BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of	**DOCKET NO. 990649-TP**
INVESTIGATION INTO PRICING OF UNBUNDLED NETWORK ELEMENTS.	

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VOLUME 15

Pages 2269 through 2464

PROCEEDINGS:	HEARING
BEFORE:	CHAIRMAN J. TERRY DEASON COMMISSIONER E. LEON JACOBS, JR. COMMISSIONER LILA A. JABER
DATE:	Thursday, September 21, 2000
TIME:	Commenced at 8:15 a.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	TRICIA DeMARTE Official FPSC Reporter Division of Records & Reporting
APPEARANCES:	(As heretofore noted.)

I N D E X

E X H I B I T S

PROCEEDINGS

(Transcript continues in sequence from Volume 14.)

CHAIRMAN DEASON: Call the hearing back to order. For those of you who are not aware, there's a tropical storm in the Gulf of Mexico, and it is gaining strength and it is headed North. There's a tropical storm advisory from Aucilla River westward to Mississippi, and we don't know what it's going to do other than we know it's going to bring us some bad weather; I would think definitely bad for people who need to fly and that's you all. Okay. I can get in my truck and pretty well make it home okay. So just be advised.

MR. MELSON: For the out-of-state people and those of us who are geographically challenged, where is the Aucilla River?

CHAIRMAN DEASON: Aucilla River is a little bit to the southeast of Tallahassee.

MR. MELSON: Okay.

CHAIRMAN DEASON: So Tallahassee is right in the -- we're in the -- while we might not be the bullseye, we're the first ring. Okay.

Where were we? We need to call the next witness. Is there any preliminary matters we need -- housecleaning that we need to take care of?

MR. SELF: Mr. Chairman, we have two stipulated witnesses that are actually the next two, Catherine Pitts and Greg Darnell.

CHAIRMAN DEASON: All right. We will address that then.

MR. SELF: AT&T and MCI WorldCom are putting forth the witness Catherine Pitts. She has filed rebuttal testimony consisting of 29 pages, and we've got five pages of that which are confidential, if you'd like to do what we did last time and make those a separate exhibit.

CHAIRMAN DEASON: Yes, if we could identify exactly what pages.

MR. SELF: Those are Pages 7, 8, 18, 20, and 26.

CHAIRMAN DEASON: Okay. That will be Exhibit -- those pages will constitute Exhibit 128.

(Exhibit 128 marked for identification.)

MR. SELF: Thank you. And there are no changes or corrections to the rebuttal testimony of Catherine Pitts. There is also supplemental rebuttal testimony consisting of eight pages. There are no changes or corrections to that, and none of that is confidential. And we would ask that that be placed in the record as though read.

CHAIRMAN DEASON: Oaky. All of the testimony which you've just described with the exception of the

confidential pages will be inserted in the record.

MR. SELF: And we have filed public versions of those confidential pages. In addition, attached to Ms. Pitts' testimony are some confidential and nonconfidential exhibits. The nonconfidential exhibits are Exhibits CEP-1 and CEP-7. If we could give those two a composite exhibit number, Mr. Chairman.

CHAIRMAN DEASON: 129.

(Exhibit 129 marked for identification.)

MR. SELF: And then we have some confidential exhibits associated with Ms. Pitts' testimony. Those are identified as CEP-2, 3, 4, 5, 6, and 8. If we could give those the next number, please.

CHAIRMAN DEASON: Yes, 130.

(Exhibit 130 marked for identification.)

MR. SELF: And we would ask that those exhibits, 128, 129, and 130, be admitted into the record.

CHAIRMAN DEASON: Without objection, they shall be admitted.

(Exhibits 128, 129, and 130 admitted into the record.)

MR. SELF: And I think we have already handled her testimony.

CHAIRMAN DEASON: Yes.

1. INTRODUCTION

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

A. My name is Catherine E. Pitts (formerly Petzinger). I am a District Manager with AT&T in Law and Government Affairs, 295 North Maple Avenue, Basking Ridge, New Jersey.

Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE AND EDUCATIONAL BACKGROUND

A. I have an MBA from Rutgers University, New Jersey, and have thirteen years of experience in the telecommunication industry building, and subsequently leading, a group that developed switching cost models, including the Switching Cost Information System ("SCIS"). My experience includes extensive consultation on the use of cost models in various cost studies in the United States and abroad.

Before joining AT&T in 1996, I worked at Telcordia (formerly Bellcore) for 13 years in the Cost Methods and Models organization. I was one of three individuals who designed the SCIS/IN[1] model and implemented new incremental costing methodology into the program. I also was the lead subject matter expert on feature costing in general as well as a subject

[1] SCIS/IN is the SCIS model that determines the costs for vertical features and services.

matter expert on 1ESS, 1A ESS and 5ESS switches. When I was promoted to lead the SCIS group, I had responsibility for the technical development, production, documentation, customer care and cost study consultation for the SCIS family of models.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGARD TO LEC COST MODELS IN GENERAL, AND THE SWITCHING COST INFORMATION (SCIS) IN PARTICULAR?

A. Yes, I have presented expert testimony in numerous state proceedings dealing with switching unbundled element cost studies.

2. PURPOSE AND SUMMARY OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to report my findings regarding BellSouth's switch cost study methodology and the inputs used by BellSouth for developing switch investments. Other witness' testimony analyzes the annual cost factors, investment loading factors and expense factors. Their proposed recommendations, in conjunction with the proposed changes I make to switch investments, support the UNE switch costs restated in Mr. King's testimony.

Q. PLEASE SUMMARIZE THE MAIN POINTS OF YOUR TESTIMONY

A. Inappropriate switch prices were used as a starting point for BellSouth's cost study, resulting in inflated costs for all switch-related elements.

The SST model has inappropriate and unsupported feature cost methodologies that contain numerous errors, causing seriously overstated feature-related costs.

3. OVERVIEW OF BELLSOUTH'S SWITCH COST STUDY

Q. DESCRIBE HOW BELLSOUTH DETERMINES ITS PROPOSED COSTS FOR UNBUNDLED SWITCH ELEMENTS.

A. BellSouth first used the proprietary Telcordia SCIS/MO model to allocate switch costs to pre-defined traffic sensitive and non-traffic sensitive cost categories. BellSouth then analyzed various data, including proprietary information from the Telcordia SCIS feature module (SCIS/IN), to develop its new Simplified Switching Tool (SST). The BellSouth SST model includes formulas to calculate feature investments and switch usage investments in the SST-Usage workbook, and computes investments for switch ports in the SST-Port workbook. Additional investments for RTU fees, land and building, local telephone company engineering and installation are added to the switch investments. The in-place investments are then converted to annual and/or monthly costs, and switch related and

other expenses are added to produce BellSouth's claimed cost for switch UNEs.

4. INAPPROPRIATE SWITCH PRICES WERE USED AS THE FOUNDATION OF BELLSOUTH'S SWITCH ELEMENT COST STUDIES.

Q. WHAT SWITCH PRICES DID BELLSOUTH USE IN ITS COST STUDY?

A. BellSouth used the new (replacement) switch price for equipment included in the first cost (getting started cost) of the switch and a melded new and growth price for all remaining switch equipment.[2]

Q. WHAT IMPACT DOES THE USE OF A MELDED DISCOUNT HAVE ON SWITCH PRICES?

A. The vendors often provide a two-tiered pricing structure with higher discounts for new switch purchases and a lower discount for add-on, or growth, equipment. The SCIS/MO model only has list prices. The user must enter discounts as inputs to derive net switch prices. If the new switch discount is melded with the growth discount, the overall switch prices and ultimately the switch element costs will be higher.

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[2] Page Testimony, pg. 24

Even if melding were appropriate, BellSouth's melded discount input to SCIS/MO appears to assume that the majority of lines are at the higher growth price.[3] BellSouth, however, purchases most lines on a switch at the new switch price. BellSouth would recover significantly more than its own switch investment from the ALECs for UNE-P if the switch UNEs are costed using heavily weighted higher growth prices. Not only is cost causation violated, but a barrier to market entry is constructed when ALECs not only pay more than BellSouth for the same resource, but are also required to overcompensate BellSouth, providing it with extraordinary profits.

Q. IS BELLSOUTH'S EXAMPLE OF REPLACEMENT COSTS EXCEEDING MELDED REPLACEMENT AND GROWTH COSTS REALISTIC?

A. No. BellSouth's example[4] showing that replacement costs "can" lead to a higher cost in the long run falls apart if realistic numbers are assumed for current switch sizes, forward-looking growth rates, realistic discounts for replacement and growth, and a reasonably foreseeable time horizon. In fact, the example that BellSouth uses to support its claim that the use of new (replacement) switch prices "can" lead to higher costs includes growth at 10% per year over 10 years. Ten percent growth is not

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[3] BellSouth's Response to ATT's 2nd Set of Interrogatories, Item #87, attached as Exhibit CEP-1

reasonable nor is ten years foreseeable in the dynamic telecommunications industry.[5] Moreover, it is doubtful that the switch contracts currently in place would be effective through the year 2010, making the prices pure speculation.[6]

In summary, BellSouth's use of higher growth costs in the switching cost study, while not including the impacts of growth costs in interoffice facilities (which would decrease costs), for example, is inconsistent, causes higher switch costs and should be rejected.

Q. WHAT DISCOUNT INPUTS TO SCIS SHOULD BE USED?

A. The new switch discounts BellSouth entered into SCIS/MO that are applied to the getting started equipment (first cost) should be used for all switch equipment.

Q. WHAT IMPACT DOES THIS HAVE ON THE RESULTS?

A. Correcting the discount inputs, rerunning SCIS/MO and loading the new SCIS/MO results into BellSouth's SST model produces switch investments for ports that are approximately 50% of the port investments

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[4] Page Testimony, Exhibit JHP-1

[5] Indeed, BellSouth's switch planning horizon is 2-3 years as stated in Page Testimony, pg. 22 Footnote 3.

[6] As BellSouth requires review of its contracts at its location (unlike other RBOCs who do provide this information under protective cover directly to participants in a proceeding), AT&T has not yet had an opportunity to determine the precise contract

claimed by BellSouth. Unbundled local switching and trunk ports are approximately 40% and 50%, respectively of BellSouth's claimed BellSouth costs.

The restated BellSouth costs sponsored by Mr. King include the corrected discount inputs.

Q. PLEASE EXPLAIN WHY SOME ISDN RESULTS ARE NOT RELIABLE.

A. When AT&T attempted to calculate the offices in BellSouth's SCIS/MO, multiple processing errors were displayed associated with calculating ISDN on DMS RSC-S remotes.[7] The ISDN port section of BellSouth's SCIS/MO ISDN Investment report that was included in BellSouth's electronic SCIS/MO filing is excerpted below:

*****Begin Proprietary*****

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

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expiration dates.

[7] While the user had to click on the error messages indicating that there were missing table items necessary to the calculations, SCIS/MO continued to calculate.

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

End Proprietary

Note that subcategory D is the sum of the D1, D2 and D3. Also note that the Min. Inv. per BRI (ISDN 2-wire port) should be the sum of subcategories A, C and D, but obviously it is not. It appears that the D3 category value, which is usually minimal, is wrong, but the printed value not being added to the Min. Inv. per BRI.

The SST model, when importing the detailed results from SCIS, does load the individual subcategory values to calculate an incorrect investment for ISDN BRI ports.[8] When we removed the wire centers with the DMS RSC-S remote switches from the SCIS/MO study, the individual 'A, C, and D' sub-elements added up correctly to the Min. Inv. per BRI and no error messages were received during calculations.

Q. HOW SHOULD THE ISDN COSTS BE CALCULATED?

A. We removed the offices that had DMS RSC-S remotes with ISDN in order to have SCIS/MO recalculate the ISDN port investments with corrected discounts without processing errors. Therefore, the restated ISDN port investments in Mr. King's testimony excludes these offices.

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[8] See, for example, Columns AA and AK of the SCIS Input Worksheeet in FLST_SST-P.

5. THE SST MODEL'S FEATURE STUDY IS FLAWED

Q. PLEASE DESCRIBE HOW THE SST MODEL DETERMINES THE COST OF FEATURES.

A. BellSouth's SST-U model categorizes features into thirteen categories, based on the type of switch resource used to operate the feature. BellSouth uses the SCIS/MO model outputs as inputs to SST-U, along with the results of BellSouth's feature Hardware Study, and makes numerous simplifying assumptions about switch resources consumed by features, to calculate a theoretical cost for a given feature category. The features in each category are then added together to generate BellSouth's composite feature, shown as Central Office Features Category 13, that makes up Element B.4.13. An additional feature that purportedly identifies the cost of Centrex Intercom Usage is calculated under the name Centrex Functionality, Element B.4.10.

Q. PLEASE IDENTIFY THE FEATURE COSTING FLAWS.

A. BellSouth states that "The key inputs to feature material prices are switch realtime estimates, customer usage characteristics, and special hardware prices."[9] Ironically, these "key inputs" are the ones that have the most serious flaws in BellSouth's feature costing methodology. The following flaws will be described subsequently in more detail.

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[9] Page Testimony, pg. 26

- The SCIS/MO output results used as inputs to SST were generated using melded discount inputs weighted heavily towards higher-priced growth costs rather than new switch prices, and contribute to overstating feature costs.

- The Hardware Study uses incorrect investments, incorrect capacities and utilization adjustments that produce inflated hardware costs for features.

- The entire conceptual methodology of averaging disparate feature inputs together in an attempt to force the costs to fit a theoretical feature category, and making broad assumptions that are used as critical inputs is flawed.

Q. PLEASE EXPLAIN WHY THE INCORRECTLY DISCOUNTED SCIS/MO RESULTS CONTRIBUTE TO FEATURE COST OVERSTATEMENTS.

A. The SCIS/MO model produces investments for switch functions on a usage-sensitive basis. These unit costs from SCIS/MO (for example, the cost of a processor millisecond, or the cost of a line path, etc.) are then multiplied by BellSouth's guesstimates of the amount of resources used by a feature category. The SCIS/MO results were produced using the inappropriate discounts described previously, and thus produce inflated feature costs. The cost restatements in Mr. King's testimony incorporate the corrected discounts.

6. THE HARDWARE STUDY HAS INVESTMENT, CAPACITY AND UTILIZATION FACTOR ERRORS

Q. PLEASE EXPLAIN WHAT THE HARDWARE STUDY IS.

A. BellSouth produced the Hardware Study to calculate the cost of unique feature-related hardware, such as conference circuits and announcements.[10] The hardware category makes up more than 70% of BellSouth's proposed composite feature investment. BellSouth says it obtained investments and capacities from Telcordia's SCIS/IN model and from the switch vendors. BellSouth's Hardware Study divides the investments for specific hardware components by their respective capacities, adjusted for utilization, to produce an average cost per CCS[11] for each feature hardware component. The cost per CCS for each component was then averaged together to produce a simple average cost per CCS for all hardware. Then the cost per CCS was multiplied by an assumed average holding time for all features that use hardware to generate a cost for hardware for the feature category.

