploy complementary facilities and, eventually, to develop competitive loops.

With respect to intrabuilding network cable (riser) and network terminating wire, BellSouth proposes charges based on a means of access that violates the FCC's UNE remand order. Despite the fact that the order calls for a single point of interconnection, BellSouth's calculation assumes BellSouth would install duplicative facilities that would be used only by ALECs, then require cross connections to BellSouth's existing cross connect device. Imposing the cost of additional equipment on new entrants is not competitively neutral. It is unnecessary in view of arrangements-such as appropriate indemnification requirements-that can satisfy any concerns for network security. BellSouth must provide a single point of interconnection, and the Commission should establish the UNE price that corresponds to this less costly means of interconnection.

**DATA ALECS:**

- (a) Adopt FCCA position.
- (b) Adopt FCCA position.

**JOINT ALECS:**

(a) Intra-building Network Cable (INC), which also comprises Network terminating Wire, should be unbundled in this proceeding and prices should be set in accordance with the Direct Testimony of Mark Stacy.

(b) ALECs should be entitled to have direct access to BellSouth's network, without being forced to install a 25-pair capacity access terminal. Moreover, an ALEC should not be forced to bear the entire financial burden associated with provisioning a 25-pair panel when it orders its first pair, and then bear the full costs again each time it orders an additional pair. Rather, BellSouth should be required to pre-wire an entire multi-dwelling unit ("MDU") when a first pair is ordered and, in accordance with federal law, an ALEC should be responsible only for its pro-rata share of the facilities it actually uses. Moreover, the Commission should revisit its

Rule 25-4.0345-1B. Consistent with the FCC's UNE Remand Order, the Commission should adopt a flexible approach to determining the point of demarcation for MDUs. For example, if an ALEC enters into an agreement with the building owner of a MDU, wherein the building owner allows the ALEC direct access to the inside wiring, then that ALEC should not be required to purchase INC from BellSouth. If, however, an ALEC wishes to enter into an interconnection agreement with BellSouth in order to purchase an entire loop to the customer premise, then it should be entitled to do so. In other words, as recognized by the FCC, the demarcation point should be flexible and based upon the nature of the relationship between the parties involved.

**ALLTEL:**

No position at this time.

**FCTA:**

No position at this time.

**TIMEWARNER:**

No position at this time.

**SUPRA:**

All subloops and elements should be unbundled on an dedicated and shared use basis. For dedicated use, the unbundled subloop price should based upon categories of loop lengths. For shared use, subloop costs should be further reduced by the proportion of channels available for use on the subloop. For dedicated ports, ALECs should pay the amortized cost of the port on a recurring charge basis. For shared ports, each carrier should pay the pro-rata cost of the amortized port based upon the percentage of their customers being served by that port.

**STAFF:**

No position at this time.



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

- (a) network design (including customer location assumption);
- (e) structure sharing;
- (f) structure costs;
- (g) fill factors;
- (h) manholes;
- (i) fiber cable (material and placement costs);
- (j) copper cable (material and placement costs);
- (k) drops;
- (l) network interface devices;
- (m) digital loop carrier costs;
- (n) terminal costs;
- (o) switching costs and associated variables;
- (p) traffic data;
- (q) signaling system costs;
- (r) transport system costs and associated variables;
- (s) loadings
- (t) expenses
- (u) common costs
- (v) other.

POSITIONS

BELLSOUTH:

The appropriate assumptions and inputs that should be used in the development of forward-looking recurring costs are those set forth in the cost studies filed by BellSouth on August 16, 2000, and as explained in the prefiled testimony of BellSouth witnesses D. Daonne Caldwell, Walter S. Reid, Joseph H. Page, W. Keith Milner, James W. Stegeman, Ronald M Pate, and Wiley G. Latham.

SPRINT:

No position at this time, except as to Issues 7(n) and 7(r).

(n) "terminal costs" should be developed by terminal bandwidth (OC3, OC12, OC48) and should include all of the common components to make it operational.

(r) "transport system costs and associated variables" should include all of the direct cost components required for the service to be fully functional. The largest single detriment in the unit cost of a DS1, DS3, OC3 or OC12 transport circuit is utilization - the volume of traffic transmitted over a specific transport route. Additionally, terminal bandwidth - OC3, OC12, OC48 - and distance must be considered.

**FCCA ALECS:**

(a) Many of the numerous faulty methodologies, inputs, and assumptions employed by BellSouth that overstate the costs calculated by the BSLTM relate to network design. For instance, BellSouth modeled three different scenarios: "Combo," "All Copper," and "BST 2000." BellSouth should have directed its model to construct a single network that estimates the forward-looking costs using existing technology. The Commission should utilize only the Combo scenario, which employs integrated digital loop carrier and a mix of copper and fiber facilities. The "all copper" scenario would be impractical in the real world and would artificially inflate the cost of a copper loop. Further, it is not necessary to assume an all-copper network to study unbundled copper loops (the sole purpose to which BellSouth applied the scenario); the Combo scenario can be used for that purpose. The BST 2000 scenario should be rejected because it assumes a network that requires three separate conversions (analog-to-digital, then to analog at the switch, and back to digital) at different points in the network, instead of a single analog to digital conversion at the remote terminal. This assumption is inefficient and unrealistic in an era in which the digital switches can be and are integrated with the digital loop carrier (as they are assumed to be in the "Combo" scenario) and in which the new entrants' networks will be all digital. The assumption can only increase UNE prices artificially.

In addition, BellSouth's loop length inputs do not reflect efficient network construction. To arrive at the most economical network, the inputs to the model should include a maximum loop length of 16,800 feet on 26-gauge copper, and extended range line cards above 13,000 feet.

The BSLT fails to employ the appropriate minimum spanning road tree when "constructing" DLC. Instead, the model mistakenly relies on the same MSRT used to develop the feeder network. As a result, the model may artificially restrict the number of customers that can be served by a single DLC., thereby overstating costs.

