BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY OF

BRENDA J. KAHN

ON BEHALF OF

AT&T COMMUNICATIONS OF THE SOUTHERN STATES, INC. and MCI WORLDCOM

Docket No. 990649-TP

July 31, 2000

PROPRIETARY

NHK 1-10-07 (entire DN)

DECLASSIFIED

CONFIDENTIAL

appeal

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Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND PRESENT POSITION.

A. My name is Brenda J. Kahn. I am employed by AT&T as District Manager, Connectivity Cost, Price and Planning Division in the Local Services and Access Management organization. My business address is 900 Routes 202/206, Bedminster, New Jersey.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING AND FOR WHAT PURPOSE?

A. I am testifying on behalf of AT&T Communications of the Southern States, Inc. and MCI WorldCom, Inc.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I have two Economics degrees, a Bachelor of Arts in 1969 from Queens College and a Ph.D. in 1978 from Columbia University. I have published an article in the Journal of Regulatory Economics entitled " The Effects of Regulation and Competition on the Price of AT&T Intrastate

Telephone Service." I have also published an article entitled "The Impact of IntraLATA Competition on Local Exchange Company Prices" in a book entitled "Economic Innovations in Public Utility Regulation." I am also a member of the steering committee for the Rutgers University Advanced Workshop in Regulation and Public Utility Economics and have been a regular presenter and discussant at academic regulatory conferences.

Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE AT AT&T.

A. From August 1978 to June 1982, I was employed as a Staff Manager in the WATS Rate Planning Group responsible for the development, implementation and support of quantitative studies used to support interstate and intrastate tariff filings. I joined the Strategic Pricing and Decision Support Group in the Marketing Department of AT&T in November 1982, and was responsible for developing and supporting demand analysis models for AT&T Switched Network services. In October 1983, I joined the Marketing Plans Implementation Group where I had revenue and demand forecasting responsibilities for existing and new services.

In May 1989, I joined State Government Affairs and was responsible for access charge and regulatory reform analysis of the intrastate telecommunications markets in New York and New England states. In January 1993, I joined Access Management and was responsible for interstate and intrastate access charge management with particular emphasis on local exchange companies in the Northeast Region. In January 1996 I was promoted to District Manager in the Local Services Division where I was responsible for supervising a group which analyzed the costs of local exchange service. The group has expertise in the HAI Model (including former versions of the Hatfield Model), the Benchmark Cost Proxy Model and other local exchange cost models and methods that have been developed. In my current position, I supervise a group responsible for minimizing the leased costs incurred to offer AT&T local services.

Q. HAVE YOU APPEARED BEFORE STATE REGULATORY AGENCIES?

A. Yes. I have appeared on rate, cost and access charge matters in Louisiana, Maine, Maryland, Massachusetts, Mississippi, Missouri, Nevada, New York, Tennessee and Vermont proceedings.

Q. PLEASE DESCRIBE THE IMPORTANCE OF SETTING SUB-LOOP RECURRING AND INTERCONNECTION RATES PROPERLY.

A. Rates must be set properly in order to ensure facilities-based competition will occur. This goal is highlighted in the following statements from the FCC's UNE Remand Order[1] regarding subloop unbundling, which encompasses the intrabuilding network cable and network terminating wire elements in the BellSouth filing, along with several others.[2]

Paragraph 205 states, "We find that the lack of access to unbundled subloops materially

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[1] Third Report and Order and Fourth Further Notice of Proposed Rulemaking, released 11/5/1999, FCC 99-238

[2] Third Report at paragraph 206.

diminishes a requesting carrier's ability to provide service that it seeks to offer. We also conclude that access to subloop elements is likely to be the catalyst that will allow competitors, over time, to deploy their own complementary subloop facilities, and eventually to develop competitive loops." Paragraph 216 specifically mentions multi-dwelling units, saying that, "In particular, a facilities-based provider's ability to offer service in a multi-unit building or campus may be severely impaired if it must install duplicative inside wiring." Also, at paragraph 219, the FCC states that, "Access to unbundled subloop elements allows competitive LECS to self provision part of the loop, and thus, over time, to deploy their own loop facilities, and eventually to develop competitive loops. If requesting carriers can reduce their reliance on the incumbent by interconnecting their own facilities closer to the customer, their ability to provide service using their own facilities will be greatly enhanced, thereby furthering the goal of the 1996 Act to promote facilities-based competition."