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[10] This hardware is often bundled in the vendor's basic switch design and price, thereby causing no unique investment for features.

[11] Centum call seconds - an alternative measure to minutes typically used in switch engineering.

Q. WHAT PROBLEMS DID YOU FIND WITH THIS APPROACH?

A. There were numerous investment and capacity problems in this study that affected each and every hardware component calculation. Usually, the investments in the numerator were too high and the capacities in the denominator were too low, causing inflated hardware costs per CCS. In addition, the method of averaging the hardware costs, the holding times and the number of calls using the hardware is flawed.

Q. PLEASE DETAIL THE INVESTMENT PROBLEMS.

A. Feature hardware components are integrated into the switch itself and the prices are discounted by the switch manufacturers in the same manner as the rest of the switch. Using the SCIS/IN model to calculate hardware investments with *no discount at all* produced lower costs for most of the hardware[12] than BellSouth's Hardware Study. We analyzed BellSouth's Hardware Study in detail to determine what caused its net unit investments to be higher than the list price unit investment using SCIS data.

There are two hardware items in BellSouth's Hardware Study sourced to SCIS/IN; namely, the Call Waiting Tone circuit and the CLASS Modem Resource Card (required for calling number delivery, calling name delivery, etc.). BellSouth used the list price (with no discount at all) for

[12] Only three announcement circuits of the ten hardware components were priced

the CLASS Modem Resource Card. And although BellSouth's study did show a discount (albeit the heavily weighted growth melded discount) for the Call Waiting Tone, it showed 0 discount for the CLASS Modem Resource Card. In addition, BellSouth shows the source of the Call Waiting Tone as SCIS/IN, but the BellSouth claimed investment could not be found. BellSouth's undocumented investment was 88% higher than the Call Waiting Tone investment listed in SCIS/IN.[13]

The remaining hardware investments are sourced to the vendors – Lucent or Nortel. It is unclear from BellSouth's documentation exactly what information was provided by the vendors and what was derived from BellSouth sources[14], but it appears that at least one technology's investments included "loadings" and costs for "associated resources".[15] It is probable that some of these associated resources are double counted here and again in the telco installation factor, and/or other factors subsequently applied to the material investments in the Cost Calculator.

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slightly higher by SCIS/IN's methodology using list prices than BellSouth's study.

[13] The SCIS/IN hardware investment tables for DMS and 5ESS are attached as Proprietary Exhibit CEP-2.

[14] See BellSouth's Response to POD #6, Attachment 1 that shows a note to an unknown recipient from Jeff Shadrick requesting costs without specific instructions, attached as Exhibit CEP-3. For example, it is unknown whether the costs requested were discounted costs or list prices. Nor do we know the author of the notes or table entries in the attachment.

[15] ID. Page 4 "*estimated* prices are *loaded* and include *associated resources* required to add equipment" [emphasis added]

Q. PLEASE EXPLAIN THE CAPACITY PROBLEMS FOUND IN BELLSOUTH'S HARDWARE STUDY.

A. The capacity information provided by BellSouth in POD Item #6, Attachment 1 (Exhibit CEP-3), is not in CCS units and BellSouth provided no explanation for the capacities it ultimately used in the Hardware Study.

BellSouth used the Call Waiting Tone capacity for one call waiting tone from SCIS/IN, but used an undocumented investment for two circuits.[16] Dividing the investment of two circuits by the capacity of one circuit produced a cost per CCS twice as high as it should have been (not counting other errors).

The Hardware Study labels the capacity of the CLASS Modem Resource Card "CCS", but it is actually the number of lines that can share the card, but the estimate is too low. The actual number of lines that can share a CLASS Modem Resource Card is more than ten times what BellSouth has shown.

BellSouth used the capacity from SCIS/IN for a DSU2 / RAF / BRCS announcement, but used the investment for a much higher-capacity announcement called an SAS.[17] BellSouth has mixed an apple with a

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[16] See formula in Call Waiting Tone Material $ cell of Hardware Study worksheet.

[17] See Exhibit CEP-3 - POD #6, Attachment 1, page 4, Note 3

crate of oranges. Dividing the high cost SAS announcement by the RAF announcement's comparably smaller capacity results in a seriously overstated cost per CCS.

Finally, BellSouth applied utilization factors to all the capacities that further inflate the costs. Most of the values in SCIS/IN's capacity table for hardware are already utilization values, not ultimate capacity. Applying a utilization factor to SCIS/IN values double counts spare capacity, thereby contributing to overstated feature costs.

Q. IS THERE A MORE ACCURATE WAY TO DETERMINE THE COSTS OF THIS HARDWARE?

A. Yes. SCIS/IN does have the hardware investments in the model and we have been able to use its investments, formulas and capacities to restate BellSouth's hardware study results shown in Proprietary Exhibit CEP- 4. Even using BellSouth's original melded discount for the hardware components, SCIS/IN produced results approximately 50% of BellSouth's study. Correcting the discount input to reflect new switch prices produces results that are approximately 33% of BellSouth's claimed hardware investments. The restated costs in Mr. King's testimony include the hardware corrections.

7. BELLSOUTH'S FEATURE COST METHODOLOGY USES FLAWED CUSTOMER USAGE CHARACTERISTICS AND SWITCH REALTIME ESTIMATES

Q. WHAT SIMPLIFYING ASSUMPTIONS HAS BELLSOUTH MADE TO COST FEATURES?

A. The following simplifications were made to streamline the feature costing methodology.

BellSouth collapsed the "400 or so SCIS switch features" into 13 SST feature categories, based on the types of switch resources the features consume.

BellSouth mixed and matched busy hour call usages for individual features, that are themselves suspect, to derive an average busy hour call usage per line for an entire category of features.

BellSouth assumes that every feature uses the same amount of central processor time; in fact, it assumes that each and every feature uses the same amount of processing time as a regular call set-up. In addition, BellSouth's methodology assumes that both the Lucent and Nortel switches process all feature calls in the central processor.

BellSouth averages the holding times of hardware components performing vastly different functions to derive an average holding time for all hardware.

Q. WHAT ARE THE FEATURE CATEGORIES DEFINED BY BELLSOUTH?

A. The major categories are switch functions; i.e., features that use the processor, a line path, special hardware, a line port, or SS7 and then these five are mixed and matched to produce an additional eight combination categories for a total of thirteen categories.

Q. WHAT IS NEEDED TO DETERMINE THE COST OF A CATEGORY OF FEATURES?

A. An individual feature is basically the cost of a switch resource (e.g., cost per hardware CCS) times the number of times the feature is used in the busy hour[18] and the holding time of the call using the feature (BellSouth refers to these as key inputs). BellSouth's approach was to derive the "key inputs" for customer usage characteristics for an entire category of features.

Q. HOW DID BELLSOUTH DETERMINE THE BUSY HOUR CALL USAGE FOR EACH OF THE 56 FEATURES REVIEWED?

A. When asked for supporting documents, analysis and calculations to support the busy hour call estimates per feature category[19], BellSouth

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[18] Switches are engineered to the busy hour. Features used out of the busy hour have no economic usage cost. Indeed, processors in digital switches do not limit the capacity of the switch, instead, switches are port limited as will be discussed in detail subsequently.

[19] See POD #14l, Attachment No. 1, attached as Exhibit CEP-5.

provided a listing and indicated that the source was its own retail study inputs.[20] Just a casual review causes concern that these inputs are not correct. For example, 3-way calling is shown as ***Begin Proprietary*** x ***End Proprietary*** calls in the busy hour. In BellSouth's study, lines average just over ***Begin Proprietary*** xxx ***End Proprietary*** calls in the busy hour, and this would mean that an inordinately high one of every ***Begin Proprietary*** xx ***End Proprietary*** calls would have to be a conference call. Another example is Night Service which allows an attendant to close down the attendant console and divert incoming calls to another station in the business group. BellSouth's inputs indicate that the console would be closed down ***Begin Proprietary*** xx ***End Proprietary*** in the switch's busy hour, which is highly unlikely.[21]

Q. HOW DID BELLSOUTH CONVERT THE INDIVIDUAL FEATURE CALL USAGES TO ONE CALL USAGE FOR AN ENTIRE CATEGORY?

A. BellSouth took the simple average (mean) of all the inputs for the features in a category to derive the average number of times a feature is used. The features that make up a category are disparate; for example, PBX attendant

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[20] See POD #14, attached as Exhibit CEP-6.

[21] Night Service would typically be activated at the end of the business day – usually not the busy hour for a switch serving business customers. A switch serving business customers typically experiences a 10-11a.m. busy hour.

features, residential features, Centrex features, multiline group features and trunk-side connection features all go into one category.

Q. WHAT CONCERNS DO YOU HAVE WITH BELLSOUTH'S DERIVATION OF ONE CALL USAGE FOR AN ENTIRE CATEGORY?

A. There are two significant problems. First, taking a simple average, rather than a weighted average, of all the features ignores that some features have high penetrations (e.g., Caller ID for residence and business) and some are quite rare (e.g., Trunk Answer Any Station when an attendant's console is shut down to enable any station in the group to answer a call), causing a distorted result.

Second, some inputs for these features are on a single line basis, some are on a per business group basis, and some are on a trunk group basis. BellSouth takes Caller ID usage per *line*, Uniform Call Distribution whose input is on a per hunt *group*[22] basis, and Night Service activations per *attendant*; and then averages them together to illogically come up with an average usage *per port.* Call usages that are per line, per trunk, per attendant and per group cannot be simply added up and divided by the number of features that BellSouth then assumes is a per port average.

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[22] This is not the only group basis input used – there are multiple features whose inputs are per group.

Q. HOW DOES BELLSOUTH USE THE FLAWED AVERAGE USAGE PER CATEGORY PER LINE?

A. BellSouth takes the call usage, multiplies it by the average number of features per line times the averaged cost of the resources used in the switch for a given category to generate the composite feature investment. The number of busy hour calls per feature category that are used up to make up the composite feature[23] is:

*****Begin Proprietary*****

xxxxxxxxx	xxxxxxxxxxxx	xxxxxxxxxxx
xxxxxxxxx	xxxxxxxxxx	xxxxxxxxxxx
xxxxxxxxx	xxxxxxxxxx	xxxxxxxxxxx
xxxxxxxxx	xxxxxxxxxx	xxxxxxxxxxx
xxxxxxxxx	xxxxxxxxxx	xxxxxxxxxxx

*****End Proprietary*****

BellSouth stated that "... it can be concluded that the typical user activates about 4.5 features *in the busy hour*."[24] However, according to BellSouth's SCIS inputs, originating and terminating calls only average less than *****Begin Proprietary***** xxx *****End Proprietary***** requiring more than ***** Begin Proprietary***** xxx *****End Proprietary***** features to be active on every originating and every terminating call.

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[23] See BellSouth's response to POD #14l, Attachment 1 included as Exhibit CEP-5.

[24] BellSouth's response to ATT Item #89, attached as Exhibit CEP-7.

Q. WHAT OTHER AVERAGE CUSTOMER USAGE DATA IS USED BY BELLSOUTH?

A. BellSouth uses the estimates of holding times of five hardware components to derive a simple average, rather than a weighted average, holding time for all hardware. BellSouth mixes holding times for different types of announcements with holding times of conference circuits with no regard to whether there are more announcements of one type versus another announcement type, or the number of conference circuits compared to announcements in the network. As in the case of the busy hour call averages, BellSouth's broad generalizations and use of the simple arithmetic average produces inaccurate inputs that will result in inaccurate cost results.

We were not able to correct these input problems for two reasons: [1] we do not have accurate call usage data; and [2] even if did have it, BellSouth's SST model methodology requires only one call usage input per feature category. We know of no legitimate method of averaging together such disparate inputs without making many more additional error-prone assumptions.

Q. THE THIRD TYPE OF INPUT BELLSOUTH STATES IS KEY TO FEATURE COSTS IS PROCESSOR REALTIME. PLEASE EXPLAIN WHAT PROCESSOR REALTIMES ARE AND HOW BELLSOUTH USED THE PROCESSOR REALTIMES.

A. Processor realtimes are the individual measurements of central and/or distributed processor time it takes to activate or use a feature. The processor-related costs are 13% of BellSouth's claimed feature costs, second only to the hardware costs. One of the incorrect simplifying assumptions that BellSouth makes is that every feature uses the exact same processing time – in fact, it assumes that each feature uses the same processing time as one regular call set-up.

BellSouth also assumes that the processor is used in the same way for both the DMS switch and the 5E switch. The Lucent switch has distributed processors that perform the bulk of the feature call processing (which BellSouth's model includes as an additional and separate cost item) and only rarely does the 5ESS central processor become involved in a feature. BellSouth, however, assigns a central processor regular call-setup to each feature for both the Nortel switch and the Lucent switch, even though the Lucent switch's central processor doesn't get involved with most features. Assigning costs that do not exist clearly violates cost causation principles.

Most importantly, BellSouth's presumption that features, because they use the processor, must pay for the processor is misguided. The processor must be purchased for basic call processing and is part of the switch's first

cost – adding features do not cause BellSouth to purchase additional processing equipment. The processor, along with the rest of the getting started cost of the switch is a fixed cost and feature usage does not impact the level of getting started investment. Historically, analog and earlier digital switches could be call processing limited, but this is no longer true with the dramatic increases in computer processing power.[25] The limiting capacity of the current generation of switches is ports, not call processing. When a switch's port capacity is reached, an additional switch must be placed, thus incurring an additional getting started cost. A cost study, based on true cost-causation, would allocate the processor and getting started cost to all the ports in the switch, not the traffic sensitive minute of use and feature costs.

Q. WHAT IS THE SWITCH ELEMENT CENTREX FUNCTIONALITY?

A. BellSouth's Centrex functionality feature costs out intra-Centrex intercom usage and assigns it as a flat-rate port additive.

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[25] In fact, BellSouth's inputs to SCIS/MO show less than ***Begin Proprietary*** **xxx** ***End Proprietary*** average processor utilization, including features. Features that simply add usage to a processor that will not exhaust has no economic processor-related cost.

Q. WHAT IS WRONG WITH FLAT-RATING THE CENTREX USAGE?

A. It is our understanding that all ALEC UNE-P lines generate UNE MOU switch charges for every minute the line uses. BellSouth's separate and additional Centrex intercom usage feature would, therefore, be a double count and result in double recovery. This element should be set to 0.

Q. HAVE YOU IDENTIFIED OTHER ERRORS?

A. Yes. BellSouth's example for charging a line path to a feature is incorrect. The SST Methodology documentation (Appendix D-76) states:

> "Some of the features also tie-up an additional call path. For example, a three-way call invokes another call path in addition to the one established with the original call."