Another flaw separately overstates the cost of DLC equipment. The data provided in the model indicates that BellSouth obtains DLC equipment from two vendors. One of the vendors is more expensive than the other for large DLCs, but less expensive for small DLCs. The cost-effective modeling approach would be to assume that all small DLC facilities are purchased from one vendor and all large DLCs from the other. Instead, BellSouth inappropriately assumed a "mix" of large and small facilities purchased from each. Therefore, BellSouth failed to assume the most cost-efficient investment in DLC facilities.

In designing the network BellSouth erroneously assumed a "rectilinear" or "perpendicular" drop pattern, i.e. a pattern that assumes the service drop will follow the perimeter of the lot and then approach the residence at a right angle, when in fact the drop typically and more efficiently runs from the lot corner to the NID. The impact of the inappropriate assumption was to inflate the amount of investment in drops by 21.7%. (BellSouth's latest filing purports to address this problem; the above parties have not had an opportunity to evaluate the attempt.)

The overall impact of these errors in network design is to artificially bloat the investment associated with the network. When these errors are corrected, corresponding UNE rates are reduced significantly.

(e) and (f) Structure sharing and structure costs should be explicitly calculated in BellSouth's model. Instead, BellSouth derived values based on the application of various "factors" to prior values. This "factor approach" distorts costs, because of the inherently arbitrary and inaccurate nature of the factors applied.

(g) In its model, BellSouth assumed that each household would receive an average of 2 copper pairs. In its USF order, issued in Docket No. 980696-TP, the Commission determined that

the appropriate assumption should instead be an average of 1.5 pairs. This assumption should be employed in this case.

In addition, as a general matter, where increased activity can be accommodated with additional line cards, there is no need to install large amounts of extra capacity. For this reason, the fill factors applicable to central office terminal equipment should change from 80% to 90%, and the fill factor for remote terminals should increase from 70% to 90%.

(i), (j), (k), (l), and (n) The BSLT inflates the cost of these facilities by double counting the effects of inflation. The application of a nominal cost of capital takes inflation into account. "Updating", as BellSouth proposes, takes the same effect into account a second time. Further, with respect of each of these categories, BellSouth's approach was to apply "factors" to base amounts as a substitute for direct inputs for engineering and installation costs. To correct for the effect of arbitrary and inappropriate "factors," the Commission should employ the specific unit costs that it developed in Docket No.980696-TP (USF).

(m) BellSouth also applied the "factor" approach to the quantification of digital loop investment. In this instance, no direct correlation can be made to unit costs developed in the USF docket. Accordingly, the Commission should examine BellSouth's specific assumptions and conclude that the factor applied to digital loop is overstated. The above parties support the more appropriate engineering and installation factor developed by witnesses Donovan and Pitkin.

(o) BellSouth's proposed switching prices are severely overstated, as the result of the following significant flaws.

Switch vendors apply a higher discount to the list price of new switches than to "growth" or add-on equipment. When calculating the cost of switches BellSouth melded these discounts in a way that caused it to "purchase," for purposes of the modeling, a majority of lines at the higher prices associated with "growth" or add-on equipment. In fact, BellSouth purchases most lines at the lower "new switch" price. If translated into UNE prices, the inappropriate discount would cause BellSouth to over recover from ALECs the cost of the switch component of UNE-P at the same time it would create an obstacle to competition. The contract

discounts for new switches should be used throughout the switch study. Correcting the discounts reduces BellSouth's claimed investment in ports by 50% and reduces the costs of local switching by 40%. In addition:

Critical investment and capacity errors in BellSouth's feature hardware study caused feature costs to be seriously inflated; BellSouth's overly simplistic averaging of widely disparate, and often wrong, inputs to arrive at one feature category input produced inaccurate results;

The Simplified Switching Tool that BellSouth developed to produce switch element investments is rife with errors and faults, and should be rejected.

Corrections to these errors are reflected in the switching prices contained in Exhibit \_\_\_ (JAK-1, revised).

(t) and (u) A review of its submission reveals that BellSouth has overstated these significant expenses in several ways:

(1) BellSouth failed to remove at least \$223,376,929 of avoided retail expense contained in overhead and support accounts;

(2) BellSouth applied a very low productivity factor of 3.1% to forecast its expense, when the last productivity factor approved for BellSouth by the FCC was 6.5%;

(3) BellSouth's proposed UNE rates would recover the same land, building, and power expense twice; and

(4) BellSouth used plant-specific expense factors that increase as a percent of investment, at a time when the industry is experiencing decreasing expense-to-investment ratios.

These errors have the effect of inflating the UNE prices that are produced by the application of BellSouth's model. The effect of the errors has been corrected in the UNE prices proposed in Exhibit \_\_\_ (JAK-1, revised).

**DATA ALECS:**

(a) The network design assumptions for the recurring UNE cost studies should be based on a single forward-looking network that is designed to support all UNEs and retail services. In particular, the Commission should reject BellSouth's use of a separate all copper network design for cost studies for xDSL capable loops. Such a network is not forward-looking and does not represent a network that BellSouth will actually build.

(e) - (l) Adopt FCCA position on items (e) to (l).

(m) The Commission should carefully limit the increment of cost assigned to digital/ISDN loops to the difference in the electronics that is required to provide those loops over digital loop carrier systems. In addition, digital loop carrier systems should be assumed to be deployed in the more efficient integrated configuration (rather than the universal configuration).

(n) - (v) Adopt FCCA position on items (n) to (v).

**JOINT ALECS:**

No position at this time.

**ALLTEL:**

No position at this time.

**FCTA:**

(a) The FCTA recommendation on this issue is limited to the copper/fiber crossover point. Other parties to the proceeding, however, are likely to raise valid concerns challenging additional assumptions and input values that are fundamental to the network configuration design of the ILECs' cost proxy models. A more efficient and cost-effective network configuration may very well be realized from their recommendations. Presumably, the model enhancements resulting from these recommendations will produce lower overall UNE rates.

