

BellSouth Telecommunications, Inc. Fax 904 222-8640
Suite 400 904 222-1201
150 South Monroe Street
Tallahassee, Florida 32301

Nancy H. Sims
Director - Regulatory Relations

February 2, 1998

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

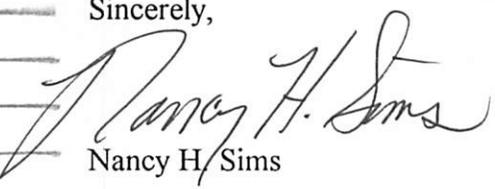
Subject: Investigation - Cost Study Inputs for Non-Recurring Charges
Audit Control No. 97-353-4-1

Dear Ms. Bayo:

Attached is BellSouth's response to the Florida Public Service Commission's Division of Auditing and Financial Analysis Auditor's Report issued on January 20, 1998. This investigation encompassed the cost study inputs for BellSouth non-recurring charges for certain unbundled network elements. The audit control number is 97-353-4-1 and the reference docket number is 960833-TP. BellSouth is still compiling our response to exception No. 1, Audit Disclosure No. 3 and No. 4

If you have any questions or need any additional information, please give me a call.

Sincerely,



Nancy H. Sims

cc: W. D'Haeseleer
Kathy Welch

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU 1
- CTR _____
- EAG _____
- LEG 1
- LIN 5
- OPC _____
- RCH _____
- SEC 1
- WAS _____
- OTH _____

DOCUMENT NUMBER-DATE

01708 FEB-2 88

FPSC-RECORDS/REPORTING

**BellSouth Telecommunications, Inc. Response to Florida Public Service Commission
Investigation - "Cost Study Inputs for Non-Recurring Charges Audit Control No.
97-353-4-1.**

General Comments

The staff opened this audit on December 19, 1997, with an audit report due date of January 13, 1998. The initial notice of the audit was not sent to the proper party, and the proper party did not receive this notice until January 5, 1998. Staff orally requested information on December 31, 1997, with a due date of January 6, 1998. A written form of the data requests was faxed to BST on January 2, 1998.

BST objected to providing the information on Tuesday, January 13, BST argued its case before the Prehearing Officer, Commissioner Clark. BST objected to the audit on the basis that the audit request constituted discovery and should be governed by the Florida Rules of Civil Procedure. BST also pointed out that the audit could not be done, nor could it produce useful data in such a short period of time. Contrary to the Auditor's statement, Commissioner Clark did not require BST to produce responses; BST voluntarily agreed to do so.

The auditors complain that BST did not provide some of the information requested and that the auditors did not have time to follow up because of time restrictions. The time restrictions placed on the auditors were not the responsibility of BST. Moreover, BST made a good faith effort to provide the auditors with the information requested in a timely manner. BST even went so far as to purchase a software program for the use of the auditors. In short, BST attempted to satisfy the auditors in all respects.

BST's responses to the specific audit findings are as follows:

Exception No. 1: Hourly Labor Rates

Staff found that they could not determine whether the hourly labor rates were based on company records and whether the estimates for labor dollars were based on Florida or the region.

BST Response:

To be provided.

Audit Disclosure No. 1: Cost Estimating for Collocation Projects

Section I:

Staff found that there was a conflict between the testimony of Dorissa Redmond and the response to Staff's request regarding the cost estimating spread sheet created by Property Management personnel. Staff requested the backup documentation to the readsheet. BS responded that there was no data to back up the spreadsheet other than the experience of personnel.

DOCUMENT NUMBER-DATE
01708 FEB-28
FPSC-RECORDS/REPORTING

BST Response:

The spreadsheet is a cost estimating tool, not a spreadsheet of actual costs. Moreover, the spreadsheet is an evolving process. For example, the spreadsheet was developed prior to the development of the hybrid wall proposed for physical collocation situations. In addition, the contractor pricing used for the spreadsheet was derived from various jobs performed over the past in BST central offices, not necessarily collocation projects.

Section II:

Staff found that the contractor quotes cited in the testimony were not used to determine the costs in the spreadsheet.

BST Response:

The contractor quotes (Exhibit DCR-2) were used by BST to rebut the testimony of AT&T witness Bissell, not to support the cost estimating spreadsheet. Therefore, it is not appropriate to compare the exhibits and the spreadsheet. Moreover, the spreadsheet is an evolving process. It is used strictly for estimating a job. ALECs are charged only actual costs.

Section III:

Staff found that Ms. Redmond testified that architectural and engineering fees were assessed at 8% of the construction cost while the spreadsheet shows that 25% is added for supervision, overhead, and taxes, as well as an additional 28% for architectural, engineering, inspection and services planning.

BST Response:

Once again, it should be noted that the spreadsheet is a cost estimating tool. It is not a final list of actual prices. Architectural fees fluctuate according to the cost of the project. An architect will accept a far smaller percentage for a very large project and a larger fee for a small project. The costs calculated for the cost study were developed to calculate estimated prices for the basic components common to all physical collocations. The spreadsheet contains all the other fees that are incurred during a construction project.

Section IV:

Staff found that no Florida specific costs were used.

BST Response:

Once again, it should be noted that the contractor quotes (Exhibit DCR-2) were used by BST to rebut the testimony of ATT witness Bissell, not to support the cost estimating spreadsheet. Florida specific data was used in as much as the Property Management Facility Planner for North Florida developed the spreadsheet.

Audit Disclosure No. 2: Central Office Collocation

Staff found that it could not determine how much space was available for collocation in BST's central offices without knowing the space needed for BST expansion. Staff also found that the collocations in the Miami Grande central office did not meet the ATT/MCI collocation model. Staff questioned the safety aspects of wire mesh walls versus drywall enclosures.

BST Response:

Responsibility for central office floor plans has been transferred to the Network Department. Processes are underway to update all central office plans. Plans for collocation are not developed until an ALEC requests space.

BST does not accept the ATT/MCI collocation model, therefore, the collocations in BST's central offices do not match their model.

Local code officials determined that physical collocation in the Miami Grande central office created a multi-tenant situation. This required that BST place a full height gypsum wall around the ALEC. In addition, the code officials required the wall separating BST from the ALECs to be wire mesh.

With regard to the wire mesh enclosure for the virtual collocations equipment, BST does not require a drywall because the equipment is for transmission only and does not involve switching equipment. Therefore, multiple ground planes do not occur.

Furthermore, it is BST's understanding that the only grounding situation discussed was the situation of exposed wires during construction. During construction, wires are safe if shielded and unsafe if left exposed. When dealing with equipment bays and frames, this equipment must be grounded to an integrated or isolated ground plane. In other words, Staff is comparing apples and oranges.

Audit Disclosure No. 3: Hours used in cost study

Staff found that it could not verify the labor hours used in the cost study because no written documentation was available for the calculation of the hours in the cost study.

BST Response:

To be provided.

Audit Disclosure No. 4: Travel with technicians

Staff found that an average from BST's mechanized time reporting system should be used to accurately determine installation times. Staff was unable to obtain this information.

BST Response:

To be provided.