The SST developers either misunderstand the 3-way call functionality or confuse the interactions between total feature costs and existing charging schemes. The problems in BellSouth's 3-way calling example can best be understood by example. Assume that Subscriber A lives in Tallahassee, Subscriber B lives in Atlanta and Subscriber C lives in San Francisco.[26] When Subscriber A calls Subscriber B, a standard call is made and minute of use charges are incurred. When Subscriber A invokes 3-way calling and makes a second call to Subscriber C a second line path is not used by

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[26] The following example works whether the calls are local, intraLATA toll, or interLATA toll because the ALEC will be charged UNE MOU charges regardless of the jurisdiction of the call.

Subscriber A (after all there is only one line path between the switch and the end user). The role of the 3-port conference circuit (invoked via a switch-hook flash) is to put the first call on "hold" in the switch and Subscriber A re-uses its one and only path to dial Subscriber C. It is important to note that the re-use of the path is being "paid for" by the first call, which is still incurring MOU charges as if the entire call path were being used. The second call is made from Subscriber A to Subscriber C and minute of use charges are now incurred for the second call while the minute of use charges are still in effect for the first call. In fact, the re-use of the line path during the second call is recovered twice in the existing charging schemes – once from the original call and a second time by the second call.[27] There is no incremental line path to be charged as part of the 3-way feature cost that isn't already recovered via the two calls' charges.

Q. WHAT DO YOU RECOMMEND REGARDING THE LINE PATH COSTS FOR FEATURES?

A. The Line Path cost category accounted for only 2% of BellSouth's claimed composite feature cost. As described above, BellSouth's explanation for including line path costs is flawed and therefore does not adequately support these claimed costs. Mr. King's restated feature cost excludes the cost of line paths.

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[27] The rest of the second call (the trunk port and facility usage, etc. are incremental and are appropriately recovered via the second call charges).

Q. WHAT PROBLEMS DID YOU FIND WITH RESPECT TO CALLER ID AND REMOTE CALL FORWARDING?

A. One of the key inputs to these features is the percent penetration of Caller ID (for the CLASS Modem Card hardware cost) and Remote Call Forwarding (for assignment of a second line port). BellSouth's support for these penetration levels provided in BellSouth's response to POD Item 33 and its Attachment 1 (attached as Exhibit CEP-8) uses the number of lines per office in order to develop the penetration of Caller ID (shown as Calling Number Delivery –CND on BellSouth's POD) and lines that are remotely call forwarded. BellSouth's SCIS inputs show different average office line counts than what BellSouth used in its separate analysis documented in POD Item #33 for these two features as shown below:

Begin Proprietary

xxxxxxxxxxxxxxx

	xxxxxxxxxxxxxxxxxx	xxxxxxxxxxxxxxxxxxxxxx
	xxxxxxxxxxxxxxxxxx	
xxxxxxxxxxxxxxx	xxxxxxxxxxxxxxxxxx	xxxxxxxxxxxxxxxxxxxxxx
xxxxxxxxxxxxxxx	xxxxxxxxxxxxxxxxxx	xxxxxxxxxxxxxxxxxxxxxx

End Proprietary Replacing the POD Item #33 line counts causes with the SCIS line counts results in penetrations of ***Begin Proprietary*** xxxxxxxxxxxx ***End Proprietary*** for Caller ID and RCF, respectively. These corrections are reflected in Mr. King's restated costs.

Q. PLEASE STATE YOUR CONCLUSIONS REGARDING BELLSOUTH'S FEATURE COST PORTION OF THE SST-U WORKBOOK.

A. BellSouth has not met its burden of proof to document and support its costs for features. There are problems with inputs, assumptions and methodology throughout BellSouth's feature cost study. BellSouth's feature cost model and its costs should be rejected.

8. SUMMARY AND CONCLUSION

Q. PLEASE SUMMARIZE YOUR FINDINGS.

A. BellSouth's use of melded discounts that presume that a majority of lines of a reconstructed network are purchased at the higher growth prices produced inflated switch UNE costs. The new switch discounts that BellSouth used for the getting started equipment should be used throughout the switch study.

Critical investment and capacity problems in the feature hardware study cause seriously overstate feature costs.

The overly simplistic averaging of widely disparate (and often wrong) inputs just to arrive at one feature category input cannot produce accurate results.

Miscellaneous feature costing errors were corrected as described previously and have been incorporated into the restated costs in Mr.

King's testimony. Some other errors (such as call usage inputs and BellSouth's flawed premise that features cause incremental costs in the fixed getting started equipment of the switch) cannot be corrected within the confines of BellSouth's model.

Q. PLEASE STATE YOUR CONCLUSION.

A. The Simplified Switching Tool BellSouth developed to produce switch element investments has too many errors, generalizations and methodological faults and should be rejected. The following alternative methodology is recommended:

1. Obtain the line and trunk port costs from SCIS/MO, using the correct new switch discounts.

2. Allocate the total Getting Started Cost of the switch, from SCIS/MO using the correct new switch discounts, to all ports.

3. Divide the trunk port cost from SCIS/MO using the correct new switch discounts, by the minutes per trunk to produce the investment per trunk MOU.[28]

4. The remainder of the total switch investment (after subtracting out the above items) from SCIS/MO using the new switch discounts, is the

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[28] Use the same methodology to derive the tandem trunk port MOU cost.

traffic sensitive cost. Divide this total investment (augmented by the corrected feature hardware costs) by total minutes to calculate the investment per end office switch MOU.[29]

The above simplified methodology uses Florida-specific investments assigned to UNE elements using accurate, cost-causation principles. It accounts for the full cost of forward-looking switches, maintains cost-causation relationships, and eliminates the error-prone feature cost inputs, assumptions and methodologies found in BellSouth's SST model.

Should this Commission not reject the SST Model for the reasons detailed above, then the switch UNE restated costs in Mr. King's testimony, reflecting the corrections to the investments proposed here, should be adopted.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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[29] Use the same methodology (without feature hardware) to derive the tandem switch MOU cost.

1. INTRODUCTION

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

A. My name is Catherine E. Pitts. I am a District Manager with AT&T in Law and Government Affairs, 295 North Maple Avenue, Basking Ridge, New Jersey.

Q. ARE YOU THE SAME CATHERINE PITTS THAT FILED REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. Yes, I filed rebuttal testimony on July 31, 2000.

2. PURPOSE AND SUMMARY OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to report my findings regarding BellSouth's revised switch cost study filed on August 16, 2000.

Q. PLEASE SUMMARIZE THE MAIN POINTS OF YOUR TESTIMONY.

A. BellSouth's revised study uses a new version of SCIS/MO (2.6.1b) that purportedly fixes errors in the SCIS model, but many errors in BellSouth's overall switch cost study remain. BellSouth essentially has produced an entirely new cost study with every number changed, but the switch element cost results have only changed minimally in all cases but three.

BellSouth's revised cost studies do not correct the hardware errors or other feature cost errors identified in my Rebuttal Testimony and

BellSouth continues to use inappropriate melded discount inputs that are heavily biased in favor of high growth line pricing.

The criticism regarding an SCIS/MO ISDN error that was raised in my Rebuttal Testimony apparently has been corrected in the new SCIS/MO patch release used by BellSouth in the revised cost study. The SCIS/MO error, however, was not the only error impacting ISDN costs.

BellSouth corrected one mathematical error in the feature hardware study that reduced the Composite feature port additive by 6.59%, but did not correct any of the other hardware study errors pointed out in my Rebuttal Testimony.

BellSouth has introduced a new element that uses switch costs – P.3.2. 2-wire DID Port for Combinations. BellSouth uses an inappropriate discount for this new element that causes the cost to be overstated.

Mr. King's cost restatement contained in his Rebuttal Testimony is still valid for switch-related costs.

3. BELLSOUTH'S REVISED STUDY HAS MINIMAL IMPACTS ON MOST SWITCH-RELATED COSTS

Q. WHAT DO YOU CONSIDER "MINIMAL"?

A. I am using the word minimal to describe changes less than 2.3%.

Q. WHAT SWITCH ELEMENTS WERE IMPACTED MORE THAN 2.3%?

A. BellSouth's revised 2-wire ISDN Port (B.1.5) and its related 2-wire ISDN Line Side Port Combination (P.4.2.) have increased 6.92% and 7.86%, respectively.

A third element, Features per Port (B.4.13) decreased 6.59%.

Q. WHY DID THE ISDN LINE PORTS INCREASE?

A. Apparently, BellSouth knew of the ISDN error and had tried to incorporate its own correction into the SST model. When the SCIS/MO patch was run, it produced higher numbers than BellSouth's estimated original filing.

Q. WHY DID THE FEATURES PER PORT ELEMENT DECREASE?

A. BellSouth made one mathematical correction to its hardware study to apply a discount to the Call Waiting Tone investment.

Q. ARE BELLSOUTH'S REVISED SWITCH-RELATED ELEMENTS NOW CORRECT?

A. No. BellSouth's revised study uses a melded discount that assumes only 45% of line purchases from 1999 through 2002 will be for "new" lines and 55% of the purchases will be at the higher-priced growth. BellSouth uses only 3 years of demand, rather than the entire demand associated with the switching element. This inappropriate assumption allows BellSouth to

calculate a much higher percentage of BellSouth's total lines in Florida at higher, growth switch prices.[1]

BellSouth's new switch element, 2-Wire DID Port for Combinations (P.3.2) in the revised study uses the inappropriate melded discount error described above (as do all the switch-related elements).

Q. DID BELLSOUTH CORRECT THE CENTREX FUNCTIONALITY ELEMENT (B.4.10)?

A. No. BellSouth's revised cost statement continues to show an $.8903 cost which is incorrect as explained in my Rebuttal Testimony.

Q. DID BELLSOUTH CORRECT THE FEATURES PER PORT ELEMENT (B.4.13)?

A. No. BellSouth's revised cost statement corrected only one mathematical error that was already accounted for in Mr. King's restatement. The remaining errors outlined in the Rebuttal Testimony were not corrected.

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[1] Note, however, that AT&T/WorldCom do not recommend the use of any melded discount; rather, as stated in Rebuttal Testimony, a new switch discount should be used to approximate the cost an efficient provider would incur in a competitive market.

4. THE RESTATED SWITCH-RELATED COSTS IN MR. KING'S REBUTTAL TESTIMONY ARE CORRECT

Q. PLEASE EXPLAIN WHY MR. KING'S RESTATED PORT AND MINUTE OF USE (MOU) COSTS ARE STILL VALID.

A. BellSouth's use of the corrected SCIS/MO program resulted in a small increase in the ISDN 2-wire port (B.1.5) costs. This small increase was seen in AT&T/WorldCom's analysis as well when we removed the wire centers that seemed to be calculated incorrectly. AT&T/WorldCom's revisions to BellSouth's SST-P and SST-U models already accounted for this increase. Our restated costs declined because of the dominant impact of the discount input correction.

The switch portions of the other port and MOU elements (B.1.1-B.1.4 and B.1.6-B.1.7 and C.1.1-C.2.2) were only minimally impacted downward by the changes BellSouth made in its revised cost study. It is unclear why these costs declined, but most declined less than one percent.[2] Given the extremely small changes in the SCIS/MO results, even if AT&T/WorldCom recomputed the corrections to BellSouth's costs, the differences from Mr. King's restated costs would be insignificant.

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[2] At the time of this testimony's preparation, there were problems getting BellSouth's new SCIS patch program to run. AT&T/WorldCom may file additional supplemental testimony, if necessary, when it has the opportunity to review the SCIS/MO program and its results that support BellSouth's revised switch study.

Q. PLEASE EXPLAIN WHY THE FEATURE ELEMENT RESTATED COSTS ARE CORRECT IN MR. KING'S RESTATED COSTS.

A. The Centrex Functionality Element should have been set to 0 as shown in Mr. King's restatement. The error associated with this element is associated with methodology, as outlined in Rebuttal Testimony, rather than calculation errors or SCIS/MO errors. Our proposed 0 cost for this rate element is independent of Bellsouth's revised cost study that implements SCIS/MO corrections.

Although BellSouth did reduce its Features per Port element 6.59% by correcting a simple spreadsheet arithmetic error, that error was not contained in Mr. King's restatement and therefore no adjustment needs to be made to AT&T/WorldCom's restated costs. The Rebuttal Testimony included Proprietary Exhibit CEP4 that shows discounts were calculated correctly. Mr. King's restated costs are correct as described in Rebuttal Testimony.

Q. PLEASE DESCRIBE HOW THE NEW 2-WIRE DID PORT FOR COMBINATIONS NEEDS TO BE CORRECTED.

A. Based on the information I have now, I would propose to reduce the 2 wire DID Port for combinations rate by the same percentage[3] as the 2-wire DID

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[3] From Mr. King's Exhibit JAK-1, page 6 for Element B.1.3: ($9.60 - $3.58)/$9.60 = 63%

Reducing the $9.36 for the new P.3.2 element in Bellsouth's revised cost study by 63% produces a Revised Recurring Cost of $9.36 * (1- .63) = $3.46.

Port (B.1.3), resulting in a proposed restated cost of $3.46. My recommendation may need to be revised once we have had an opportunity to more thoroughly review and run the revised cost studies filed by BellSouth.

5. SUMMARY AND CONCLUSION

Q. PLEASE SUMMARIZE YOUR FINDINGS.

A. BellSouth's revised cost study, although using new SCIS/MO inputs, has minimal impact on most of the switch element costs and only a small impact on three others.

BellSouth's revised cost study makes only one ISDN adjustment, but does not make any of the changes required that are documented in Rebuttal Testimony, the most critical being:

> The use of melded discounts that presume a majority of BellSouth's lines are purchased at higher growth prices.
>
> Investment, capacity and utilization problems in the feature hardware study cause seriously overstated feature costs.

Q. PLEASE STATE YOUR CONCLUSION.

A. BellSouth's revised switch element cost study does not correct even the most basic errors highlighted in Rebuttal Testimony. In addition, AT&T/WorldCom's restated costs already accounted for the few errors that BellSouth's revised study did correct and so Mr. King's restated costs are valid in the face of Bellsouth's revised study.

BellSouth's revised cost study did not correct the underlying cost methodology concerns such as incorrect aggregation and costing of features into categories, nor the misallocation of fixed costs to traffic sensitive elements. As these errors were not fixed, AT&T/WorldCom continues to propose to use BellSouth's corrected SCIS/MO results using an alternate allocation methodology that more accurately reflects true cost causation as described in Rebuttal Testimony.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

MR. SELF: The next witness on behalf of AT&T and MCI WorldCom is Greg Darnell. Mr. Darnell has revised rebuttal testimony which is dated September 12, 2000, that consists of 18 pages. There are -- there is one correction to that testimony. We need to strike some of the testimony. He's going to withdraw the testimony that appears beginning at Page 9, Line 22, and he will strike Page 9, Line 22 through 25. And then on Page 10, Lines 1 through 6. And with those corrections, we would ask that Mr. Darnell's testimony be admitted into the record as though read.

CHAIRMAN DEASON: Is that the rebuttal and revised rebuttal?

MR. SELF: That's just the revised rebuttal.

CHAIRMAN DEASON: Just the revised rebuttal. Very well. Without objection, that testimony shall be inserted into the record.