The copper/fiber crossover point is a user-adjustable input value in each of the ILECs' cost proxy models. The

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

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

(e) Structure sharing refers to the practice of sharing investments in poles, trenches, and conduits with other utilities and/or carriers. It is difficult to separately identify the extent of structure sharing assumed in the BellSouth cost proxy model, since BellSouth contends that structure sharing is reflected implicitly in its calculations.

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

(f) FCTA has no position at this time.

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

The appropriate fill factor used in the cost proxy models should balance current and expected demand levels as well as accommodate the requirements for administrative and modular

related spare capacity over the economic life of the feeder and distribution facilities. Deploying facilities to satisfy demand that is not expected to materialize until after the facilities have been retired represents poor management judgment. A competitive firm would not be able to overcome such errors of judgment by passing on the higher costs to its customers. The economic lives that the incumbent carriers have assigned to distribution and feeder facilities for capital recovery purposes should be consistent with the fill factors developed as part of the efficient network configured by the cost proxy models. For instance, if the incumbent carriers assign an economic life of 14 years for metallic distribution facilities, then it is not reasonable to size these facilities to satisfy demand levels that may not emerge for 25 to 30 years in the future, long after the facilities are projected to be retired.

(h) - (s) FCTA has no position at this time.

(t) The operating expenses proposed to be recovered by the ILECs are estimated by massaging base period expense levels through a series of adjustments and factors. The base year expenses may then be adjusted through inflation factors and productivity offsets as well as "normalization" adjustments in an effort to make the baseline data representative of forward-looking conditions. Other adjustments may also be proposed such as an avoided retail expense adjustment, activity based cost adjustments, special study adjustments, and shared and common cost adjustments. Annual charge factors are also developed under a costing pool methodology that assigns individual plant and expense account activity to one or more cost pools.

The FCTA's analysis finds that the operating expenses included in BellSouth's cost studies appear overstated and not representative of forward-looking conditions. For instance, the inflation factor of 3.2% to 3.5% assumed by BellSouth exceeds the productivity offset of 3.1% resulting in a growing level of expenses each year during the forecast period. One would expect lower levels of operating expenses to be projected on a forward-looking basis assuming the network configurations of the cost proxy models embrace reasonable measures to implement the most efficient, least cost technology and engineering and operating practices. The trend of BellSouth's operations indicate declining expense levels on



a per access line basis over the last several years. Therefore, an ILEC's proposal to recover a level of operating expenses that exceeds its historical costs should undergo rigorous scrutiny.

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

The carriers propose to recover their projected common costs through a uniform mark-up applied to the unbundled network elements and UNE combinations. BellSouth proposes a mark-up of 6.24%. As part of their effort to develop forward-looking expenses subject to recovery through UNE rates, the carriers have made an adjustment to exclude the retail costs that will be avoided in the wholesale environment. The avoided retail cost adjustment, however, appears to understate the level of costs that should be excluded from the cost studies. The avoided retail cost adjustment should reflect the wholesale percentage discount ordered by the Florida Public Service Commission for each carrier. In the case of BellSouth, the FPSC ordered a resale discount of 21.83% for residential customers and 16.30% for business customers.

(v) FCTA has no position at this time.

**TIMEWARNER:**

(a) Time Warner recommendation on this issue is limited to the copper/fiber crossover point. Other parties to the proceeding, however, are likely to raise valid concerns challenging additional assumptions and input values that are fundamental to the network configuration design of the ILECs' cost proxy models. A more efficient and cost-effective network configuration may very well be realized from their recommendations. Presumably, the model enhancements resulting from these recommendations will produce lower overall UNE rates.

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

of the ILECs' cost proxy models adopt a default input value of 12,000 feet for the copper/fiber crossover threshold.

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

(e) Structure sharing refers to the practice of sharing investments in poles, trenches, and conduits with other utilities and/or carriers. It is difficult to separately identify the extent of structure sharing assumed in the BellSouth cost proxy model, since BellSouth contends that structure sharing is reflected implicitly in its calculations.

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

(f) Time Warner has no position at this time.

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

The appropriate fill factor used in the cost proxy models should balance current and expected demand levels as well as accommodate the requirements for administrative and modular related spare capacity over the economic life of the feeder and distribution facilities. Deploying facilities to satisfy

demand that is not expected to materialize until after the facilities have been retired represents poor management judgment. A competitive firm would not be able to overcome such errors of judgment by passing on the higher costs to its customers. The economic lives that the incumbent carriers have assigned to distribution and feeder facilities for capital recovery purposes should be consistent with the fill factors developed as part of the efficient network configured by the cost proxy models. For instance, if the incumbent carriers assign an economic life of 14 years for metallic distribution facilities, then it is not reasonable to size these facilities to satisfy demand levels that may not emerge for 25 to 30 years in the future, long after the facilities are projected to be retired.

(h) - (s) Time Warner has no position at this time.

(t) Expenses: The operating expenses proposed to be recovered by the ILECs are estimated by massaging base period expense levels through a series of adjustments and factors. The base year expenses may then be adjusted through inflation factors and productivity offsets as well as "normalization" adjustments in an effort to make the baseline data representative of forward-looking conditions. Other adjustments may also be proposed such as an avoided retail expense adjustment, activity based cost adjustments, special study adjustments, and shared and common cost adjustments. Annual charge factors are also developed under a costing pool methodology that assigns individual plant and expense account activity to one or more cost pools.

Time Warner's analysis finds that the operating expenses included in BellSouth's cost studies appear overstated and not representative of forward-looking conditions. For instance, the inflation factor of 3.2% to 3.5% assumed by BellSouth exceeds the productivity offset of 3.1% resulting in a growing level of expenses each year during the forecast period. One would expect lower levels of operating expenses to be projected on a forward-looking basis assuming the network configurations of the cost proxy models embrace reasonable measures to implement the most efficient, least cost technology and engineering and operating practices. The trend of BellSouth's operations indicate declining expense levels on a per access line basis over the last several years. Therefore, an ILEC's proposal to recover a level of operating

expenses that exceeds its historical costs should undergo rigorous scrutiny.

