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January 16, 1998

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

RE: **Docket Nos. 960833-TP/960846-TP/960757-TP
960916-TP and 971140-TP**

Dear Ms. Bayo:

Enclosed is an original and fifteen copies of BellSouth Telecommunications, Inc.'s Memorandum In Opposition To Joint Motion To Strike Portions Of Testimony And Exhibits, which we ask that you file in the captioned docket.

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

Sincerely,

Bennett L. Ross (kr)

Bennett L. Ross

ACK _____

AFA _____

APP _____

CAF _____

CMU _____

CTR _____ Enclosures

EAG _____

LEG 2 cc: All Parties of Record

LIN 5 A. M. Lombardo

OPC _____ R. G. Beatty

RCH _____ W. J. Ellenberg

SEC _____

WAS 1 _____

OTH _____

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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Metropolitan Fiber Systems of Florida, Inc. for arbitration with BellSouth Telecommunications, Inc. concerning interconnection rates, terms and conditions, pursuant to the Federal Telecommunications Act of 1996

Docket No. 960757-TP

In re: Petition by AT&T Communications of the Southern States, Inc. for arbitration of certain terms and conditions of a proposed agreement with BellSouth Telecommunications, Inc. concerning interconnection and resale under the Telecommunications Act of 1996.

Docket No. 960833-TP

In re: Petition by MCI Telecommunications Corporation and MCI Metro Access Transmission Services, Inc. for arbitration of certain terms and conditions of a proposed agreement with BellSouth Telecommunications, Inc. concerning interconnection and resale under the Telecommunications Act of 1996

Docket No. 960846-TP
Filed: January 16, 1998

BELLSOUTH TELECOMMUNICATIONS, INC.'S
MEMORANDUM IN OPPOSITION TO JOINT MOTION TO STRIKE
PORTIONS OF TESTIMONY AND EXHIBITS

I. INTRODUCTION

BellSouth Telecommunications, Inc. ("BellSouth") respectfully opposes the motion to strike filed by WorldCom, Inc., MCI Telecommunications Corporation ("MCI"), and AT&T Communications of the Southern States, Inc. ("AT&T") (collectively referred to as "Joint Petitioners"). Although the motion does not identify the offending testimony or exhibits, the Joint Petitioners apparently contend that all the testimony and exhibits of BellSouth which in any way address

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the costs associated with Operational Support Systems ("OSS") and the recovery of such costs should be stricken because, according to the Joint Petitioners, OSS is not an issue in this proceeding. (Motion at 2).

The Joint Petitioners' Motion takes an impermissibly narrow view of the issues to be decided by the Commission. It ignores the interrelationship between OSS and the cost of the elements for which the Commission will be establishing recurring and nonrecurring rates in this proceeding. OSSs play an integral role in ordering and provisioning unbundled elements and services, and there are substantial costs associated with developing and maintaining such systems. The Joint Petitioners do not contend otherwise. Indeed, the Joint Petitioners themselves have submitted testimony and exhibits that criticize BellSouth's calculation of OSS costs and that propose how the Joint Petitioners believe such costs should be recovered. By filing their motion to strike, the Joint Petitioners apparently would have the Commission hear only their evidence on these issues while disregarding BellSouth's. This Commission cannot condone such a result and, thus, should deny the Joint Petitioners' Motion to Strike.

II. DISCUSSION

As set forth in the December 9, 1997 Rebuttal Testimony of Daonne Caldwell, Operational Support Systems fall into two categories: (1) Electronic Interfaces for the Alternative Local Exchange Companies ("ALECs"); and (2) BellSouth's Legacy Systems. The ALEC Electronic Interfaces are new systems

developed by BellSouth for the sole purpose of providing ALECs with access to BellSouth's Legacy Systems for the purpose of electronic preordering, ordering, maintenance and billing capabilities. The Legacy Systems are the systems that existed prior to local competition and are used to perform numerous functions in the provision of telecommunications services. (Caldwell Rebuttal at 3).

BellSouth's cost studies consider the costs associated with both the ALEC Electronic Interfaces and the Legacy Systems. The costs associated with BellSouth's Legacy Systems, which include central processing units, software, programming labor, maintenance, etc., are treated as shared and common costs. (Caldwell Rebuttal at 3). BellSouth seeks to recover a reasonable amount of forward-looking shared and common costs through the rates it has proposed for each unbundled element and service at issue in this proceeding.