MR. SELF: And then there are some exhibits associated with Mr. Darnell's testimony. There's one confidential exhibit which has been identified as GJD-8. If we could make that a separate exhibit, Mr. Chairman.

CHAIRMAN DEASON: Yes, that will be Exhibit 131.

(Exhibit 131 marked for identification.)

MR. SELF: And then we have some nonconfidential exhibits which have been identified as GJD-1 through 7 and

10 through 11. And if we could identify those as the next exhibit.

CHAIRMAN DEASON: What happened with Exhibit 9?

MR. SELF: There is no Exhibit 9. That was withdrawn because of GTE dropping out.

CHAIRMAN DEASON: Okay. The nonconfidential exhibits will be identified as Composite Exhibit 132.

(Exhibit 132 marked for identification.)

MR. SELF: And with that, Mr. Chairman, we would ask that Exhibits 131 and 132 be admitted.

CHAIRMAN DEASON: Without objection, they shall be admitted.

(Exhibits 131 and 132 admitted into the record.)

MR. SELF: Thank you. That's all for the stipulated witnesses for AT&T and WorldCom.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Greg Darnell, and my business address is 6 Concourse Parkway, Suite 3200, Atlanta, Georgia, 30328.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by MCI WorldCom, Inc. as Regional Senior Manager -- Public Policy.

Q. HAVE YOU PREVIOUSLY TESTIFIED?

A. Yes, I have testified in proceedings before regulatory commissions in Alabama, California, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee and on numerous occasions have filed comments before the FCC. Provided as Exhibit GJD-11 to this testimony is a summary of my academic and professional qualifications.

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

A. I am testifying on behalf of MCI WorldCom, Inc. and AT&T Communications of the Southern States, Inc. The purpose of this testimony is to address BellSouth's proposed Expenses and Common Cost (issue 7 (t) and 7(u)) that are used in the development of its UNE rates and the appropriate method for determining deaveraged UNE rates (issue 2(a)).

I. EXPENSE AND COMMON COST

Q. ARE BELLSOUTH'S EXPENSE AND COMMON COST FACTORS IMPORTANT?

A. Yes. As proposed in this proceeding, BellSouth's Expense and Common Cost Factors account for approximately 32.75% of the 2-wire analog UNE loop rate.

Q. IF THE FLORIDA PSC PERMITS BELLSOUTH TO USE EXCESSIVE EXPENSE AND COMMON COST FACTORS, WHAT WILL BE THE IMPACT OF SUCH ACTION?

A. Residential local competition, like what has occurred in New York and Texas, will not develop in Florida. If residential local competition is desired in Florida, the Commission does not have the luxury of making compromises on the inputs used to develop UNE rates. Florida is a very large market and as such should be very attractive to many ALECs. Thus, it is reasonable to ask why residential local competition has not flourished in Florida. The primary reason is simple: current BellSouth UNE rates are too high.

The current local retail rates in Florida do not afford this Commission the luxury of compromising when deciding UNE rates. This means, if Florida wants UNE-based local competition, similar to what is occurring in New York and Texas, it has to set all inputs at forward-looking economic cost and not "split the baby" on the input issues.

Q. WHAT EVIDENCE IS THERE THAT SUGGESTS THAT THE EXPENSE AND COMMON COST FACTORS PROPOSED DO NOT REFLECT BELLSOUTH'S FORWARD-LOOKING COST?

A. The evidence currently available that suggests that BellSouth's expense and common cost factors are excessive is as follows: 1) BellSouth fails to eliminate all retail expense from its UNE rates; 2) The Productivity Factor BellSouth used to forecast its expenses is too low; 3) BellSouth's proposal would double recover Land, Building and Power expense; 4) Prior Factors filed by BellSouth indicate that lower plant specific expenses should exist; and 5) Trends in Corporate Operations Expense indicate that Common Costs should be declining.

Q. DOES BELLSOUTH'S COST MODEL REMOVE ALL RETAIL COST FROM WHOLESALE RATES?

A. No. BellSouth claims to have removed all retail expense from its calculations. Walter Reid states in his testimony, "[R]etail cost including marketing, billing, collection and other costs that will be avoided" by BellSouth have been directly assigned to the retail function and as such "are excluded from the calculation of UNE Cost." [1] BellSouth conducts an avoided cost study to eliminate retail cost from its UNE rates. In this proceeding, BellSouth calculates that $1,426,416,105 of retail expense exists in Uniform System of Accounts (USOA) 6611, 6612, 6613 and 6623 and eliminates this expense from its forward--looking cost

[1] Testimony of Walter Reid, Before the Florida Public Service Commission, Docket No. 990649-TP, filed May 1, 2000, p. 4 ("Reid Testimony").

projections.[2]

Q. HOW MUCH AVOIDED RETAIL EXPENSE DID WALTER REID CALCULATE IN THIS COMMISSION'S PREVIOUS UNE PROCEEDING?

A. Walter Reid previously determined that $1,926,591,887 of retail cost should be eliminated from UNE rates.[3]

Q. HAS BELLSOUTH TRULY REDUCED ITS RETAIL EXPENSE BY ONE HALF BILLION DOLLARS ($500 MILLION) IN THE LAST THREE YEARS, OR IS THE REDUCTION IN AVOIDED RETAIL EXPENSE CONTRIVED THROUGH DIFFERENCES IN COST MODELING ASSUMPTIONS?

A. Contrary to the results of BellSouth's updated avoided retail cost calculations, BellSouth's amount of retail expense has grown significantly as a percent of revenue and in absolute terms over the time period for which these cost studies are based. Thus, it is clear that BellSouth's $500 million reduction in the amount of avoided retail expense is contrived through differences in cost modeling assumptions.

Q. IS THE METHODOLOGY USED BY BELLSOUTH IN THIS PROCEEDING TO DETERMINE THE AMOUNT OF AVOIDED RETAIL EXPENSE CORRECT?

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[2] See BellSouth Cost Calculator, Appendix F, 6611SC00.xls, 6612SC00.xls, 6613SC00.xls and 6623SC00.xls.

[3] See, Rebuttal Testimony of Walter S. Reid, on Behalf of BellSouth Telecommunications, Inc., Rebuttal Exhibit WSR-6, page 1, line 6, filed December 9, 1997. For ease of reference, Exhibit GJD-1 contains a copy of this Walter Reid rebuttal testimony exhibit.

A. No. BellSouth's methodology calculates an amount of directly avoidable retail expense that is contained in Uniform System of Accounts (USOA) 6611, 6612, 6613 and 6623 and eliminates this expense from its forward-looking cost projections. However, BellSouth fails to recognize that retail expense also exists in other USOAs. This Commission determined in Docket No. 960833-TP that retail expense also exists in USOA 6120, 6710 and 6720. This Commission determined that the retail cost contained in Accounts 6120, 6710 and 6720 should be determined "based on the ratio of the costs we identified as directly avoided to total expenses".[4] Retail costs contained in these accounts have been referred to as indirectly avoided retail cost.

Q. WHAT IS INDIRECTLY AVOIDED RETAIL COST AND WHY IS IT APPROPRIATE TO INCLUDE THESE COSTS AS WELL IN THE CALCULATION OF TOTAL RETAIL COST?

A. It has been determined that if direct cost accounts are reduced, costs contained in overhead and support accounts will also be reduced. For example, if a company has a smaller product line (i.e. wholesale only) it will need a smaller executive staff, smaller planning staff, smaller legal staff, smaller accounting group and fewer support facilities. Therefore, when retail costs are eliminated from Product Management (6611), Sales (6612), Product Advertising (6613) and Customer Services (6623), it is appropriate to reduce the expense in Executive and Planning (6710), General and Administrative (6720) and General Support (6120).

[4] Florida Public Service Commission, Final Order on Arbitration, Order No. PSC-96-1579-FOF-TP, December 31, 1996, page 56.

Q. USING THIS COMMISSION'S METHODOLOGY TO DETERMINE RETAIL EXPENSE, HOW MUCH ADDITIONAL RETAIL EXPENSE SHOULD BE ELIMINATED FROM BELLSOUTH'S PROPOSED UNE RATES TO ACCOUNT FOR INDIRECTLY AVOIDED RETAIL COSTS?

A. Assuming the new direct retail avoided cost study that BellSouth has provided in this proceeding is correct, which I believe is an erroneous and overly generous assumption, $223,376,929 of additional retail expense contained in Accounts 6120, 6710 and 6720 should be eliminated from BellSouth's proposed UNE rates.[5] This will bring the total retail expense to be eliminated from the expense projections that are used to develop BellSouth's UNE rates to $1,649,793,034. This amount of retail expense is still $276,798,853 below the amount of retail expense that BellSouth witness Walter Reid determined in Docket No. 960833-TP.

Q. HOW DID BELLSOUTH USE ITS HISTORICAL EXPENSES TO FORECAST FORWARD-LOOKING EXPENSES?

A. BellSouth took its booked total company regulatory 1998 expenses, and adjusted them for out of period occurrences, increased them for expected inflation, increased them for anticipated additional expense caused by increased demand, and then decreased them for projected productivity gains to project year 2000 through year 2002 test period expense levels. BellSouth then took the projected year 2000 through 2002 expense levels, averaged them, and compared them to adjusted 1998 data to determine

[5] See, Attached Exhibit GJD-2 for the calculations that went in to determining this indirectly avoided retail cost amount.

expense development factors.

Q. WHAT PRODUCTIVITY FACTOR DID BELLSOUTH USE TO FORECAST ITS EXPENSE?

A. BellSouth used a 3.1% total productivity factor taken from a United States Telephone Association (USTA) study that was filed with the FCC. This USTA study has not been adopted by the FCC. MCI WorldCom submitted reply Comments on January 24, 2000 with the FCC in CC Docket No. 94-1 and addressed the deficiencies of the USTA study.[6] In these Reply Comments MCI WorldCom noted that the reasonable range of LEC productivity is between 9.1 and 9.5%. However, due to the FCC's decision in the CALLS proceeding, a new FCC productivity factor has not been established. The FCC's current approved total productivity factor for BellSouth is 6.5%. (47 C.F.R. §61.45) Given that the FCC's currently effective 6.5% productivity factor has been subject to in depth analysis and debate from both BellSouth and ALECs, there is no reason for this Commission to undertake an effort to set a Florida state specific productivity factor. The Florida Commission should require BellSouth to use the a productivity factor in its expense forecasts that is no less the FCC's 6.5% productivity factor.

Q. WHAT IMPACT WOULD A 6.5% PRODUCTIVITY FACTOR HAVE ON BELLSOUTH'S EXPENSE FORECASTS?

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[6] See, Reply Comments of MCI WorldCom, Inc., Before the Federal Communications Commission, In the Matter of Price Cap Performance Review for Local Exchange Carriers, CC Docket 94-1, Access Charge Reform, CC Docket No. 96-262, filed January 24, 2000.

A. The use of a 6.5% productivity factor will change the projected expense for the 2000-2002 test period contained in BellSouth's Appendix F, Excel Spreadsheet EXPDVF00.xls, and this would result in a change to the expense development factors used in the Shared and Common Cost Application of BellSouth's Cost Calculator. When these new inputs are run through BellSouth's Cost Calculator, new Shared and Common Cost Factors result. Exhibit GJD-3 contains the revised expense development factors and the revised Shared and Common Cost factors that would be created by the use of the FCC's 6.5% productivity factor.

Q. WOULD THE USE OF AN INAPPROPRIATELY LOW PRODUCTIVITY FACTOR TO FORECAST EXPENSE RESULT IN UNE RATES THAT ARE NOT FORWARD LOOKING?

A. Given how BellSouth's cost model works, yes. Further, the FCC's and USTA's productivity factors are derived for expense and investment trend analysis. Forward-looking UNE pricing should only concern itself with the result of the trend. As such, the use of a productivity factor based on a trend analysis, such as the FCC's, may tend to overstate forward-looking cost.

Q. IS THERE EVIDENCE THAT BELLSOUTH HAS PROPOSED UNE RATES THAT DOUBLE RECOVER LAND, BUILDING AND POWER EXPENSE?

A. Yes. However, exactly how much double recovery is being proposed has not yet been reconciled. Reconciliation of the accounts and the methodology for applying common and shared costs, is paramount to our verification of the inputs of BellSouth's model. To date, BellSouth has not provided the necessary information for this to be accomplished. However,

BellSouth has provided enough information, in its responses to AT&T Interrogatory numbers 28, 29, 30, 32 & 35 to demonstrate that there may be a problem, attached as Exhibit GJD-10. For example, BellSouth was asked what adjustments were made to several common cost components, and its rationale for said adjustments, prior to its application to the study. BellSouth responded that there were no adjustments. In addition, BellSouth has not quantified the projected revenues over the study period that will have a positive effect on the common costs. So, at this time, the level of adjustments necessary to reconcile the common cost amounts to be used in the study cannot be determined. Simply put, BellSouth has the opportunity to double recover some of its costs unless the appropriate adjustments have been made.

For example, BellSouth is currently receiving revenues from its Collocation rate elements for power consumption and building floor space. Unless the Land & Building accounts and the Central Office Power amounts are adjusted to reflect the positive effect of this revenue, the expense amount applied to the other rate elements will be overstated. This is very similar to pole rental revenue. If BellSouth is renting or leasing out part of its building space, the costs that are offset by the lease should be deducted from the account before apportioning the Land & Building costs to other rate elements.

~~Similarly, BellSouth has competitive services utilizing its Corporate Communications network. These competitive services are providing a revenue contribution to the accounts that capture the expenses of its Corporate Communications network. Part of the cost of providing operator~~

services includes the Corporate Communications facilities to transport the calls between various locations. Additionally, the rate elements for (SS7) signaling specifically include cost for transport that utilizes Corporate Communications facilities. These are other opportunities for over recovery if adjustments are not made to the accounts prior to the expense being applied to the UNEs.

Q. ARE THERE ANY OTHER REASONS YOU SUSPECT BELLSOUTH HAS OVERSTATED EXPENSE AND NOT MADE ALL OF THE APPROPRIATE ADJUSTMENTS?

A. Yes. Exhibit GJD-4 contains an analysis of the BellSouth plant specific expense factors proposed in this cases as compared to plant specific expense factors BellSouth has proposed at the FCC in 1997 and 1998. As is clearly seen, BellSouth has proposed higher plant specific expense factors in this proceeding than it proposed to the FCC in 1997 and 1998. Given the overall trend that expense as a percent of investment is declining, expense factors today should be lower, not higher than they were a couple years ago.

Q. WHAT IMPACT WOULD BELLSOUTH'S FCC PLANT SPECIFIC EXPENSE FACTORS HAVE ON UNE RATES?

A. BellSouth's FCC plant specific expense factors would cause the total monthly cost, before taxes and common cost application, for a 2-wire loop to decrease by $0.29. Exhibit GJD-5 demonstrates the calculations used to make this determination.

Q. CAN BELLSOUTH'S BOOKS OF ACCOUNT BE USED AS A STARTING POINT FOR DETERMINING FORWARD-LOOKING

EXPENSE?