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

The carriers propose to recover their projected common costs through a uniform mark-up applied to the unbundled network elements and UNE combinations. BellSouth proposes a mark-up of 6.24%. As part of their effort to develop forward-looking expenses subject to recovery through UNE rates, the carriers have made an adjustment to exclude the retail costs that will be avoided in the wholesale environment. The avoided retail cost adjustment, however, appears to understate the level of costs that should be excluded from the cost studies. The avoided retail cost adjustment should reflect the wholesale percentage discount ordered by the Florida Public Service Commission for each carrier. In the case of BellSouth, the FPSC ordered a resale discount of 21.83% for residential customers and 16.30% for business customers.

(v) Time Warner has no position at this time.

**SUPRA:**

Supra Telecom has no opinion on these issues at this time, but reserves the right to cross-examine witnesses on these issues at the hearing and to take a position on these issues at a later date.

**STAFF:**

No position at this time.

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

- (a) network design;
- (b) OSS design;
- (c) labor rates;
- (d) required activities;
- (e) mix of manual versus electronic activities;
- (f) other.

**POSITIONS**

**BELLSOUTH:**

The appropriate assumptions and inputs that should be used in the development of forward-looking nonrecurring costs are those set forth in the cost studies filed by BellSouth on August 16, 2000, and as explained in the prefiled testimony of BellSouth witnesses D. Daonne Caldwell, W. Keith Milner, Ronald M Pate, Wiley G. Latham, and William H. B. Greer.

**SPRINT:**

The forward-looking, non-recurring UNE cost studies should reflect as closely as possible the actual costs incurred in performing the required activity, including the amount of time required by an efficient provider to complete the activity and the cost to perform that activity, using most current loaded labor rates.

**FCCA ALECS:**

(a) See 7(a) above

(b) and (e) For purposes of costing UNEs, the model should assume that each UNE is capable of being ordered either electronically or manually.

(c) and (d) BellSouth forms certain "intermediary" work groups which do not get involved in BellSouth's own retail activities. ALECs should not be required to pay for the cost of such groups through UNE prices.

**DATA ALECS:**

(a) The forward-looking network design used in the non-recurring UNE cost studies should be the same as the forward-looking design used in the recurring cost studies.

(b) The NRC cost study should assume the use of electronic OSS for all preordering and ordering functions, including access to loop make-up data. The study should assume that ILECs have reasonably maintained complete, quality databases and that competitors will have nondiscriminatory access to the data therein and to the electronic processing capability of the incumbent's OSS. In particular, competitors should have access to electronic loop make-up information at the cost of additional processor time.

(c) Adopt FCCA position.

(d) The NRC cost study should assume only those activities which would be required in a forward-looking network, and should assume that such activities are performed in an efficient manner.

(e) The mix of manual versus electronic activities should reflect the assumption that any activity which can be performed on an electronic basis in a forward-looking network architecture will be performed on that basis. (Murray)

(f) Adopt FCCA position.

**JOINT ALECS:**

No position at this time.

**ALLTEL:**

No position at this time.

**FCTA:**

No position at this time.

**TIMEWARNER:**

Time Warner has no position at this time.

**SUPRA:**

Supra Telecom has no opinion on these issues at this time, but reserves the right to cross-examine witnesses on these issues at the hearing and to take a position on these issues at a later date.

**STAFF:**

No position at this time.

**ISSUE 9:** (a) What are the appropriate recurring rates (averaged or deaveraged as the case may be) and non-recurring charges for each of the following UNEs?

- (1) 2-wire voice grade loop;
- (2) 4-wire analog loop;
- (3) 2-wire ISDN/IDSL loop;
- (4) 2-wire xDSL-capable loop;
- (5) 4-wire xDSL-capable loop;
- (6) 4-wire 56 kbps loop;
- (7) 4-wire 64 kbps loop;
- (8) DS-1 loop;
- (9) high capacity loops (DS3 and above);
- (10) dark fiber loop;
- (11) subloop elements (to the extent required by the Commission in Issue 4);
- (12) network telephone interface devices;
- (13) circuit switching (where required);
- (14) packet switching (where required);
- (15) shared interoffice transmission;
- (16) dedicated interoffice transmission;
- (17) dark fiber interoffice facilities;
- (18) signaling networks and call-related databases;
- (19) OS/DA (where required).

**POSITIONS**

**BELLSOUTH:**

(a) The appropriate recurring and nonrecurring rates for the unbundled network elements and interconnection at issue in

this proceeding are set forth in Revised Exhibit AJV-1 to the Revised Direct Testimony of Alphonso J. Varner, dated August 18, 2000.

**SPRINT:**

No position at this time.

**FCCA ALECS:**

The appropriate UNE prices are those proposed by AT&T/MCI witness King on Exhibit \_\_\_\_ (JAK-1, as revised). An excerpt from the exhibit, showing the UNE prices supported by these parties, is attached. [Reference does not indicate an attachment to this Order.]

**DATA ALECS:**

(a) The recurring rate for 2-wire and 4-wire xDSL capable loops should be the same as the rate for 2-wire and 4-wire voice grade loops. The rate for a 2-wire ISDN/IDSL loop should be the same as the rate for a 2-wire voice grade loop, plus the ISDN adder shown on the Proprietary Version of Ms. Murray's Exhibit TLM-2. The rate for an xDSL capable loop should apply to all DSL loops, regardless of technology or loop length. Therefore, no separate rate should be established for ASDL compatible, HDSL compatible, or "unbundled copper loops".