As demonstrated below, BellSouth's claimed cost for Intrabuilding Network Cable and Network Terminating Wire elements exceed forward-looking economic costs and otherwise conflict with the FCC's UNE Remand Order. Accordingly, BellSouth's cost proposals should be rejected.

Q. PLEASE DESCRIBE INTRABUILDING NETWORK CABLE (INC).

A. Intrabuilding Network Cable, as described by BellSouth and alternatively known as riser cable, represents "the distribution facility inside a subscriber's building or between buildings on one customer's same premises. INC will include the facility from the cross connect device in the building equipment room up to and including the end-user's point of demarcation." Apparently BellSouth plans to install a 25 pair cross connect panel near BellSouth's cross-connect device on which the riser cable will be accessed. BellSouth technicians will interconnect ALEC

facilities at this cross connect panel to BellSouth's riser cable.

Q. PLEASE DESCRIBE NETWORK TERMINATING WIRE.

A. Network terminating wire is copper wiring that is used to extend circuits from a building entrance terminal to an individual customer's point of demarcation. Access to network terminating wire was previously addressed in an arbitration proceeding between MediaOne Florida Telecommunications, Inc. and BellSouth (Order No. PSC-99-2009-FOF-TP in Docket 990149-TP).

Q. WHAT IS BELLSOUTH'S PROPOSED RECURRING CHARGE FOR 2-WIRE INTRABUILDING NETWORK CABLE?

A. BellSouth proposes to charge a monthly recurring rate of $3.90 for 2-wire Intrabuilding Network Cable. This charge represents 22% of the charge BellSouth proposes for the entire 2-wire loop, even though intrabuilding network cable accounts for only a hundred or so feet of a loop that on average extends for thousands of feet.

Q. WHAT IS BELLSOUTH'S PROPOSED RECURRING CHARGE FOR 4-WIRE INTRABUILDING NETWORK CABLE?

A. BellSouth proposes to charge a monthly recurring rate of $7.38 for 4-wire Intrabuilding Network Cable.

Q. DO YOU AGREE WITH BELLSOUTH'S PROPOSED CHARGES FOR 2-WIRE AND 4-WIRE INTRABUILDING NETWORK CABLE?

A. No. The proposed charges conflict with the recent FCC UNE Remand Order and should be rejected. The proposal assumes that BellSouth will install a 25 pair cross connect panel in the building equipment room in order to provide a designated interconnection location for riser cable and also to provide a test point for service surveillance and maintenance. In addition, BellSouth will require cross connections from this panel to BellSouth's existing cross connect device already located in the building equipment room. This additional terminal is shown as point II.A (or point II.B) in Exhibit BK-1.

The proposed requirement to build an additional panel flatly conflicts with the FCC's UNE Remand order that calls for a single point of interconnection. "Although we do not amend our rules governing the demarcation point in the context of this proceeding, we agree that the availability of a single point of interconnection will promote competition. To the extent there is not currently a single point of interconnection that can be feasibly accessed by a requesting carrier, we encourage parties to cooperate in any configuration of the network necessary to create one. If parties are unable to negotiate a reconfigured single-point of interconnection at multi-unit premises, we require the incumbent to construct a single point of interconnection that will be fully accessible and suitable for use by multiple carriers." [Emphasis added]. FCC's UNE Remand Order, at ¶226.

BellSouth's proposal, in contrast, calls for additional equipment to be built and paid for by ALECs, while continuing to allow BellSouth to maintain a direct connection to the existing

basement terminals. Such an approach is not competitively neutral and does not satisfy the FCC requirement for a single point of interconnection. Exhibit BK-2 provides a diagram depicting a single point of interconnection in a building equipment room that is competitively neutral and does satisfy the FCC requirement for a single point of interconnection. The diagram in Exhibit BK-2 represents the appropriate INC elements that BellSouth should have used when establishing a monthly recurring price for intrabuilding network cable.

Q. DID THE FLORIDA COMMISSION PREVIOUSLY ADDRESS THE ISSUE OF A SINGLE POINT OF INTERCONNECTION FOR SUB-LOOP UNBUNDLING?

A. Yes, on October 14, 1999 (Order No. PSC-99-2009-FOF-TP in Docket 990149-TP) and prior to the FCC's order, the Florida Commission concluded that network security and control problems associated with a single point of interconnection were too daunting a challenge for them to approve at that time.