A. Yes, BellSouth's books of account can be used as a starting point for determining forward-looking expense. However, the task of adjusting booked expenses to approximate forward-looking expense is not an exact science. Trend analysis can provide some useful information. While trend analysis can provide information on whether expenses are increasing or decreasing as a percent of investment or revenue, trend analysis cannot tell you how much longer a trend will continue or if a new trend is just beginning. Further, different companies may be at different points of a trend. What makes this problematic is that forward-looking cost development should not be concerned with the trend but the final result of the trend. Exhibit GJD-6 is a trend analysis done on all USOAs using the FCC's ARMIS 43-03 report for BellSouth for the Commission's review.

Much has been made about the automation trend of both network operations and administration. Generally speaking, automation substitutes investment for expense. The cost of maintaining historical equipment and out-of-date practices must be fully eliminated from the expense and shared and common cost ratios being applied to investment that creates the UNE rates in order for the resulting rates to be based on forward-looking cost.

Q. HAS THE COMMISSION PREVIOUSLY DECIDED WHAT BELLSOUTH'S COMMON COST FACTOR SHOULD BE?

A. Yes. The Commission decided in Docket Nos. 960757-TP, 960833-TP and 960646-TP that BellSouth's Common Cost factor should be 5.30%. BellSouth now claims as a result of this Commission's decision issued April 29, 1998 it needs to revise its previous calculations to shift recovery

of some of its shared costs from non-recurring rates to recurring rates.[7] If this is true, it begs the question of why this was not done two years ago. This aside, BellSouth has not demonstrated a need or provided any compelling reason for this Commission to increase the 5.30% BellSouth Common Cost factor it previously determined.

Q. DO YOU HAVE ANY OTHER EVIDENCE THAT SUGGESTS BELLSOUTH'S PREVIOUSLY APPROVED 5.30% COMMON COST FACTOR SHOULD BE REDUCED?

A. Yes. As can be seen on Exhibit GJD-7, BellSouth Corporate Operations Expense as a percent of revenue has been declining. Most notably, since BellSouth has been given a real competitive reason to closely manage its Corporate Overhead expense (i.e. since the Telecommunications Act of 1996 and the establishment of FCC Local Competition rules in August of 1996), Corporate Operations Expense has declined at a faster rate. Corporate Operations Expense is a primary contributor to the Common Cost factor. As such, the fact that Corporate Operations expense has declined significantly even since 1998 (i.e. the vintage of the data BellSouth used as the root of its analysis), is evidence that BellSouth's Common Cost factor should be reduced, not increased.

II. DEAVERAGED UNE RATES

Q. WHAT RULES ARE THERE CONCERNING HOW UNE RATES SHOULD BE DEAVERAGED?

A. All UNE rates, averaged and deaveraged, must adhere to the general

[7] Reid Testimony, p. 4.

pricing standards covered in 47 C.F.R. Section 51.503 and the forward-looking economic cost standards covered in 47 C.F.R. Section 51.505. Further, in accordance with 47 C.F.R. Section 51.507(f), UNE rates must be deaveraged "in at least three defined geographic areas within the state to reflect geographic cost differences."

Q. AS A RESULT OF THESE RULES, WHAT CAN BE USED TO DETERMINE DEAVERAGED UNE RATES?

A. The only item that can be considered in determining deaveraged UNE rates is the forward-looking economic cost (FLEC) differences caused by different geographic areas. This is because, assuming the average UNE rate is cost based, if something other than FLEC is used to deaverage the existing rate, the resulting deaveraged rates will no longer be cost based.

For example, if we used the percentage of tourists by city to deaverage existing UNE rates, the resulting deaveraged UNE rates in Orlando would be higher than the rates in Tallahassee. Given that the percentage of tourists has no direct influence over the cost of telecommunications, the resulting deaveraged rates would not be cost based.

I use the noticeably peculiar example of tourists to illustrate a point. However, the same result would hold true (i.e. non-cost based deaveraged UNE rates), if something telecommunication related but not telecommunication cost related is used to deaverage existing UNE rates. For example, if BellSouth's retail rates - which even BellSouth admits are not cost based- were used to deaverage existing UNE rates, the resulting deaveraged UNE rates would likewise not be cost based.

Q. HOW DOES BELLSOUTH PROPOSE TO DEAVERAGE EXISTING UNE RATES?

A. By grouping together wire centers by rate group and then determining the average cost of wire centers that have the same retail rates.

Q. WHY DO MCI WORLDCOM AND AT&T OPPOSE BELLSOUTH'S PROPOSAL TO DEAVERAGE UNE RATES BY RATE GROUP?

A. MCI WorldCom and AT&T believe that deaveraged UNE rates must reflect the relative forward-looking cost differences of the UNEs between geographic areas. BellSouth's proposal to deaverage UNE rates through the use of the average cost of wire centers that have the same retail cost is a violation of FCC rules and the Act. BellSouth's proposal to create non-cost based deaveraged UNE rates will send incorrect economic signals to the marketplace. Further, BellSouth's proposal to create the geographic zones by rate group is a thinly veiled attempt to insulate its retail rates from cost based competition.

Q. HOW DOES BELLSOUTH'S PROPOSAL TO USE ITS RATE GROUPS TO ESTABLISH DEAVERAGED UNE RATES INSULATE ITS RETAIL RATES FROM COST BASED COMPETITION?

A. By first grouping wire centers together by rate group, BellSouth's deaveraging methodology inappropriately raises the UNE rates where its retail rates are high. This means that where BellSouth's retail rates are high, its deaveraging methodology would ensure that the wholesale rates (i.e. UNE rates) available to ALECs are inappropriately increased.

BellSouth takes all the wire centers that serve areas in certain rate groups and lumps all of them together in one basket or zone. For example, BellSouth's methodology would take all of the wire centers that serve areas that correspond to its rate groups 7 & 6 (i.e. its highest retail rates) and group all of these wire centers into zone 1. BellSouth then develops an average loop cost for all of the wire centers that serve those rate groups. However, wire centers in rate groups 7 & 6 often are made up by both low cost wire centers and high cost wire centers. By placing low cost wire centers and high cost wire centers in the same zone, the weighted average cost of each zone is inappropriately skewed. Although Al Varner states that BellSouth's rate group to zone mapping "provides consistency between the structure of BellSouth's retail, resale and UNE rates," [8] the goal of this Commission should not be to make UNE rates consistent with non-cost based pricing or to protect BellSouth's non-cost based retail rate structure. Rather, the goal of this Commission should be to let competition drive retail rates toward their underlying cost and allow competition to eliminate the inefficiencies caused by non-cost based pricing.

BellSouth's deaveraging proposal results in higher than cost based deaveraged UNE rates that insulate BellSouth's non-cost based high retail rates in low cost areas from cost based UNE based local competition. This Commission should not protect BellSouth from cost based competition and should reject BellSouth's deaveraging proposal.

[8] Al Varner Direct Testimony, p. 22, line 13-14.

Q. DOES BELLSOUTH'S PROPOSAL COMPLY WITH 47 C.F.R. 51.503?

A. No. 47 C.F.R. 51-503 requires that BellSouth's Unbundled Network Element prices be based on forward-looking economic cost. This rule applies to averaged and deaveraged rates of both individual UNEs and combination of UNEs. BellSouth's retail rate groups are not currently based on forward- looking economic cost. Therefore, BellSouth's proposal to deaverage UNE rates using its current rate groups as the basis for categorization would violate 51.503 because it does not result in forward-looking economic cost-based, deaveraged UNE rates.

Q. DOES BELLSOUTH'S PROPOSAL COMPLY WITH 47 C.F.R.51.505(d)?

A. No. 47 C.F.R. 51.505(d) states that the revenues of other services cannot be considered in the development of a UNE rate. BellSouth's proposal violates 51.505(d) by considering the revenues of its retail services in the development of its deaveraged UNE rates.

Q. HAVE YOU REVIEWED SPRINT'S UNE DEAVERAGING PROPOSAL?

A. Yes.

Q. WHAT IS SPRINT'S UNE DEAVERAGING PROPOSAL?

A. SPRINT's deaveraged UNE proposal is as follows:

> rates should be deaveraged to the degree necessary to achieve a result wherein the averaged rate does not deviate significantly from the actual forward-looking cost of providing that element anywhere within the defined zone.

> While it is impossible to quantify with absolute precision what "significant" deviations of rates from costs are, SPRINT believes that differences between rates and costs in excess of 20% would be of sufficient magnitude to potentially distort competitors' investment decisions. Using that criteria, each incumbent LEC should be required to construct a deaveraged rate schedule such that the average rate in each zone is no more than 20% higher or 20% less than the forward-looking cost of providing that element.[9]

Q. HOW IS SPRINT'S DEAVERAGING METHODOLOGY BETTER THAN BELLSOUTH'S OR, FOR THAT MATTER, THE METHODOLOGY THAT YOU PREVIOUSLY ADVOCATED?

A. SPRINT's proposal can be objectively and equally imposed on all ILECs. Further, SPRINT's proposal achieves the proper deaveraging goal, which is to group areas with similar cost characteristics into the same UNE rate zones. As such, SPRINT's deaveraging methodology would be easy for the Commission to administer and also achieves the proper deaveraging goal.

I have been involved in deaveraged UNE proceedings and/or negotiations in all of the states in the BellSouth region, and SPRINT's UNE deaveraging methodology is superior to anything that I have reviewed thus far. SPRINT's methodology sets a sure and concrete

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[9] Direct Testimony of James W. Sichter, p. 15, lines 9-23.

standard (+ or – 20%) that can be objectively and equally applied to all ILECs. This would provide the Commission with a means to quickly make rate determinations and administer rules in the future. Further, the establishment of a fixed cost deviation criteria places wire centers with similar cost characteristics in the same zone.

Q. DOES SPRINT'S DEAVERAGING PROPOSAL COMPLY WITH FCC RULES?

A. Yes.

Q. WHAT ARE MCI WORLDCOM'S AND AT&T'S RECOMMENDATIONS?

A. MCI WorldCom and AT&T recommend that SPRINT's deaveraged UNE cost methodology be applied to average UNE loop cost by wire center determined in this proceeding for BellSouth.

Q. HAVE YOU DONE THIS ANALYSIS?

A. Yes, Exhibit GJD-8 provides the zone weighting percentages for BellSouth using SPRINT's deaveraging methodology. These zone weighting percentages can be applied to the average UNE rate to determine the deaveraged rate for each zone. Also, the list of wire centers in each zone is included in Exhibit GJD-8.

Q. DOES THIS CONCLUDE YOU PREFILED REBUTTAL TESTIMONY?

A. Yes.

CHAIRMAN DEASON: Next witness.

MR. LAMOUREUX: AT&T and WorldCom call as our next witness Ms. Brenda Kahn. And I don't believe Ms. Kahn was here the first day, so I don't believe she's been sworn in yet.

CHAIRMAN DEASON: Okay.

MR. LAMOUREUX: Or am I wrong about that?

MS. KAHN: I was, sir.

MR. LAMOUREUX: I was wrong about that.

CHAIRMAN DEASON: I thought I saw her sitting in the back the whole time.

MR. LAMOUREUX: Okay.

BRENDA KAHN

was called as a witness on behalf of AT&T of the Southern States, Inc. and MCI WorldCom and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. LAMOUREUX:

Q Ms. Kahn, did you cause to be prepared and filed rebuttal testimony dated July 31, 2000, consisting of 25 pages and including the revised Page 24 that was served on September 12, 2000?

A Yes, I did.

MR. LAMOUREUX: Mr. Chairman, for the record, there are some pages also in Ms. Kahn's testimony that

contain BellSouth claimed confidential information; in particular, 12, 13, 16, 17, 19, 20, 22, and 23. And again, we have some red folders for you that contain the confidential version of the testimony, if you'd like it. And again, we filed a public version of the testimony as well as a proprietary version.

CHAIRMAN DEASON: Very well.

BY MR. LAMOUREUX:

Q Do you have any changes or corrections to your testimony?

A No, I do not.

Q If I asked you the same questions today as are contained in your testimony, would your answers be the same?

A Yes.

MR. LAMOUREUX: Mr. Chairman, I would ask that Ms. Kahn's rebuttal testimony -- I should be careful -- Dr. Kahn's testimony be inserted in the record as though read.

CHAIRMAN DEASON: Without objection, it shall be so inserted.

MR. LAMOUREUX: And should we assign a separate exhibit number for the confidential pages of her testimony?

CHAIRMAN DEASON: Yes, Exhibit 133.

(Exhibit 133 marked for identification.)

BY MR. LAMOUREUX:

Q Now, associated with your rebuttal testimony, did you prepare and cause to be filed Exhibits BK-1 and BK-2?

A Yes, I did.

Q Do you have any changes or corrections to your exhibits?

A No, I do not.

MR. LAMOUREUX: Mr. Chairman, I would request that BK-1 and BK-2 be marked as Exhibit 134.

(Exhibit 134 marked for identification.)

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

[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** XXXXXXX **END PROPRIETARY***** per pair to provide 2-Wire INC. This amount consists of: Intrabuilding network cable investment of *****BEGIN PROPRIETARY** XXXXXXX **END PROPRIETARY***** is incurred for the riser cable material; investment in building entrance terminals of *****BEGIN PROPRIETARY** XXXXXXX **END PROPRIETARY***;** and investment in building distribution terminals of *****BEGIN PROPRIETARY** XXXXXXXX **END PROPRIETARY*****.

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

investment factor of ***BEGIN PROPRIETARY XXXXXXX END PROPRIETARY*** in establishing a monthly recurring volume insensitive 2-Wire INC charge of ***BEGIN PROPRIETARY XXXXXXX 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 XXXXXXX 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 **XXXXXXX** 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** XXXXX **END PROPRIETARY***** per pair, rather than the *****BEGIN PROPRIETARY**

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

This results in a monthly volume insensitive economic cost of ***BEGIN PROPRIETARY** XXXXX **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** XXXXXXX **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 XXXXXX END PROPRIETARY*** associated with subscriber line testing expense and ***BEGIN PROPRIETARY XXXXXX 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** XXXXXXXX **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 XXXXXXXX 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 XXXX END PROPRIETARY***. If we assume a fill factor of 56%, the per pair investment for a 100 pair garden terminal becomes

BEGIN PROPRIETARY XXXXXXXXXXXXXXXXXXXXXXX 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 XXXXXXX END PROPRIETARY*** investment cost for a garden terminal and assumed that the fill factor would be ***BEGIN PROPRIETARY XXX 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. 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.

BY MR. LAMOUREUX:

Q Do you have a summary of your testimony?

A Yes, I do.

Q Would you give that now, please.

A Certainly. My name is Brenda Kahn. I'm an AT&T District Manager providing national support for various cost analyses associated with AT&T local market entry.

I'd like to say today that AT&T will be offering residential local phone service in Florida using our cable facilities that have been upgraded to provide telephony service. AT&T has announced plans to have one-half million such subscribers by year-end. If AT&T --

CHAIRMAN DEASON: Excuse me, year-end 2000?