Nonrecurring charges should be based on efficient practices. A nonrecurring charge of \$5.33 should apply for provisioning a two-wire voice grade or xDSL capable loop; a nonrecurring charge of \$4.67 should apply for disconnecting a two-wire voice grade or xDSL capable loop. A nonrecurring charge of \$12.83 should apply for provisioning a two-wire ISDN loop; a nonrecurring charges of \$4.75 should apply for disconnecting a two-wire ISDN loop. These rates are based on an illustrative labor rate of \$40 per hour, and reflect efficient practices for such work.

(b) Adopt FCCA position.



**JOINT ALECS:**

(a) The appropriate non-recurring charges for 2-wire and 4-wire xDSL loops and subloop elements are indicated below.

ELEMENT	BellSouth Proposed Rate		Recommended Rate	
	First	Additional	First	Additional
2-Wire Copper Loop				
Installation				
2-Wire Copper Loop - Short	\$300. 38	\$192. 38	\$22.0 7	\$13.7 2
2-Wire Copper Loop - Long	\$192. 33	\$109. 17	\$35.3 8	\$10.2 6

ELEMENT	BellSouth Proposed Rate		Recommended Rate	
	First	Additional	First	Additional
4-Wire Copper Loop				
Installation				
4-Wire Copper Loop - Short	\$355. 69	\$239. 97	\$48.6 0	\$33.0 2
4-Wire Copper Loop - Long	\$247. 63	\$156. 76	\$20.8 1	\$12.9 5

ELEMENT	BellSouth Proposed Rate		Recommended Rate	
	First	Additional	First	Additional
2-Wire Copper Loop				
Disconnect				
2-Wire Copper Loop - Short	\$155. 44	\$35.5 1	\$0.93	\$0.40
2-Wire Copper Loop - Long	\$155. 44	\$35.5 1	\$0.93	\$0.40

ELEMENT	BellSouth Proposed Rate		Recommended Rate	
	First	Additional	First	Additional
4-Wire Copper Loop				
Disconnect				
4-Wire Copper Loop - Short	\$171.55	\$40.07	\$0.94	\$0.41
4-Wire Copper Loop - Long	\$171.55	\$40.07	\$0.94	\$0.41

ELEMENT	BellSouth Proposed Rate		Recommended Rate
	First	Additional	Per Line
Intrabuilding Network Cable			
INC			
A.2.14 - 2-Wire INC	\$1354.5	\$38.08	\$5.42
A.2.14 - 2-Wire INC - Disconnect	\$118.59	\$19.63	\$0.10
A.2.15 - 4-Wire INC	\$175.67	\$51.88	\$2.48
A.2.15 - 4-Wire INC - Disconnect	\$125.06	\$20.03	\$1.43

ELEMENT	BellSouth Proposed Rate		Recommended Rate
	NRC		NRC
Unbundled Subloop Elements			
A.2.19 - Per Building Equipment Room - CLEC Facility Set-Up	\$402.70		\$8.09
A.2.20 - Per Building Equipment Room - Per 25 Pair Panel Set-Up	\$158.23		\$4.05

**ALLTEL:**

Non-recurring charges should not be significantly different based on changes in costing methodology. Nor should reductions in recurring charges result in increases in non-recurring charges.

**FCTA:**

No position at this time.

**TIMEWARNER:**

No position at this time.

**SUPRA:**

Supra Telecom is unable to render an opinion on these issues at this time, but reserves the right to cross-examine witnesses on these issues at the hearing and to take a position on these issues at a later date.

**STAFF:**

No position at this time.

**ISSUE 10:** What is the appropriate rate, if any, for customized routing?

**POSITIONS**

**BELLSOUTH:**

BellSouth offers carriers two methods of selective (or customized) routing: selective routing using line class codes or selective routing utilizing BellSouth's Advanced Intelligent Network ("AIN") solution. The appropriate rates for each of these methods of selective routing are set forth in Revised Exhibit AJV-1 to Revised Direct Testimony of Alphonso J. Varner dated August 18, 2000.

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**SPRINT:**

No position at this time.

**FCCA ALECS:**

The appropriate UNE prices are those proposed by AT&T/MCI witness King on Exhibit \_\_\_\_ (JAK-1, as revised). An excerpt from the exhibit, showing the UNE prices supported by these parties, is attached. [Reference does not indicate an attachment to this Order.]

**DATA ALECS:**

Adopt FCCA position.

**JOINT ALECS:**

No position at this time.

**ALLTEL:**

No position at this time.

**FCTA:**

No position at this time.

**TIMEWARNER:**

No position at this time.

**SUPRA:**

The only charge for customized routing (above transport costs) should be the average cost of labor to program the customized route.

**STAFF:**

No position at this time.

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**ISSUE 11:** What is the appropriate rate if any, for line conditioning, and in what situations should the rate apply?

**POSITIONS**

**BELLSOUTH:**

BellSouth offers the following Unbundled Loop Modification (ULM) services in connection with conditioning an unbundled loop: ULM Load Coil/Equipment Removal -- Short; ULM Load Coil/Equipment Removal -- Long; and ULM Bridged Tap Removal. In addition, BellSouth has proposed an ULM -- Additive rate designed to recover part of the cost of removing load coils on copper loops of less than 18 Kft. The appropriate ULM rates are set forth in Revised Exhibit AJV-1 to the Revised Direct Testimony of Alphonso J. Varner dated August 18, 2000. The ULM rates for load coil, equipment, and bridged tap removal should apply when BellSouth performs this work at the request of an ALEC. The ULM-Additive rate should be included in the nonrecurring rate for the HDSL compatible loop, the ADSL compatible loop, and the Unbundled Copper Loop - Short.

**SPRINT:**

The appropriate rate for line conditioning should reflect the forward-looking economic costs of an efficient provider using, to the greatest extent possible, all available mechanized and automated systems, including engineering records, technician dispatch and testing. The rate should apply only when a CLEC-requested UNE requires conditioning to meet transmission requirements, e.g., an xDSL-capable loop.