Q. DID THE GEORGIA COMMISSION ADDRESS THE ISSUE OF A SINGLE POINT OF INTERCONNECTION FOR SUB-LOOP UNBUNDLING?

A. Yes, on December 28, 1999 (Order in Docket No. 10418-U) and after the FCC's order, the Georgia Commission concluded that there were appropriate procedures that could be implemented that adequately addressed network security and control problems associated with a single point of interconnection. The Georgia Commission concluded that an ALEC may use its own technicians to perform the interconnections as long as the ALEC assumed the full liability for its actions and for any adverse consequences that could result.

Q. DO YOU SUPPORT THE NOTION OF FULL INDEMNIFICATION FOR ADVERSE CONSEQUENCES ASSOCIATED WITH THE ACTIONS OF ALEC TECHNICIANS?

A. In principle, we would support such a notion.

Q. HOW DOES BELLSOUTH ARRIVE AT THEIR PROPOSED COST FOR 2-WIRE INC?

In the BellSouth cost study, three elements are identified that cause BellSouth to incur material investment of *****BEGIN PROPRIETARY** $23.537 **END PROPRIETARY***** per pair to provide 2-Wire INC. This amount consists of: Intrabuilding network cable investment of *****BEGIN PROPRIETARY** $1.5174 **END PROPRIETARY***** is incurred for the riser cable material; investment in building entrance terminals of *****BEGIN PROPRIETARY** $11.547 **END PROPRIETARY***;** and investment in building distribution terminals of *****BEGIN PROPRIETARY** $10.4756 **END PROPRIETARY*****.

BellSouth takes the material investments totaling *****BEGIN PROPRIETARY** $23.537 **END PROPRIETARY***** from the BSTLM and grosses it up to *****BEGIN PROPRIETARY** $177.7093 **END PROPRIETARY***** to account for inflation and installation. BellSouth then applies an annualized expense to

investment factor of ***BEGIN PROPRIETARY .232139 END PROPRIETARY*** in establishing a monthly recurring volume insensitive 2-Wire INC charge of ***BEGIN PROPRIETARY $3.4376 END PROPRIETARY*** per pair. This is added to the volume sensitive charge of $0.4591 to arrive at a total 2-Wire INC Charge of $3.90 per pair.

Q. DO YOU AGREE WITH THE INVESTMENTS THAT BELLSOUTH HAS DEVELOPED FOR THE 2-WIRE INC COST?

A. In principle, we agree that intrabuilding network cable investment is incurred. However, the investment calculated by BellSouth is overstated by at least ***BEGIN PROPRIETARY $140.94 END PROPRIETARY***

Q. WHAT IS YOUR BASIS FOR THIS AMOUNT?

A. I used restated investments developed by Mr. Pitkin and Mr. Donovan for Field Codes 12c and 52c. The rationale for their investment restatement is described in their testimony.

Q. IS THIS THE FULL EXTENT OF BELLSOUTH'S OVERSTATED INVESTMENT?

A. No. Even though we believe BellSouth's costing approach drastically overstates the costs for building terminals, we cannot adjust BellSouth's investment in building entrance terminals and building distribution terminals. The limited documentation that BellSouth has provided indicates that BellSouth includes two terminals in the building equipment room. At this time we can only guess whether Bell's existing terminal is the building entrance terminal or the building distribution terminal.

Q. WHAT WOULD YOU RECOMMEND BE DONE TO ELIMINATE ANY ADDITONAL EQUIPMENT AND CROSS CONNECTIONS THAT BELLSOUTH IS PROPOSING TO CHARGE THE ALECS?

A. Our costing approach would correct BellSouth's cost study by removing the investment associated with additional equipment and cross connections that BellSouth does not incur when it provided access to riser cable for itself. As a matter of

policy, ALECs should be allowed to cross connect directly to existing BellSouth basement terminal equipment. We recognize that in some cases, BellSouth may perform this function, although we believe that ALEC technicians should be allowed to perform the cross connections.

In order to actually implement the single point of Interconnection approach, replacement equipment or additional equipment may be required. Whatever the physical solution, additional charges could legitimately be included in monthly recurring charges for INC to accommodate the added functionality of being able to interconnect multiple carriers at a single point. This inclusion of additional costs does not mean that we believe additional equipment is required for ALECs to interconnect to BellSouth in most cases, but is included only to account for the possibility that additional equipment may be required. This approach differs drastically from BellSouth's costing approach under which ALECs pay for fully duplicative, extremely underutilized equipment in monthly recurring

rates, as well as pay for unneeded cross connections by Bell technicians in non-recurring rates.