THE WITNESS: By year-end 2000, yes. Not all of them in Florida, obviously.

CHAIRMAN DEASON: Oh, I was going to say, that was news to me.

A If AT&T is going to provide service to tenants in multiple dwelling units, or MDUs, as I'll use that term, AT&T often must rely on BellSouth to provide the last hundred feet of cabling. AT&T has been in negotiations with building owners of MDUs right here in Florida in order to accomplish this goal. Building owners have expressed their willingness to allow AT&T to compete with BellSouth for residential local phone service. We

are here today to discuss prices and terms and conditions that will promote such competition in multiple dwelling units.

Starting with pricing, the BellSouth pricing for the subloop UNE that we believe we are going to need the intrabuilding network cabling, or INC, is excessively high. BellSouth's proposed recurring charges are three to seven times greater than Verizon has proposed to us in New York, New Jersey, and Massachusetts.

BellSouth's nonrecurring charges for cross-connect panels that can be purchased for $5 -- and I have such a panel that I will show you -- the charge that BellSouth will require us to pay is over $400.

Now, turning to the terms and conditions. BellSouth has argued that AT&T's proposal promotes network insecurity. BellSouth raised similar arguments about central office collocation arrangements here in Florida. And I remember in particular that BellSouth originally wanted collocaters to be placed in wire mesh cages with roofs. This was the only place I've ever seen anyone request roofs on the tops of cages. This cage requirement was eventually struck down by the FCC.

MS. WHITE: Chairman Deason?

CHAIRMAN DEASON: Yes.

MS. WHITE: I apologize, but I'm not finding any

of this in Ms. Kahn's testimony.

CHAIRMAN DEASON: Okay. You're objecting?

MS. WHITE: I'm objecting on that basis.

CHAIRMAN DEASON: Objection because this summary exceeds the scope of the prefiled testimony.

MR. LAMOUREUX: Certainly the issue -- the issue is within her testimony, the question of network security. I don't know that the example that she just used is within her testimony itself. The issue is contained there, and I certainly feel that in her summary she can use an example to illustrate that issue.

CHAIRMAN DEASON: No, she can't.

MR. LAMOUREUX: Okay.

CHAIRMAN DEASON: I'm going to restrict Dr. Kahn to exactly -- summarizing exactly what was in your prefiled testimony. Even if an example is outside your prefiled testimony, don't cover it in your summary. It's not a summary at that point.

A Okay. If BellSouth wants a higher level of network security, then BellSouth should pay for it. I would like now to turn to a three-dimensional depiction of my Exhibit BK-1, and I have that in front of me. I would ask that I be allowed to have Mr. Donovan help me to display it.

CHAIRMAN DEASON: Very well.

A Thank you. In my Exhibit BK-1, I display the types of equipment that would be found in the basement of a high-rise building. And what this mockup demonstrates are actually some of the equipment that would be found in the basement, or in this case, we call it the wiring closet, which would be the building in the basement where these cross-connect devices would be found.

So I'd like to tie the Exhibit directly to these depictions here. The top of the board depicts, if you will, the house and riser cabling would be going up from the top of the board. Coming in from the bottom -- or the network distribution facilities on the left side of the board are what's called the ILEC distribution facilities, which on my Exhibit would be called the BellSouth network.

And this really shows the cable pairs that would come in from the street and be connected at these terminal blocks or cross-connect panels, as we've heard them. This is a 25-pair cross-connect panel. There would be one for BellSouth, and then as we move into residential local phone competition, there would be one for, in this case, since this was used by MediaOne in Florida previously, it's called the MediaOne distribution network. And in my exhibit, this would be depicted as ALEC networks. And the ALEC networks also must terminate their distribution facilities on one of these cross-connect panels.

Now, of course, the issue is, how do we get from the wiring that comes from the street and on up into the building? And currently as we've been speaking with building owners, we discover that in many buildings BellSouth has exclusive right to house and riser cabling, either because they own it or they control it. So the question then is, will we be allowed to directly connect to the same block as BellSouth uses? And in my testimony, I describe this as the single point of interconnection, and I show that in my diagram in Exhibit BK-1 as the basement terminals. These then are basement terminals.

Now, here, I only show one 25 pair. In the diagram, we would have numerous such panels in the basements depending upon how many tenants are in the building. So as we show in this depiction, MediaOne and AT&T always took the position that we should be allowed to take our wiring directly to this terminal block from which the house and riser cabling goes on up to the various tenants. Now, what -- and we would do this -- do you have the little tool -- we would do this with -- a technician would go out with a tool as simple as this and would actually take the wiring from our block and punch it on down over to this BellSouth block.

Now, BellSouth has offered a different proposal. They want to use an intermediate device. And the

intermediate device they suggest is here; it's being called a BellSouth access cross-connect. The term we were using with Mr. Lamoureux was an intermediate cross-connect system. So basically instead of the wiring running directly, what would happen is, our technician would punch down here; the BellSouth technician would punch down on this side. And we effectively have the same connection eventually, but now it goes through an intermediate point and actually has perhaps even more potential for network insecurity, because now we have more cabling, more devices, more opportunities for, now that the cable has been broken twice, more probable problems.

COMMISSIONER JACOBS: How will your technician coordinate with -- they will know which terminal in the cross-connect there needs to be wired? Will they be -- do it at the same time? How would that work?

THE WITNESS: What we would do, we need to identify a spare pair on this.

COMMISSIONER JACOBS: Okay.

MS. WHITE: So before our technician would go out there, we could call up BellSouth, and ask them, well, tell me, since we understand this is all mechanized in an inventory system, tell me where the spare pairs would be on your cross-connect panels. We would not have to do that at the time that our technician is sent out unless

they didn't have adequate information in their own inventory, and that would be the same problem that their own technician would face.

So there would not be a need for two technicians to be running wiring to the access terminal, because our technician could go out with that simple tool, and once he knows what the appropriate terminal block -- terminal strip is, he could just punch down at that point.

CHAIRMAN DEASON: Let me ask you one other question. Now, if you are acquiring a customer which currently is receiving service from BellSouth, will your technician actually disconnect BellSouth's wire from the frame in the upper -- my upper right and connect your wire to facilitate that, or would BellSouth be required to actually make the disconnect, or how would that work?

THE WITNESS: We would like our technician to do it, but obviously we would contact BellSouth prior to our technician going out and try to determine from BellSouth if there are spare facilities that we could terminate to, or whether we would actually have to use -- the customer who wants to become the AT&T local customer would have to use their existing terminal strip.

CHAIRMAN DEASON: Okay.

A And that concludes my summary.

MR. LAMOUREUX: Dr. Kahn is available for

cross-examination.

CHAIRMAN DEASON: Okay. I'm going to start at my right and work back to my left. Any questions, questions, questions? BellSouth.

MS. WHITE: Yes, thank you.

CROSS EXAMINATION

BY MS. WHITE:

Q Hi, Ms. Kahn, my name is Nancy White, representing BellSouth Telecommunications. Now, I'd like to start with the Exhibit that Mr. Donovan was holding.

MS. WHITE: Mr. Donovan, would you mind?

Q And I thought that looked familiar, Ms. Kahn. Was that Exhibit used by MediaOne in their case in Docket Number 990149 in Florida?

A Well, I've spoken to three MediaOne folks, and they tell me it was.

Q Okay. And AT&T bought MediaOne; right?

A That's correct.

Q So I guess you inherited the Exhibit from them.

A Yes, I think so.

Q Let me ask you a question. You're showing one pair here; right?

A I'm showing one panel.

Q One panel.

A Going up to the house and riser, is that --

Q Yes. But, for example, if this was a panel that was actually in a high-rise building, would there be wires over the panel?

A Would there be wires over the pair? Maybe you could demonstrate.

Q I'm sorry, but would there be wires over the width of it?

A There would be, as I understand Mr. Donovan explaining it to me yesterday, some clip, I think was the term that he used.

MS. WHITE: Thank you, Mr. Donovan.

Q So your testimony this afternoon is really concerned with the issues of intrabuilding network cable and network terminating wire; is that correct?

A Yes.

Q And you're familiar with BellSouth's proposal that BellSouth will cable the facilities to an access terminal, and through that access terminal, AT&T will get access to the high-rise or the garden apartment complex?

A Yes.

Q And it's your position that BellSouth's proposal is in conflict with the UNE Remand Order; is that correct?

A That's correct.

Q Okay. Now, the UNE Remand Order, let's talk about that for a minute, and before you got on the stand,

I made sure you had a copy of that order with you. Would you agree with me that the FCC and the UNE Remand Order, and particularly it's in Paragraph 226, says that if the parties can agree, the incumbent has to construct a single point of interconnection fully accessible and suitable for use by multiple carriers?

A Would I agree that's what it says in Paragraph 226?

Q 226.

A Let me just get there.

Q Sure. It's near the end of the paragraph, I believe.

A Yes, I see that in Paragraph 226.

Q Okay. And again, it says that if they can agree, the incumbent has to construct this point of interconnection. So would you agree that the phrase "incumbent must construct" implies that it's something that is not already in existence?

A Well, it may be in existence for BellSouth. The issue, I guess, is, is it in existence for all the carriers? And I think that's really the heart of the matter.

Q But you will agree that the language says the incumbent is required to construct something?

A Yes, if the parties cannot agree to do it.

Q And that this construction that is done has to be suitable for use by multiple carriers; is that correct?

A Yes.

Q Where does it say in there that it has to be suitable for use by all carriers?

A It doesn't. It talks about multiple carriers.

Q And it doesn't specify who those carriers to be, whether it's an ALEC, or an ILEC, or anybody else; correct?

A I've read a lot of these FCC orders, and if there's a need to distinguish between ALEC and ILEC, I have never seen a case where they have -- I'm sorry, I'm speaking too quickly. I have never seen a case where they have not done that.

Q Well, they did not do that here. They said multiple carriers; isn't that correct?

A That's correct. And I interpret that to mean multiple carriers, ILECs and ALECs.

Q You interpreted multiple carriers to mean that?

A I interpret carriers to mean that.

Q Now, BellSouth's proposed access terminal can be accessed by multiple carriers, can it not?

A Yes, it can.

Q Now, in this UNE Remand Order, the FCC also said that issues of technical feasibility of subloop unbundling

were best determined by the State Commission; is that correct?

A In one part of the order, it did state that, but there was another section of the same order that said if one state were to find that it was technically feasible to direct connect, that that should be considered strong evidence by the other states that the other states could also adopt the same proposal, and that there would be additional burdens on the carriers to show that if one state such as Georgia had determined direct connect was appropriate, that the next state such as Florida should look very carefully at the evidence that was offered as to it not being technically feasible.

Q And that's fine, but the point I was trying to make is that this is one instance where the FCC has said the issue of technical feasibility is one for the State Commission to make, not the FCC; isn't that correct?

A The FCC has learned to give guidance.

Q That's a very tactful way of putting it. Now, the FCC acknowledges in this order that the Texas Commission has decided that it will not allow subloop unbundling at the feeder distribution interface because it could threaten the integrity of the network; isn't that correct?

A I'm not aware that the Texas Commission has done

that.

Q Well, would you agree that the FCC acknowledged that? And I would point you to Paragraph 222 of the UNE Remand Order, and I'm not saying that they agreed with the Texas Commission, I'm just saying they acknowledged that in this order.

A I see in the order that there is reference to Texas indicating some technical problems with unbundling at the FDI. I'm also aware, however, that there are presently negotiations underway between AT&T personnel and SBC personnel in Texas that would allow us to have direct connect.

Q But this order says that they denied it at this point or at least at the time that the FCC order was written because the Texas Commission thought it would threaten the integrity of the network. Isn't that what it says?

A That's definitely what it says, yes.

Q Now, follow up a little bit about what Commissioner Deason asked you earlier. Let's say AT&T wins a customer from BellSouth. The ALEC or AT&T in this instance would go out to the field, go to the equipment closet of the garden terminal, would take off the BellSouth cross-connect for that customer, or would look through them to find the one that belongs to the end user

that AT&T has taken as a customer; is that right?

A I don't think -- I don't think that's quite right. I think we would know ahead of time.

Q Okay. But what I mean is, they have to go out to the box, a technician has to go out to the box, the equipment closet, whichever the situation is, and they have to get the physical wire that used to belong to the customer -- or that belongs to the customer that was BellSouth's customers, now is AT&T's; is that correct?

A Yes, as I tried to demonstrate it here.

Q Okay. And they take that wire, the AT&T technician takes that wire off BellSouth's cross-connect, unhooks it, and hooks it up to AT&T's cross-connect. Is that fair? Or the panel. I'm sorry, maybe I shouldn't have said cross-connect, maybe I should just say panel.

A Could you repeat the question?

Q All I'm trying to go to is the little white panels that are on your Exhibit.

A Yes.

Q One of them is going to be BellSouth's panel; is that right?

A Well, there are several that are BellSouth's panel. That's what I'm having difficulty --

Q Okay. Let's think about this as the garden apartment complex, and you've got the lady -- you've won

the lady in Apartment C. That's your new customer. It used to be BellSouth's customer, now it's your customer. Tell me what you're going to do, what the AT&T technician is going to do when they go out to move that lady in Apartment C, her wire, from BellSouth service to AT&T service?

A Well, first, I think we'd have to understand if there are any spare terminal strips, and I believe it's likely there will be spare terminal strips at that garden terminal. So we may just tap into one of the spares, and also, as I understand it, we would be able to identify if it's a garden terminal from markings that would be at the terminal where the lady in Apartment C's physical wiring would be that gets us back to her apartment.

Q Okay. So you're going to take, though, the wire off BellSouth's facility and put it on AT&T's facility; correct?

A Well, I think it's all -- it's all one panel right now.

Q But you're going to punch something over, you're actually going to do a physical piece of work?

A There will be a physical piece of work, and an AT&T wire will be terminated at a cross panel at the building owner's site. It may be owned by the building owner but that you control or you may own. As I

understand, both situations apply.

Q Okay. How are you going to get that wire in there, AT&T's wire in there?

A With a tool such as this.

Q No. I meant how are you going to get it into the building, how are you going to get it into the garden terminal? How are you going to get it --

A Well, that's why we're spending a lot of time negotiating with building owners for the right to do that. And the building owners have told us they would be very happy to have AT&T come and provide residential local phone service. But in some cases, they do not control the wiring because they have given that control to you, or in some cases, you own the wiring. And so they have asked us to go to you and make arrangements to allow us to serve those customers.

Q If there is not a spare pair for the lady -- to serve the lady in Apartment C, you're going to have to disconnect something from BellSouth's side of the panel; is that right?

A I would believe so.

Q Okay. You're going to have to disconnect that, and you're going to have to reconnect it to AT&T's side of the panel?

A Well, to AT&T's wiring, yes.

Q All right. How are you going to know -- how are you going to identify the wire that belongs to the lady in Apartment C?

A Through you.

Q Okay. Are you going to call us up? How is that going to work?