**FCCA ALECS:**

The appropriate UNE prices are those proposed by AT&T/MCI witness King on Exhibit \_\_\_\_ (JAK-1, as revised). An excerpt from the exhibit, showing the UNE prices supported by these parties, is attached. [Reference does not indicate an attachment to this Order.]

**DATA ALECS:**

In a forward-looking network there should be no need for line conditioning, and hence no rate should apply in any circumstance. If the Commission, inappropriately, establishes a rate for line conditioning, then the rate should reflect the cost of efficiently conditioning multiple loops at once. A rate of \$8.32/loop should apply if load coil removal is required and a rate of \$0.89/loop should apply if bridged tap removal is required. These rates are based on an illustrative labor rate of \$45 per hour, and reflect efficient practices for such work.

**JOINT ALECS:**

The appropriate rates for line conditioning are indicated below.

<b>Cost Element</b>	<b>Description</b>	<b>Non-Recurring Cost</b>	<b>Reference</b>
A.17.1	Unbundled Loop Modification Load Coil/Equip. Removal Short	\$9.76	Exhibit EM_1
A.17.2	Unbundled Loop Mod. Load Coil Removal - Long	\$31.92	Exhibit EM_2
A.17.3	Unbundled Loop Mod. Bridge Tap Removal	\$7.811	Exhibit EM_3
A.17.4	Unbundled Loop Mod. Additive	\$16.71	Exhibit EM_4

**ALLTEL:**

No position at this time.

**FCTA:**

No position at this time.

**TIMEWARNER:**

No position at this time.

**SUPRA:**

Line conditioning involves removing load coils and bridge taps. Load coils and bridge taps are not required for modern switches and/or for forward-looking loops; and thus should not be a recoverable cost. If found to be recoverable, this cost should be treated as a network upgrade, and recovered as a recurring rate amortized over the remaining life of the loop being conditioned. Since bridge taps were installed for BellSouth's flexibility in provisioning service, these costs should already be included in the cost of providing new service and thus should not be charged to the ALEC.

**STAFF:**

No position at this time.

**ISSUE 12:** Without deciding the situations in which such combinations are required, what are the appropriate recurring and non-recurring rates for the following UNE combinations:

- (a) "UNE platform": consisting of: loop (all), local (including packet, where required) switching (with signaling), and dedicated and shared transport (through and including local termination);
- (b) "extended links," consisting of:
  - (1) loop, DSO/1 multiplexing, DS1 interoffice transport;
  - (2) DS1 loop, DS1 interoffice transport;
  - (3) DS1 loop, DS1/3 multiplexing, DS3 interoffice transport.

**POSITIONS**

**BELLSOUTH:**

The appropriate recurring and nonrecurring rates for combinations of network elements that are currently combined are set forth in Revised Exhibit AJV-1 attached to the Revised Direct Testimony of Alphonso J. Varner dated August 18, 2000. BellSouth also has proposed recurring and nonrecurring rates for new Enhanced Extended Link ("EEL") combinations necessary to exempt BellSouth from providing local switching as an unbundled network element in Miami, Orlando, and Ft. Lauderdale, consistent with FCC's Rules 51.319. The appropriate recurring and nonrecurring rates for new EEL combinations are set forth in Revised Exhibit AJV-1 attached to the Revised Direct Testimony of Alphonso J. Varner dated August 18, 2000.

**SPRINT:**

No position at this time.

**FCCA ALECS:**

The appropriate UNE prices are those proposed by AT&T/MCI witness King on Exhibit \_\_\_\_ (JAK-1, as revised). An excerpt from the exhibit, showing the UNE prices supported by these parties, is attached. [Reference does not indicate an attachment to this Order.]

**DATA ALECS:**

- (a) Adopt FCCA position.
- (b) Adopt FCCA position.

**JOINT ALECS:**

No position at this time.

**ALLTEL:**

No position at this time.



**FCTA:**

No position at this time.

**TIMEWARNER:**

No position at this time.

**SUPRA:**

For an existing service, the cost of a "UNE Platform" should be the combined individual cost of each UNE comprising the platform, and nothing more. For new service, the only additional charge should be the same charge assessed for new resale service, and nothing more. For an existing connections, the cost of "Extended Links" should be the combined individual cost of each UNE comprising the extended link, and nothing more.

**STAFF:**

No position at this time.

IX. EXHIBIT LIST

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Alphonso J. Varner	BellSouth	_____ (AJV-1)	Florida Rate Sheet
		_____ (AJV-1)	B S T ' s Comments, CC Docket No. 96- 98, May 26, 1999
		_____ (AJV-2)	B S T ' s Comments, CC Docket No. 96- 98, June 10, 1999

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
		_____ (AJV-1)	Joint Petition f o r Reconsiderati on of Rhythms and Covad, CC Docket No. 96- 98, January 21, 2000
D. Daonne Caldwell	BellSouth	_____ (DDC-1)	BSTLM Report Guide-loop characteristi cs
		_____ (DDC-2)	BSTLM inputs
		_____ (DDC-3)	T E L R I C Calculation flow charts
D. Daonne Caldwell	BellSouth	_____ (DDC-4)	UNE cost summary
		_____ (DDC-5)	Cost inputs sheet
		_____ (DDC-6)	C o s t calculator- e l e m e n t summary report
		_____ (DDC-7)	Impact of Revised NRC for xDSL offerings
		_____ (DDC-8)	Comparison of individual UNE costs to combo costs
		_____ (DDC-9)	A v e r a g e levelized inflation loadings

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
		_____ (DDC-10)	Copper cable placement by cable size
James W. Stegeman	BellSouth	_____ (JWS-1)	List of acronyms
		_____ (JWS-2)	DLC common equipment calculation
		_____ (JWS-3)	DLC plug-in calculation
		_____ (JWS-4)	Investment process logic worksheets
		_____ (JWS-5)	Comparison of BSTLM to proxy models
		_____ (JWS-1)	List of Acronyms
		_____ (JWS-2)	Listing of changes between BTS2000-fl-ref and BCPM scenarios
Joseph H. Page	BellSouth	_____ (JHP-1)	Central office switching comparison of replacement discount and growth discount assumption
		_____ (JHP-1)	Lucent Practices excerpts