Q. DESCRIBE WHAT ADJUSTMENTS YOU WOULD MAKE TO BELLSOUTH'S 2-WIRE INTRABUILDING NETWORK CABLE RECURRING COST STUDY, IF WE ASSUME THAT THE BUILDING DISTRIBUTION TERMINAL INSTALLED INVESTMENT OF *** BEGIN PROPRIETARY **$85.9685** END PROPRIETARY*** **REPRESENTS THE COST OF THE FULLY DUPLICATIVE AND UNDERUTILIZED EQUIPMENT YOU JUST DESCRIBED.**

A. First of all, we would remove the duplicative investments for the building distribution terminal. Secondly, we would use the investments from the restated BSTLM run that Mr. Pitkin and Mr. Donovan referenced in their testimony (pg 25) that reflect installed material cost of building entrance terminal and intrabuilding network cable. This results in an installed investment of *****BEGIN PROPRIETARY** $20.05 **END PROPRIETARY***** per pair, rather than the *****BEGIN PROPRIETARY**

$177.7093 **END PROPRIETARY*** figure developed by BellSouth. Next, we would apply a corrected monthly expense factor of ***BEGIN PROPRIETARY .233321 END PROPRIETARY*** to the installed investment.

This results in a monthly volume insensitive economic cost of ***BEGIN PROPRIETARY $0.39 END PROPRIETARY***. The final adjustment would be to remove the subscriber line testing expense since we believe that all testing would be done by the ALEC. This would remove ***BEGIN PROPRIETARY $0.2611 END PROPRIETARY*** from the volume sensitive NTW cost. The resulting 2-Wire INC charge would be $0.5661 per pair per month, rather than the $3.90 figure proposed by BellSouth.

Q. HOW WOULD YOU ADJUST BELLSOUTH'S 4-WIRE INTRABUILDING NETWORK CABLE STUDY?

A. I would use the same methodology as I did for the 2-wire INC adjustments. My proposed recurring price for 4-wire INC is $0.9691.

Q. DESCRIBE WHAT ADJUSTMENTS YOU WOULD MAKE TO BELLSOUTH'S 2-WIRE AND 4-WIRE INTRABUILDING NETWORK CABLE NON-RECURRING COST STUDIES.

A. BellSouth's non-recurring cost studies for 2-wire and 4-wire intrabuilding network cable assume that a BellSouth technician must connect and perform a turn-up test for all cross connections at a building equipment terminal including those cross connections associated with ALEC customers. This is unnecessary and duplicative. The ALEC technician can make the connections and perform a turn-up test just as readily as a BellSouth technician. Therefore, all of the network activities identified in BellSouth's non-recurring cost study are eliminated. The only non-recurring work activity still remaining is associated with the service order for this UNE. As described in Jeff King's testimony the appropriate NRC for this service order is $0.4316 for both 2-wire and 4-wire INC.

Q. WHAT IS THE PROPOSED MONTHLY RECURRING CHARGE FOR NETWORK TERMINATING WIRE?

A. BellSouth proposes to charge a monthly recurring rate of $.4591 per pair for Network Terminating Wire. This charge is comprised of ***BEGIN PROPRIETARY** $.2642 **END PROPRIETARY*** associated with subscriber line testing expense and ***BEGIN PROPRIETARY** $.1638 **END PROPRIETARY*** of cable expense.

Q. DID THE FLORIDA COMMISSION PREVIOUSLY APPROVE A $.60 CHARGE FOR NETWORK TERMINATING WIRE?

A. Yes, in the MediaOne arbitration with BellSouth, a $.60 monthly recurring charge was established.

Q. IS THE $.4591 MONTHLY RECURRING CHARGE FOR NTW REASONABLE?

A. We do not understand why the subscriber line testing expense is reasonable when the ALEC technicians will perform the testing. In principle, it is appropriate to charge for the network cable expense, but it is unclear whether BellSouth applied appropriate depreciation lives,

cost of the capital, etc. BellSouth must demonstrate that the appropriate forward looking inputs were used to establish the network cable costs and not fall back on embedded cost analyses. Since these same charges are included in the calculation of intrabuilding network cable, the same concerns apply to INC charges as well.