BellSouth did not include the costs associated with the ALEC Electronic Interfaces in shared and common costs. Rather, BellSouth calculated the costs for these systems in a separate study contained in BellSouth's documentation, which outlines the development and maintenance expenses associated with the Electronic Interfaces and certain program enhancements to four Legacy Systems that were made solely to provide ALEC access to these systems and would not have been made otherwise. (Caldwell Rebuttal at 4). BellSouth proposes to recover these OSS costs through a per order charge, as explained in the Direct Testimony of Mr. Alphonso Varner. Such a charge covers a clearly appropriate nonrecurring cost

which must be incurred in order to order electronically the elements at issue in this proceeding.

The Joint Petitioners recognize the relevancy of OSS to this proceeding. For example, AT&T and MCI have submitted a nonrecurring cost model sponsored by witness John Lynott, which purports to develop a "bottoms up" estimate of the tasks and activities that may be performed by an incumbent such as BellSouth when an ALEC requests interconnection and/or unbundled network elements. (Lynott Direct Testimony at 8). AT&T and MCI's nonrecurring cost model is premised upon the assumption that efficient, automated and mechanized OSSs will exist which "should be capable of handling all movement of data electronically between other systems and databases." (Lynott Exhibit JPL-1 at 9).

Neither AT&T nor MCI dispute that BellSouth should be entitled to recover at least certain OSS costs (although the parties disagree about the amount and the types of costs). However, according to AT&T and MCI, OSS costs should be recovered in BellSouth's recurring rates. (Lynott Exhibit JPL-1 at 10) (AT&T and MCI nonrecurring cost model "assumes that the costs of the underlying OSSs (i.e., hardware, system, software, and processor costs) should be recovered in the LEC's recurring wholesale and retail rates").

By contrast, BellSouth believes that a portion of OSS costs (i.e., Legacy System costs) should be included in shared and common costs that are recovered in both recurring and nonrecurring rates, while other OSS costs (i.e., costs of ALEC

Electronic Interfaces and related Legacy System modifications) should be recovered on a per order basis. The Commission will be required to resolve this issue. However, the Commission should do so only after it has heard the testimony of the witnesses and has weighed the alternative proposals put forth by the parties; the issue should not be resolved on a motion to strike, as the Intervenors seek to do.

The Commission also will be required to decide whether to adopt nonrecurring rates that reflect any cost efficiencies in the method by which the elements are ordered. BellSouth's cost studies reflect that the forward looking, nonrecurring costs associated with electronic orders are less than the corresponding costs associated with orders placed manually. Because some ALECs will place orders electronically through the ALEC Interfaces, while other ALECs will place orders manually, BellSouth has proposed two categories of nonrecurring rates depending upon whether the element is ordered electronically or manually.

While an ALEC that places an electronic order for an unbundled element should pay a nonrecurring rate that reflects the cost efficiencies inherent in ordering electronically through the ALEC Interfaces, the ALEC should be required to pay the costs associated with the development and maintenance of those Interfaces. Otherwise, ALECs able to take advantage of the ALEC Electronic Interfaces and the resulting lower nonrecurring rates will be getting something for nothing. Accordingly, BellSouth has proposed to recover the costs of the Electronic

Interfaces through a charge that would apply to each electronic order placed by an ALEC, which is consistent with basic principles of cost causation.

The Joint Petitioners' view that any testimony or exhibits addressing OSS costs should be stricken is inherently contradictory. In addition to the testimony of Mr. Lynott and the treatment of OSS cost recovery in the AT&T and MCI nonrecurring cost model, AT&T and MCI have submitted the testimony of Dr. Lee L. Selwyn. Attached to Dr. Selwyn's direct testimony dated November 13, 1997, is a "white paper" entitled "Regulatory Treatment Of ILEC Operations Support Systems Costs." This white paper sets forth Dr. Selwyn's view of the appropriate regulatory treatment of OSS costs.

If OSS costs are not at issue in this proceeding, as the Joint Petitioners now contend, no purpose would have been served by AT&T and MCI's filing Dr. Selwyn's testimony. That AT&T and MCI elected to do so is an express acknowledgment of the relevancy of the testimony and the exhibits of BellSouth on the issue of OSS costs, which the Joint Petitioners now seek to strike. Furthermore, granting the Joint Petitioners' motion would result in the Commission being able to hear only one side of the OSS story -- namely that put forth by the Joint Petitioners. Obviously, such a result would violate basic principles of due process.

III. CONCLUSION

For the foregoing reasons, the Commission should deny the Joint Petitioners' Motion to Strike.

Respectfully submitted this 16th day of January, 1998.

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CERTIFICATE OF SERVICE
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I HEREBY CERTIFY that a true and correct copy of the foregoing was served by

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