A Well, as I understand it, Mr. King has identified certain work activities associated with our getting loop assignment. So perhaps he can walk us through the actual steps that occur in developing that nonrecurring cost that we have in there.

Q Okay. But you can't answer my question because that's not really the focus of your testimony. Is that what you're saying?

A Correct. I know that there is an inventory that we would have to gain information from that inventory system.

Q Okay. Now, you're familiar with the Florida MediaOne -- Florida Commission's MediaOne order, are you not?

A Yes, I am.

Q And you are familiar with the fact that this Commission found that MediaOne's proposal, which is essentially the same as the proposal that AT&T is making now, was unrealistic; isn't that correct?

A Could you point me to where you're referencing, please.

Q Sure. Page 17 of the order. I gave you a copy of the order beforehand. Page 17 of the order, first full paragraph.

A I do see that language in the order, yes.

Q And would you also agree that in the next paragraph this Commission said it was in the best interest of the parties that the physical interconnection of MediaOne's network be achieved as proposed by BellSouth?

A I see that as well.

Q Okay.

A And if I may just elaborate, this order did come out before the long awaited UNE Remand Order. At the time this order was written, subloop unbundling was not a requirement, was not a UNE. And now that subloop unbundling is a UNE, and we intend -- hope to be able to use it to provide residential local phone service here in Florida. I'm hoping that the Commission will reevaluate their position given what the Georgia Commission has already found that it is indeed technically feasible, and that they will be somewhat guided by what the FCC has stated in the UNE Remand Order.

Q And what the FCC stated in the UNE Remand Order was that this is a decision -- technical feasibility is a

decision that the State Commissions can make; isn't that right?

A And I certainly wouldn't want to usurp the Florida Commission's right to make that decision.

Q Now, did MediaOne appeal that order? Do you know?

A It happened before my watch, if they did.

Q Did AT&T appeal the MediaOne order?

A Well, at that point, I don't believe that we appealed it. Since it wasn't our arbitration, I didn't even know if we could legally appeal it.

Q Do you know whether the Florida rules permit the building owner to own the type of facilities that we are talking about here?

A Well, we've been talking about several facilities. Do you mean the --

Q The intrabuilding network wire, network terminating wire.

A No, I do not know whether the Florida rules allow them to own it or not.

Q And something you said earlier, you said that -- I thought I heard you say, and maybe I was mistaken, but was it your testimony earlier that there was something on the wires in the building to indicate where each pair was assigned?

A If we are talking about the high-rise cabling, and I've read Mr. Milner's depositions in multiple states at this point, and so this is based upon my understanding of what he's been stating in terms of garden terminals, I have read that he has stated in garden terminals that there is usually some sort of marking at the garden terminal identifying the pair connections to Apartment C, D, E, whatever.

And in multiple dwelling units, the ones that we're most interested in, because frankly, I think we can build our own garden terminals as we go out and gear up to serve millions of subscribers, it's really the concern we have is in these high-rise units, but in the high-rise units, I understand that you have, again based upon what Mr. Milner said to this Commission this week, that you have a mechanized inventory system, which we can then query in manual or mechanized fashion to determine where the particular wire pair is that serves the customer on the eighth floor of a high-rise building in Apartment C, or 8C, I guess.

Q Now, I believe you said in your testimony that the Georgia MediaOne order required MediaOne, now AT&T, to assume full liability for any adverse consequences that could result from allowing AT&T's proposal to access NTW to go forward. Is that a fair statement?

A Yes.

Q And you say in your testimony in this case that AT&T and MCI in principle supported that notion. And I'm curious to understand what does in principle mean?

A That's a fair question. At the time I was writing the testimony, I had read the Georgia order and had discovered that there was discussion in the order about the need for MediaOne and BellSouth to get together and establish the procedures to allow this direct connection to take place so that indeed the lines would be clearly drawn as to how this would occur, which would, therefore, make it easier to understand when liability and adverse consequences might occur.

Now, I understand that those procedures are now final. Mr. Milner, I think, described that yesterday or today even. So I think based upon what AT&T and BellSouth have come up with in Georgia, I think, although I have not seen those procedures, I think those procedures would probably work fine here in Florida as well.

Q So do you know whether those procedures are going to require AT&T to indemnify BellSouth's customers for any losses they might incur as a result of a problem caused by an AT&T technician?

A Well, again, not having seen the procedures, I can't say that they do.

Q All right. Well, let's forget about the procedures for a minute.

A Okay.

Q If this Commission accepts AT&T's proposal, is AT&T and MCI willing to indemnify BellSouth's customers for any losses they may suffer as a result of an action by an AT&T technician?

A Yes, I think I have indicated in my testimony that is the case. Yes.

Q Okay. Is AT&T and MCI willing to indemnify BellSouth if a BellSouth customer gets mad because their service is disrupted and leaves BellSouth for another carrier due to an AT&T technician?

A Well, I guess we'd have to have an example of that to understand why -- what an AT&T technician out at a wiring closet might do to make such a -- to create such anger in a BellSouth customer. I mean, that's a little hypothetical for me to answer.

Q So you're not willing to truly indemnify BellSouth for any and all adverse consequences of an AT&T technician's actions then?

A Well, I'd like to hear what happened. I don't think anyone would just say, well, carte blanche, you know --

Q Okay. Let me try to give you an example.

BellSouth customer in garden Apartment B on the phone with their stockbroker, AT&T technician trying to move service for Apartment C from BellSouth to AT&T makes Apartment B's service go down at the crucial moment when Apartment B is telling the stockbroker sell, sell, sell, are you going to indemnify that customer for that loss? Are you going to indemnify BellSouth when that customer says, no, thank you, I'm going to someone else?

A Well, I think what I'd do is I'd call Mr. Lamoureux, and I'd ask him what legal requirements we would have to indemnify. But seriously, Ms. White, I think we could probably reach agreement on what are acceptable liability requirements. I mean, those requirements exist today in retail tariffs. We have worked with you for years in terms of switch and special access arrangements. This is not new ground that we're plowing.

Q Would you agree that in the First Report and Order of the FCC back, I think this was in '96, '97, the FCC stated that each carrier must be able to retain responsibility for the management, control, and performance for its own network?

A I'm sorry, could you repeat that?

Q Yes. That each carrier must be able to retain responsibility for the management, control, and

performance of its own network.

A I heard that part.

Q Oh, I'm sorry. Would you agree that that's a statement from the FCC's First Report and Order?

A I can't speak to that.

Q Would you accept it, subject to check?

A Subject to check, yes.

MS. WHITE: Thank you. I have no further questions.

CHAIRMAN DEASON: Staff.

MS. KEATING: Staff has no questions.

COMMISSIONER JABER: I have one, Chairman Deason. Ms. Kahn, did I understand you to say that you could build the garden terminals, that your real area of concern was the high-rise building, access to the high-rise building?

THE WITNESS: That's my understanding, that we have several ways we're offering cable telephony today. I know my niece in Denver has cable telephony through AT&T, and we will do what's called direct connect where we use our own facilities end to end.

In these garden terminal situations, it's easier to put your own terminal on property because you have less concern about space limitation. The wiring closet may not allow a whole new series of panels to be put there,

there's not enough room. The building owners may not want the riser cables to be expanded.

COMMISSIONER JABER: So were you here for Mr. Milner's testimony yesterday and during Mr. Lamoureux's cross-examination questions? We had -- there were two diagrams. One diagram was a reflection of an apartment complex layout and the other was the high-rise building. Is it your testimony then that you don't need direct access to the garden terminal situation in an apartment arena because you can construct your own garden terminal?

THE WITNESS: Well, I don't want to mislead you. I mean, there may be situations where we will want to use the BellSouth garden terminal; however, even in that situation, as I understand it, since there could be multiple garden terminals on the same property, we would prefer to actually meet the BellSouth -- have the single point of interconnection at just one site rather than meeting them at, let's say, three garden terminals. So that's why I say it's more likely we might build our own in a situation where there are multiple garden terminals.

There are not multiple basements. Well, there are. I guess in Manhattan, we do have multiple basements, but there's usually just one basement. The parties both have to come in there. The cabling is going up ten floors

usually through the elevator shaft. The building owner doesn't want more cabling running up the shaft; therefore, we're sort of stuck. And so we really feel it would be much more difficult to convince the building owners to allow us to go up through the elevator shaft than to erect a small garden terminal on their property.

COMMISSIONER JABER: So then an area of priority, it would be more critical for the Commission to set a cost that would allow you to compete in a multi-unit dwelling, and I'm referring to multi-unit dwelling as being the high-rise building, than it is for us to focus on the apartment kind of scenario. In other words, I think you just said that you can construct garden terminals with apartment complexes, you would prefer not to.

THE WITNESS: Correct.

COMMISSIONER JABER: So if the cost is prohibitive for the apartment scenario, you have an alternative.

THE WITNESS: Yes.

COMMISSIONER JABER: So in that regard, it's more important for us to address the high-rise situation.

THE WITNESS: Yes, yes. And actually, when the arbitration between MediaOne and BellSouth was going on, it was, as I understand has been represented to me by the

MediaOne folk, that they believed they were getting access to the multiple dwelling unit high-rise cabling when they bought their network terminating wire.

As a matter of fact, BellSouth is unique, in my experience and I look at the entire country, in making a distinction between network terminating wiring and intrabuilding network cabling.

COMMISSIONER JACOBS: You take the basic position then that much of the overhead; i.e., the labor costs for doing the -- I may not categorize it in your terms, but doing the services that BellSouth would offer is not necessary; therefore, you would reduce that then from nonrecurring, and you would also reduce the investment of the additional equipment as well?

THE WITNESS: Yes. Remember, I said one of these blocks cost $5. BellSouth said they will construct this block for us in the basement terminal, what I'm calling here the BellSouth access cross-connect, for $400.

COMMISSIONER JACOBS: And how would that be allocated, 400 per 25 pair?

THE WITNESS: Yes.

COMMISSIONER JACOBS: And so it would be allocated to 25 lines would pick up that charge?

THE WITNESS: Well, if we were able to win 25 customers all at the same time; otherwise, obviously, you

know, if we won five customers in the building, it would be allocated over five.

COMMISSIONER JACOBS: Okay. Thank you.

CHAIRMAN DEASON: Redirect.

MR. LAMOUREUX: Just a couple of questions.

REDIRECT EXAMINATION

BY MR. LAMOUREUX:

Q In response to, I believe, Commissioner Jaber's question, you said something about the MediaOne folks believed that they had gained direct access to access panels or BellSouth panels in a high-rise situation. Were you referring to a particular state or a particular decision?

A Well, certainly I was referring to Florida, and there was also an arbitration in Georgia, and I believe one is now underway in New Carolina. And it was only until North Carolina that we heard about a distinction between what I think Mr. Beveridge was calling little INC and big Inc, intrabuilding network cabling in high-rise being big INC, and network terminating wire being little INC.

Until that point, no one had any reason to believe that BellSouth would make this distinction because Verizon had not, SBC had not, Qwest had not, so we were taken by surprise.

Q On the subject of indemnification, to the extent that BellSouth has in its retail tariffs provisions dealing with indemnification of customers or potential customers in the event that one of their technicians disconnects a line when someone is on the phone telling their broker to sell, should AT&T, in your mind, accept any greater indemnification than what BellSouth has in its retail tariffs?

A Well, I wouldn't think so.

MR. LAMOUREUX: That's all I have.

CHAIRMAN DEASON: Okay. Exhibits.

MR. LAMOUREUX: I would move in AT&T Exhibits 133 and 134, which were the confidential portions of Dr. Kahn's testimony and her exhibits.

CHAIRMAN DEASON: Without objection, hearing none, show Exhibits 133 and 134 are admitted.

(Exhibits 133 and 134 admitted into the record.)

CHAIRMAN DEASON: Thank you. Dr. Kahn, you may be excused.

(Witness excused.)

CHAIRMAN DEASON: AT&T, you may call your next witness.

MR. LAMOUREUX: Our next witness is Jeffrey King.

CHAIRMAN DEASON: Perhaps this is a good time to

take a ten-minute recess. We will do that.

(Brief recess.)

CHAIRMAN DEASON: Call the hearing back to order. You may call your next witness.

MR. LAMOUREUX: AT&T and WorldCom call Jeffrey King as our next witness. And I do know that Mr. King was not here the first day and has not been sworn.

CHAIRMAN DEASON: Very well. Mr. King, if you could please stand and raise your right hand.

(Witness sworn.)

MR. LAMOUREUX: Did we figure out the first day that Phase One testimony from months ago had already gone into the record?

CHAIRMAN DEASON: Yes.

JEFFREY KING

was called as a witness on behalf of AT&T Communications of the Southern States, Inc. and MCI WorldCom and, having been duly sworn, testified as follows:

BY MR. LAMOUREUX:

Q Okay. Mr. King, did you cause to be prepared and filed revised rebuttal testimony dated September 12, 2000, consisting of 13 pages?

A Yes, I did.

Q And did you also cause to be prepared and filed

supplemental rebuttal testimony dated August 28, 2000, consisting of seven pages?

A Yes.

Q Do you have any changes or corrections to either one of those sets of testimony?

A On those pieces -- not on the testimony, no, I do not.

Q Okay. If I were to ask you the same questions as are contained in your testimony, would your answers be the same?

A Yes.

MR. LAMOUREUX: Mr. Chairman, I would ask that the revised rebuttal and the supplemental rebuttal testimony of Mr. King be inserted into the record as though read.

CHAIRMAN DEASON: Without objection, it shall be so inserted.

REBUTTAL TESTIMONY OF

JEFFREY KING

ON BEHALF OF

AT&T COMMUNICATIONS OF THE SOUTHERN STATES, INC. AND

MCI WORLDCOM, INC.

DOCKET NO: 990649-TP

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TITLE.

A. My name is Jeffrey King and my business address is 1200 Peachtree Street, N.E., Atlanta, Georgia 30309. I am employed by AT&T as a District Manager in the Local Services & Access Management organization.

Q. BRIEFLY OUTLINE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY.

A. I received a Bachelor of Arts degree in Business Administration with a concentration in Industrial Administration from the University of Kentucky, Lexington, KY, in 1983. I joined AT&T's Access Information Management organization in April of 1986 developing and testing the ordering and inventory Access Capacity Management System (ACMS) for electronically

interfacing High Capacity access orders with incumbent local exchange carriers (ILECs). I worked closely with the Ordering & Billing Forum (OBF) to insure industry standard specifications were implemented and enforced by quality control edits to maintain the integrity of the data. I joined the Integrated Access Planning and Implementation organization in August of 1990 and performed the national ACMS User Representative role for implementing Business Unit requirements, enhancements, Methods & Procedures, and training. This work function also required subject matter expertise of the processes to plan, provision and utilize special access circuits and facilities in order to optimize the effectiveness of AT&T's operational support systems (OSS) to manage these processes. I joined the Access Management organization in December of 1992 and managed customer/supplier relations on Interstate access price issues, including access charge impacts and tariff, terms and conditions analysis, with BellSouth Telecommunications, Inc. and Sprint LTD. In addition, my responsibilities included ILEC cost study analysis.