Q. WHAT NON-RECURRING CHARGES DOES BELLSOUTH PROPOSE FOR NETWORK TERMINATING WIRE?

A. BellSouth is proposing a $60.93 per pair non-recurring charge. This charge is comprised of several components. A charge of *****BEGIN PROPRIETARY** $23.9167 **END PROPRIETARY***** for garden terminals and cross connect panels and cabling in a BellSouth wiring closet inside a multi-tenant building that would be used exclusively by ALECs is included. The remainder of the charge is associated with labor costs to support service inquiry and various network connection activities.

Q. ARE THESE APPROPRIATE NON-RECURRING CHARGES FOR NETWORK TERMINATING WIRE?

A. The only appropriate non-recurring charge for network terminating wire that BellSouth has identified is the charge associated with the service ordering for this UNE function. This charge is described in AT&T/MCI WorldCom witness Jeff King's testimony and is $0.4316.

Q. WHY IS THE NON-RECURRING CHARGE FOR ADDITIONAL GARDEN TERMINALS AND CROSS CONNECT PANELS INAPPROPRIATE?

A. The charge violates the FCC's requirement for a single point of interconnection for use by multiple carriers including BellSouth. In order to actually implement the single point of interconnection approach, replacement equipment or additional equipment may be required. Whatever the physical solution, additional charges could legitimately be included in monthly recurring charges for NTW for any replacement garden terminals or cross connect panels inside wiring closets to accommodate the added

functionality of being able to interconnect multiple carriers at a single point. This inclusion of additional costs does not mean that we believe additional equipment is required for ALECs to interconnect to BellSouth in most cases, but is included only to account for the possibility that additional equipment may be required. This approach differs drastically from BellSouth's costing approach under which ALECs pay for fully duplicative, extremely underutilized equipment in non-recurring rates of ***BEGIN PROPRIETARY $23.9167 END PROPRIETARY*** for redundant garden terminals and cross connect panels in wiring closets.

Q. WERE YOU ABLE TO QUANTIFY THE EXTENT OF THE DUPLICATION IN ANY OF THIS EQUIPMENT?

A. Yes. BellSouth identified that a newly installed 100 pair garden terminal with less than 6 feet of cross connecting cable would be about ***BEGIN PROPRIETARY $304 END PROPRIETARY***. If we assume a fill factor of 56%, the per pair investment for a 100 pair garden terminal becomes

BEGIN PROPRIETARY 5.43 (304/56) END PROPRIETARY. The conversion of the investment to a monthly recurring cost yields a monthly recurring rate of $0.1009.

BellSouth used a ***BEGIN PROPRIETARY $332.90 END PROPRIETARY*** investment cost for a garden terminal and assumed that the fill factor would be ***BEGIN PROPRIETARY 11% END PROPRIETARY***. Clearly the underutilization of investment is built into the BellSouth non-recurring charge. Moreover, BellSouth assumed that an additional garden terminal would be constructed for the sole use of ALECs rather than assuming that the garden terminal would be shared by all. If the garden terminal were to be shared by all, BellSouth would have developed a monthly recurring charge. This monthly recurring charge would be similar to what BellSouth included for the garden terminal in the establishment of a complete UNE loop.