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
		(JHP-2)	HAI Model Release 5.1 B H C A constraints
		(JHP-3)	S S T - Usage Study
		(JHP-4)	Central office switching comparison of replacement discount and growth assumptions
Walter S. Reid	BellSouth	(WSR-1)	B S T methodology for computing common cost factors
		(WSR-2)	Chart of typical shared and common costs
		(WSR-3)	Shared cost factors
		(WSR-4)	Wholesale common cost factor calculation
		(WSR-1)	Recalculation of shared and common cost factors for central office investment
		(WSR-2)	Comparison of overall costs by category

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
W. Keith Milner	BellSouth	_____	NTW Access diagrams
		(WKM-1)	
		_____	Loop cutover process slides
		(WKM-2)	
James W. Sichter	Sprint	_____	BellSouth Proposed Banding
		(JWS-1)	
		_____	Sprint Proposed Banding
		(JWS-2)	
Kent W. Dickerson	Sprint	_____	Qualifications
		(KWD-1)	
Steven M. McMahon	Sprint	_____	Qualifications
		(SMM-1)	
		_____	Installing UBLs-Different Scenarios
		(SMM-2)	
		_____	Bridged Tap Illustration
		(SMM-3)	
		_____	Nonrecurring Charges-Loop Qualification
		(SMM-4)	
Talmage O. Cox	Sprint	_____	Sensitivity Analysis - Terminal Bandwith
		(TOC-1)	
		_____	Sensitivity Analysis- OC48 Bandwith Terminal Utilization
		(TOC-2)	
		_____	Sensitivity Analysis- Ring Characteristics
		(TOC-3)	

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
		_____ (TOC-4)	Sensitivity Analysis- OC48 Bandwidth Terminal Utilization- 3 Rings
Joseph P. Gillan	FCCA	_____ (JPG-1)	Figure 1: The Longer the Analytical Period, the More Inputs are included in a Forward Looking Analysis
		_____ (JPG-2)	Table 1: Status of UNE-based Competition in Florida Table 2: Growth in UNE Loops and ILEC Lines Table 3: The Status of UNE-Based Competition in New York
Greg J. Darnell	AT&T and MCI WorldCom	_____ (GJD-1)	BellSouth's Previous Common Cost Calculations
		_____ (GJD-2)	Calculation to Determine Indirectly Avoided Retail Cost Amount

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
		<hr/> (GJD-3)	Revised Expense Development Factors and Revised Shared and Common Cost Factors
		<hr/> (GJD-4)	Analysis of BellSouth Plant Specific Expense Factors
		<hr/> (GJD-5)	Calculation Used to Determine Total Monthly Cost for a 2- wire Loop System
		<hr/> (GJD-6)	USOA's Trend Analysis
		<hr/> (GJD-7)	BellSouth Corporate Operations Expense
		<hr/> (GJD-8)	BellSouth Revised Deaveraging Analysis
		<hr/> (GJD-10)	Response to A T & T Interrogatori es 28,29,30,32 & 35
		<hr/> (GJD-11)	Gregory J. Darnell Professional Experience

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
John C. Donovan and Brian F. Pitkin	AT&T and MCI WorldCom	_____	John C. D o n o v a n Professional Experience
		(JCD/BFP-1)	
		_____	Curriculum Vitae of Brian F. Pitkin
		(JCD/BFP-2)	
		_____	Table: Number of DLC's
		(JCD/BFP-3)	
		_____	Table: Annual Nominal Cost of Capital v. Real Cost of Capital
		(JCD/BFP-4)	
_____	Graph: Annuity Nominal Cost of Capital v. Real Cost of Capital		
(JCD/BFP-5)			
_____	Table: Nominal Cost of Capital Plus Inflation for Material and Labor		
(JCD/BFP-6)			
_____	Chart: Nominal Cost of Capital v. Nominal Cost of Capital Plus Inflation		
(JCD/BFP-7)			
_____	DLC In Plant F a c t o r Development		
(JCD/BFP-8)			



<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
		_____ (JCD/BFP-9)	Comparison of Installed DLCRT & COT Investments by Vendor
		_____ (JCD/BFP-10)	Regression to Determine Aerial DTBT Inputs
		_____ (JCD/BFP-11)	BellSouth's Inputs and Modified Inputs
		_____ (JCD/BFP-12)	Map with Central office
		_____ (JCD/BFP-13)	Map with BSTLM Original Routing and Map of Alternative Routing with Splitting
		_____ (JCD/BFP-14)	Map of BSTLM Drop Routing and Map of Correct Drop Routing
		_____ (JCD/BFP-15)	Chart: DLC In Plant Factor Development
		_____ (JCD/BFP-16)	Changes to InvestLogic. xls
		_____ (JCD/BFP-17)	Changes to InvestLogic. xls

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Brenda J. Kahn	AT&T and MCI WorldCom	_____	Scenario A: "25 Pair Terminal" Scenario
		(BJK-1)	
Jeffrey A. King	AT&T and MCI WorldCom	_____	Single Point o f Interconnec- tion Scenario
		(BJK-2)	
		_____	BellSouth Cost Calculator 2.3: Element Summary Report Comparison of BellSouth and AT&T Proposed R a t e s (Revised)
		(JAK-1)	
Catherine E. Pitts	AT&T and MCI WorldCom	_____	Table: BST Default
		(JAK-3)	
		_____	(CD ROM) Revision to BST Cost Study
		(JAK-4)	
Catherine E. Pitts	AT&T and MCI WorldCom	_____	BellSouth's Response to ATT's 2nd Set o f Interrogatori es, Item #87
		(CEP-1)	
		_____	3 pages, all confidential
		(CEP-2)	
Catherine E. Pitts	AT&T and MCI WorldCom	_____	POD #6
		(CEP-3)	
Catherine E. Pitts	AT&T and MCI WorldCom	_____	1 page, all confidential
		(CEP-4)	