Q. HAS GTE PROPOSED PRICES IN THIS PROCEEDING FOR INTRABUILDING NETWORK CABLE?

A. Yes. However, GTE has not provided any basis for their proposed prices.

Q. WHAT PRICES DO YOU PROPOSE FOR INTRABUILDING NETWORK CABLE IN GTE'S TERRITORY?

A. I propose that we use the same prices that we are proposing for BellSouth.

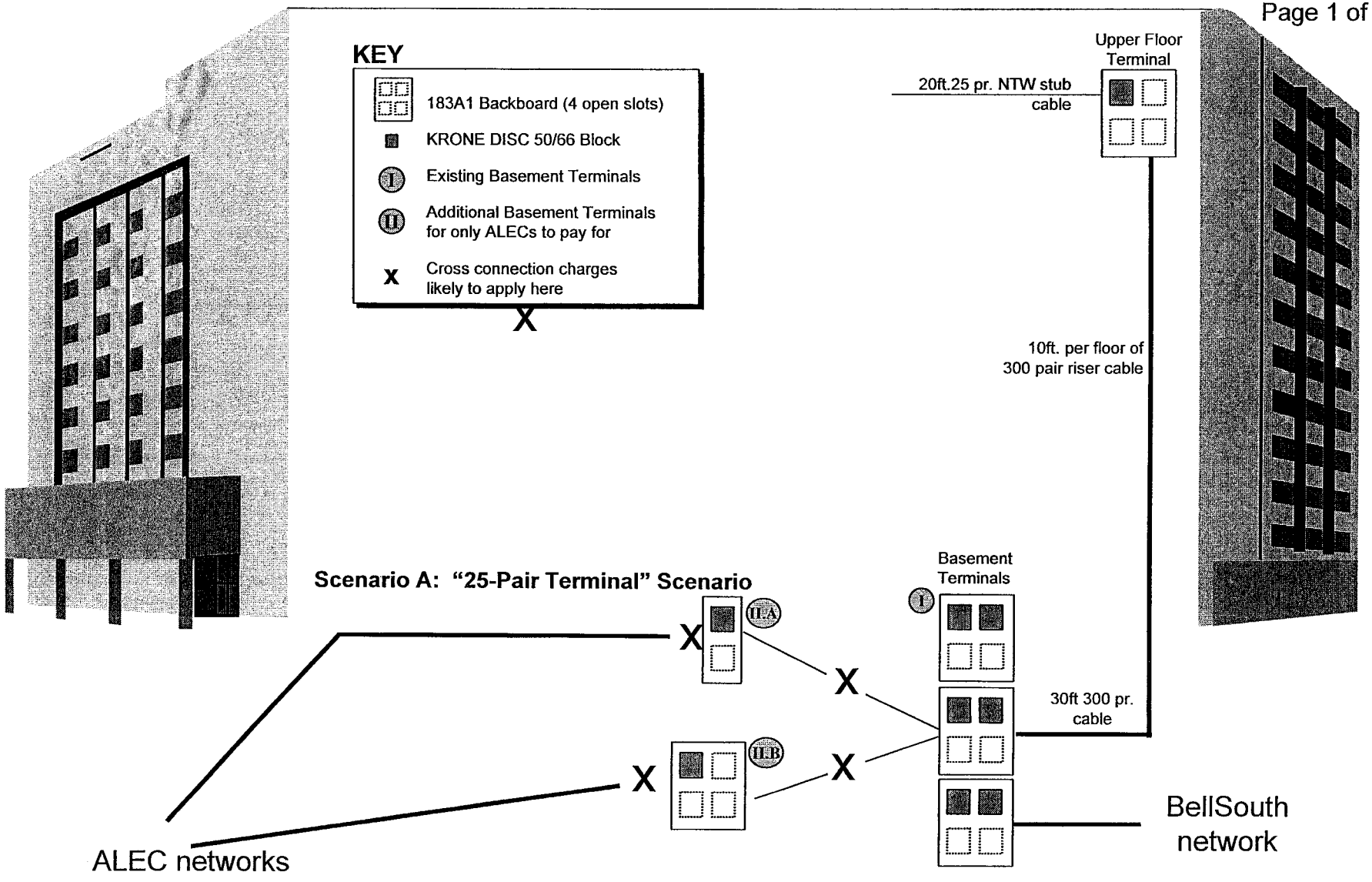
Q. PLEASE SUMMARIZE YOUR TESTIMONY.

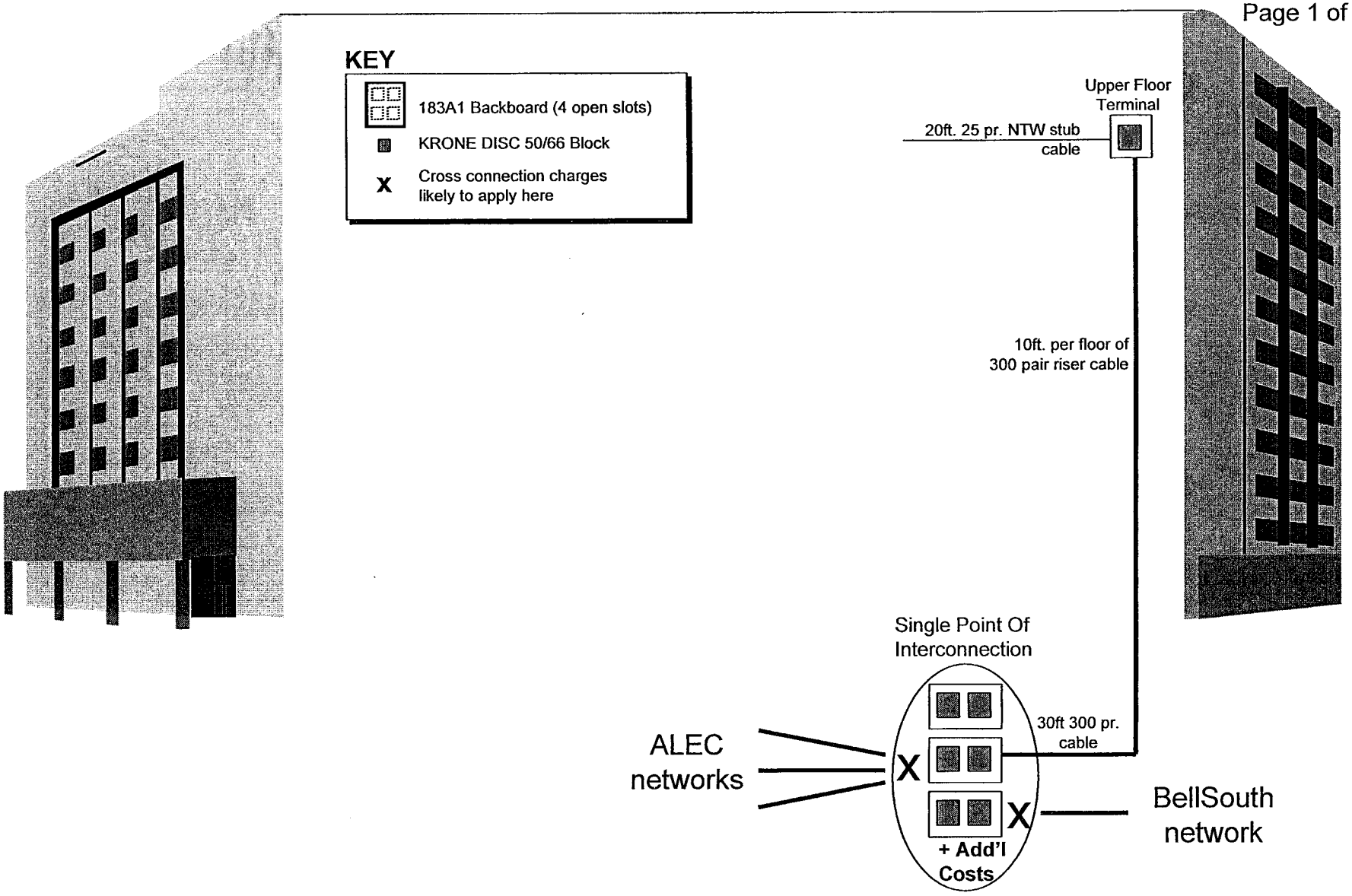
A. Proper pricing of sub-loops has been recognized as a vital ingredient to spur competition. The FCC has provided substantial guidance to the states that was unavailable at the time the Florida Commission established network terminating wire prices. We have recommended sub-loop unbundling methods and procedures that the Florida Commission should adopt to bring the

benefits of competition to Florida consumers, be they located in homes, garden apartments or high-rise buildings. As a facility-based carrier that plans to offer local telephony through its Florida cable plant, AT&T is concerned that network safety and reliability not be compromised in a multi-carrier environment. Full indemnification for careless actions is an alternative and acceptable penalty to complete denial of a carrier's rights to joint interconnection.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.


KEY
183A1 Backboard (4 open slots)
KRONE DISC 50/66 Block
I Existing Basement Terminals
II Additional Basement Terminals for only ALECs to pay for
X Cross connection charges likely to apply here
Upper Floor Terminal
20ft.25 pr. NTW stub cable
10ft. per floor of 300 pair riser cable
Scenario A: "25-Pair Terminal" Scenario
Basement Terminals
II.A
II.B
30ft 300 pr. cable
ALEC networks
BellSouth network


KEY
183A1 Backboard (4 open slots)
KRONE DISC 50/66 Block
X
Cross connection charges likely to apply here
Upper Floor Terminal
20ft. 25 pr. NTW stub cable
10ft. per floor of 300 pair riser cable
Single Point Of Interconnection
30ft 300 pr. cable
ALEC networks
X
X
+ Add'l Costs
BellSouth network