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
		_____ (CEP-5)	POD #141, Attachment No.1
		_____ (CEP-6)	POD #14
		_____ (CEP-7)	ATT Item #89
		_____ (CEP-8)	2 pages, all confidential
Terry L. Murray	Data ALECS	_____ (TLM-2)	Summary of Blue Star, Covad, Rhythms Pricing Proposals
		_____ (TLM-3)	SBC Investor Briefing
Joseph P. Riolo	Data ALECS	_____ (JPR-1)	Professional Experience
		_____ (JPR-2)	Bell South Response to GPSC Workshop Request
		_____ (JPR-3)	Brief History of Outside Plant Design
Eric McPeak	Joint ALECS	_____ (EM-1)	Nonrecurring Cost Development- TELRIC
		_____ (EM-2)	Nonrecurring Cost Summary- TELRIC

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
		(EM-3)	Nonrecurring C o s t Development- TELRIC
		(EM-4)	Nonrecurring Cost Summary- Unbundled Loop Modification (Additive)
		(EM-5)	Unbundled Loop Modification Index
		(EM-6)	Unbundled Loop Modification Index
		(EM-7)	B e l l S o u t h L o o p s Available for Conditioning
		(EM-8)	P r o d u c t Literature
Mark Stacy	Joint ALECS	(MS-1)	2-wire Copper Loop- Short- Nonrecurring Cost
		(MS-2)	2-wire Copper Loop- Short- Nonrecurring Cost
		(MS-3)	2-wire Copper Loop- Long- Nonrecurring Cost
		(MS-4)	4-wire Copper Loop- Short- Nonrecurring Cost

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
		_____ (MS-5)	4-wire Copper Loop-Short- Nonrecurring Cost
		_____ (MS-6)	4-wire Copper Loop-Long- Nonrecurring Cost
		_____ (MS-7)	2 - w i r e Intrabuilding Network Cable (INC)
		_____ (MS-8)	4 - w i r e Intrabuilding Network Cable (INC)
		_____ (MS-9)	2 - w i r e Intrabuilding Network Cable (INC)
		_____ (MS-10)	4 - w i r e Intrabuilding Network Cable (INC)
		_____ (MS-11)	Sub-Loop - Per B u i l d i n g E q u i p m e n t R o o m - C L E C F e e d e r F a c i l i t y

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
		<hr/> (MS-12)	Sub-Loop - Per Building Equipment Room- Per 25 Pair Panel Set-Up
William J. Barta	FCTA	<hr/> (WBJ-1)	BellSouth and GTE's Total Operating Expense - Depreciation Expense Per Access Lines, 1991-1999
		<hr/> (WBJ-2)	Analysis of Forward-looking Avoided Retail Costs vs. Commission-ordered Discount - BellSouth and GTE

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

X. PENDING CONFIDENTIALITY MATTERS

Pending confidentiality requests include two filed by AT&T on July 24, 2000, document numbers 08943-00 and 08946-00, and requests filed by BellSouth on July 18, 26, 27, 2000, document numbers 08683-00, 09049-00, and 09078-00 respectively. If possible, these requests will be addressed prior to the September hearing.

XI. RULINGS

Supra Telecommunications and Information Systems, Inc.'s

ORDER NO. PSC-00-1655-PHO-TP  
DOCKET NO. 990649-TP  
PAGE 71

Motion for Leave to File Prehearing Statement One Day Late, filed on August 22, 2000, is hereby granted.

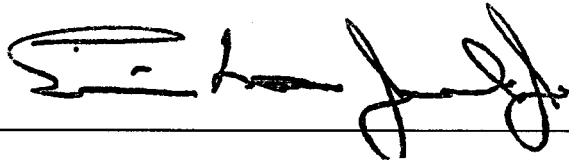
The collective ALECs are allowed 20 minutes to make an opening statement prior to the presentation of witnesses. BellSouth is also allowed 20 minutes to make an opening statement. In addition, witnesses are allowed up to seven minutes to summarize their testimony.

Finally, Rhythms/BlueStar/Covad witness Riolo is allowed 15 minutes to perform a demonstration of removing load coils and bridged tap from a cable, subject to appropriate objections, during his witness summary. BellSouth is also allowed the opportunity to perform a 15 minutes counter-demonstration by one of its witnesses during that witness's summary, subject to appropriate objection.

It is therefore,

ORDERED by Commissioner E. Leon Jacobs, Jr., as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner E. Leon Jacobs, Jr. as Prehearing Officer, this 18th day of September, 2000.



E. LEON JACOBS, JR.  
Commissioner and Prehearing Officer

( S E A L )

BK/WDK/DWC

005846

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, if issued by a Prehearing Officer; (2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or (3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.



FLORIDA PUBLIC SERVICE COMMISSION - RECORDS AND REPORTING

Requestion for Photocopying and Mailing

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Item Presented

Agenda For (Date) \_\_\_\_\_ Order No. 00-1655 In Docket No. 990649  
Notice of \_\_\_\_\_ For (Date) \_\_\_\_\_ In Docket No. \_\_\_\_\_  
Other \_\_\_\_\_

Special Handling Instructions

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September 18, 2000

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REPORTING

TO: DIVISION OF RECORDS AND REPORTING *AK CLK DW*  
FROM: DIVISION OF LEGAL SERVICES (KEATING, KNIGHT, CALDWELL)  
RE: DOCKET NO. 990649-TP - Investigation into pricing of  
unbundled network elements

*1653-PTH*

Attached is a Prehearing Order to be issued in the above-referenced docket. (Number of pages in order - 72)

**MUST GO TODAY**

DWC  
Attachment  
cc: Division of Competitive Services (Ollila)  
I:649phod3.wdk

*30/2.*