I began supporting AT&T's efforts to enter the local services market with the implementation of the Telecommunications Act of 1996. In particular, I support AT&T's efforts to obtain cost-based non-recurring rates for

AT&T's requests of unbundled network elements (UNEs) from ILECs by analyzing ILEC non-recurring cost studies and utilizing the AT&T/MCI Non-Recurring Cost Model. I also interface with subject matter experts ("SMEs") on the efficient processes and practices of ordering and provisioning UNEs based on a least-cost, forward looking telecommunications infrastructure. My organization also supports the cost models, such as the HAI Model, to develop the recurring costs (i.e., capital expenditure) to efficiently support the telecommunications infrastructure.

Since July 1998 my additional responsibilities include analyzing ILEC costs and recommending all cost-based prices charged by ILECs. My responsibilities also include managing access charges paid by AT&T to ILECs in the nine state BellSouth territory. Specifically, I advocate cost-based rates for access to the ILECs' networks for the purpose of originating and terminating local and toll traffic. Indeed, UNEs comprise the same elements of the telecommunications network as offered by BellSouth, and other ILECs, for access services.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. On behalf of AT&T and MCI WorldCom, Inc. I am presenting in Exhibit JAK-1 a total summary of the Unbundled Network Element (UNE) recurring and non-recurring rates recommended

for interconnection with BellSouth. I am also testifying on the necessary modifications to the cost models of BellSouth in order to produce competitively efficient non-recurring rates.

Q. HOW IS YOUR TESTIMONY STRUCTURED?

A. I address the following subjects:

RECOMMENDED UNE RATES FOR BELLSOUTH

Q. WHAT RECURRING AND NON-RECURRING RATES (INCLUDING DEAVERAGED RECURRING LOOP RATES WHERE APPROPRIATE) SHOULD BELLSOUTH BE PERMITTED TO CHARGE?

A. Exhibit JAK-1 contains a summary of the recurring and non-recurring rates determined to better represent the ceiling for rates that BellSouth should be permitted to charge Alternative Local Exchange Carriers (ALECs) for the purpose of interconnecting and providing competitive communication services to over 6.8M Florida access lines.

COST MODELS

Q. WHAT COSTING MODEL WAS USED TO DEVELOP THE RECURRING AND NON-RECURRING RATES THAT AT&T AND MCI WORLDCOM ARE PROPOSING IN THIS PROCEEDING FOR BELLSOUTH?

A. AT&T and MCI WorldCom have chosen to use BellSouth's cost model to develop the UNE rates, including UNE combination rates, in this proceeding. Specifically I rely on the BellSouth Cost Calculator Version 2.3 filed by BellSouth in Docket No. 990649-TP and necessary modifications to the inputs and operation of that model.

COST MODEL ASSUMPTIONS

Q. PLEASE DESCRIBE THE BASIS FOR THE RECOMMENDED CHANGES MADE TO BELLSOUTH'S COST MODEL?

A. Changes to BellSouth's cost studies are necessary in order to conform to non-discriminatory costing principles and efficient provisioning of the affected UNEs. I rely on a number of Subject Matter Experts (SMEs). The principal SMEs have also filed testimony in this proceeding:

- Witness Brian Pitkin analyzed the BellSouth Telecommunications Loop Model© ("BSTLM") and the BellSouth Cost Calculator© ("BSCC"). This is the first cost proceeding in which BellSouth has introduced this study and, as such, required extensive review. Many of the model's modifications are already under consideration for future BellSouth releases.
- Witness John Donovan provides technical support for least-cost forward-looking network investment and design choices of the telecommunications infrastructure, including the capabilities of this network to be efficiently provisioned.
- Witness Cathy Pitts provides technical support on switching costs.
- Witness Dr. Brenda Kahn addresses sub-loop UNEs. In particular, she analyzes efficient access to multi-dwelling units.
- Witness Greg Darnell addresses BellSouth's shared and common costs, as well as the development of expense and plant-specific cost factors. In addition, I am applying the weightings sponsored by witness Darnell for the deaveraging of BellSouth's recurring loop rates.
- Witness John Hirshleifer is recommending the cost of capital input data.

- Witness Mike Majoros is recommending the depreciation input data.

Q. PLEASE DESCRIBE THE RECOMMENDED CHANGES MADE TO BELLSOUTH'S COST MODEL INPUTS AND ASSUMPTIONS?

A. In addition to the non-recurring analysis I discuss later, I recommend that you take note of the testimony filed by the witnesses previously mentioned to obtain greater detail of necessary cost model modifications and the sound logic for these modifications. Exhibit JAK-1 contains the total results of the proposed modifications. An electronic copy of BellSouth's modified cost models and the input files that were utilized to develop the recommended UNE rates is attached as Exhibit JAK-4 (BellSouth). Underlying themes include:

- Least-cost engineering design, including investment choices;
- Forward-looking, yet currently available and deployed, technology; and
- Non-discriminatory, including competitive efficiencies such as direct access to OSS and removal of workgroups and activities that the ILECs' own retail operations do not experience. In other words, ALECs must only incur costs which the ILEC would incur using a forward looking network

architecture and efficient OSS or else the ALEC is burdened with an excessive barrier to entry and the ILEC has no incentive to become efficient

NON-RECURRING COSTS

Q. HOW DO NON-RECURRING RATES DIFFER FROM RECURRING RATES?

A. Non-recurring cost activities are those that only benefit the ALEC requesting the elements. If the activity being performed is a one-time activity, but has the potential to benefit future users of a particular telecommunications facility, the costs of the activity should be characterized as recurring. The cost of constructing a loop is one such example. Proper allocation of one-time costs is particularly important in a competitive environment where more than one local exchange access carrier (including the Incumbent LEC, Alternative LEC or Data LEC) may use a particular facility at different points in that facility's lifetime. If all the forward-looking costs of a one-time activity benefiting multiple users are borne by the first telecommunications provider to use the facility, then obviously the first user will be forced to pay more than its fair share while subsequent users get a free ride.

Recurring rates recover the cost, including shared and common cost, of the investment and expense necessary to install

and maintain a quality telecommunications network. These costs are then capitalized and appropriately taxed to earn a competitive return on the investment in order to derive the chargeable rates.

Q. HOW ARE NON-RECURRING RATES DEVELOPED?

A. The theory behind the development of a non-recurring cost model is fairly simple. First, it is necessary to identify the non-recurring actions required to provision unbundled network elements to ALECs. Second, it is necessary to break down each action into the detailed work activities that comprise each action, and determine both the time necessary to complete these activities and the associated labor rates. Finally, it is necessary to determine, for each action, the probability that a particular work activity will be required to provide the action.

The non-recurring cost of a particular action, then, is simply the sum of the costs of each of the necessary work activities, calculated as the product of (1) the required time, (2) the labor rate, and (3) the probability of occurrence of each work activity.

Q. WHAT ARE THE NON-RECURRING COSTS FOR BELLSOUTH?

A. Non-recurring costs are the efficient, one-time costs associated with establishing, disconnecting or rearranging unbundled network elements purchased from an ILEC at the request of an ALEC. The non-recurring cost components are (1) the required time to perform a particular task, (2) the labor rate for each affected work group that may perform tasks, and (3) the probability of occurrence that each work activity is required on any particular UNE provisioning order.

On average, manual worktimes should not differ significantly between companies assuming efficient Operational Support Systems (OSS) are in place. Probability of occurrence for manual activities is mainly driven by two factors: (1) OSS fallout and manual intervention and (2) additional work associated with copper plant technology versus fiber plant technology.

Q. PLEASE DESCRIBE THE RECOMMENDED CHANGES MADE TO BELLSOUTH'S NON-RECURRING COST STUDIES?

A. Exhibit JAK-3 displays the NRC input worksheets that were modified. The affected worksheets also document the assumptions used to adjust each cost study.

I have eliminated costs that have no justification in a forward-looking network architecture and efficient provisioning process. For example, BellSouth introduces unnecessary workgroups and costs in the ALEC provisioning process, which BellSouth's own retail operations do not incur. Such workgroups as the Local Customer Service Center (LCSC) and the UNE Center (UNEC)/Access Customer Advocate Center (ACAC) are intermediary work groups not intended for efficient operations. In other words, these workgroups are the middlemen.

I adjusted work times for certain work group activities. Most of these changes entail consistent application of work times between individual UNE studies covering similar work routines.

Fiber technology and the intelligent digital and optical support equipment also provide for remote electronic access and mechanized efficiencies for installing, disconnecting and re-arranging UNE and UNE combinations. BellSouth has assumed 100% manual work by a host of work centers. For those work groups that should be involved if an electronic mechanized order were to "fall-out" of the provisioning process, I have assumed BellSouth's affected work centers will be manually involved 10% of the time.

Activities associated with manual assistance due to errors in the network management systems and databases (Operational

Support Systems) are examples of activities that do not benefit the customer. This is because efficiently managed systems do not experience these errors. Most, if not all fallout from the OSS is a result of mismatching data from one system to the other. Maintaining the accuracy of these databases is a function of normal day to day maintenance and is recovered through recurring costs. Poorly maintained systems results in higher recurring costs. Such manual activities are a function of embedded inefficiencies, and result in costs for which ALECs should not compensate an ILEC. Viewed another way, the customer (ALEC) did not cause the error, they caused the ILEC to discover the error and, therefore, should not be penalized through additional charges.

Q. DO YOU HAVE ANY ADDITIONAL CONCERNS WITH THE GENERAL OPERATION OF THE BELLSOUTH SPONSORED COST MODEL?

A. Yes. In particular, BellSouth's cost model is not user friendly. The Loop study requires hours and hours of CPU time to perform its computations, not to mention the requirement of upgraded state-of-the-art computer technology and software. Many computations were found to be in error. Such errors range from incorrect cell references to non-existent study references to hard

coding of input data to prevent proper sensitivity analysis. The other rebuttal witnesses to this proceeding also point to input assumption changes in order to account for network design and technology mix flaws. My point is that the AT&T and MCI WorldCom recurring and non-recurring rate proposals should serve as a ceiling for rates because further investigation of the model with all so-called fixes could very well produce lower rates and enhance the viability of competition.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

SUPPLEMENTAL REBUTTAL TESTIMONY OF

JEFFREY KING

ON BEHALF OF

AT&T COMMUNICATIONS OF THE SOUTHERN STATES, INC. AND

MCI WORLDCOM, INC.

DOCKET NO: 990649-TP

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TITLE.

A. My name is Jeffrey King and my business address is 1200 Peachtree Street, N.E., Atlanta, Georgia 30309. I am employed by AT&T as a District Manager in the Local Services & Access Management organization.

Q. ARE YOU THE SAME JEFFREY KING THAT FILED REBUTTAL TESTIMONY IN THIS DOCKET?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony addresses the proposed revised cost studies that BellSouth filed on August 16, 2000. AT&T and MCI WorldCom continue to defend its previous Rebuttal positions, including the rate proposals filed by AT&T and MCI WorldCom on August 8, 2000, and have attempted to

apply those same sound assumptions to BellSouth's revised cost studies.

Q. WHAT COMPLICATIONS HAVE YOU ENCOUNTERED WITH BELLSOUTH'S REVISED COST STUDIES FILED AUGUST 16, 2000?

A. In this proceeding, AT&T and MCI WorldCom have chosen to use BellSouth's cost studies, with appropriate revisions, to develop their UNE rate proposal, including UNE combination rates, in this proceeding. Therefore, in order to remain consistent, and in order to provide the Commission an "apples to apples" comparison with the rates proposed by BellSouth, we have endeavored to use BellSouth's new Cost Calculator Version 2.4 to develop a revised proposal for cost-based UNE rates. Unfortunately, time has not allowed us to thoroughly review all of BellSouth's revisions and their implications on network design and forward-looking costing principles.

AT&T and MCI WorldCom witnesses spent many hours modifying BellSouth's Cost Calculator Version 2.3 to properly estimate the appropriate prices for UNEs and interconnection as proposed in our original testimony. Unless otherwise noted by these witnesses in their Revised Rebuttal testimony, we stand by the network design and

operational assumptions underlying our revisions to BellSouth's original cost studies as described in our Rebuttal Testimony. However, the applications of input and methodology assumptions change when using Version 2.4 of BellSouth's Cost Calculator. As the Commission is aware, it takes a good deal of time simply to run BellSouth's cost studies. AT&T and MCI WorldCom have not had sufficient time to incorporate all of their revisions to BellSouth's new cost studies and to re-run the new studies with those revisions in order to include a revised rate proposal in this testimony.

As witnesses Pitkin and Donovan also point out, with one minor exception, BellSouth did not address those issues identified in Mr. Pitkin's meeting with BellSouth on July 7, 2000, but instead used this re-filing opportunity as an opportunity to substantially modify its cost studies, inputs, non-recurring costs, and to file additional cost studies. Based on statements made by BellSouth in Florida and elsewhere, AT&T anticipated that BellSouth would incorporate many of the suggestions made by Mr. Pitkin. However, the vast majority of the revisions made by BellSouth have nothing whatsoever to do with the discussions with Mr. Pitkin concerning improvements to

BellSouth's cost studies. Indeed, it is especially troubling that BellSouth included so many revisions that were not included in those discussions, while at the same time failing to include the vast majority of the revisions that were discussed.

Q. HAS BELLSOUTH INTRODUCED NEW UNE RATE ELEMENTS AS A RESULT OF THEIR REVISED COST STUDIES FILED AUGUST 16, 2000?

A. Yes. BellSouth has introduced two "new" elements -- the Universal Digital Channel ("UDC") and 2-wire DID Ports to be used in combinations.

Q. WHAT IS YOUR RATE RECOMMENDATION FOR THE NEW UNE RATE ELMENTS PROPOSED BY BELLSOUTH DUE TO ITS AUGUST 16, 2000, REVISED FILING?

A. The UDC is essentially an ISDN Loop. Until AT&T and MCI WorldCom finish its analysis of BellSouth's Version 2.4 Cost Calculator, I recommend this Commission adopt the recurring and non-recurring rates for the 2-W ISDN Digital Grade Loop as proposed on August 8, 2000.

Witness Pitts addresses the 2-W DID Port. I am proposing a recurring rate of $3.46 as a placeholder based on her recommendation and will file the final

recommendation upon completion of the analysis on BellSouth's Version 2.4 Cost Calculator.

Q. DO YOU ANTICIPATE THAT NON-RECURRING RATES WILL CHANGE AS A RESULT OF BELLSOUTH'S REVISED COST STUDIES?

A. Possibly, but the analysis of BellSouth's revised non-recurring cost studies also continues. Non-recurring costs is an area in which BellSouth made a great deal of changes to its cost studies, particularly the inputs used in those cost studies, which have absolutely nothing to do with the changes discussed by Mr. Pitkin with BellSouth. As BellSouth witness Caldwell pointed out in her revised Direct Testimony, "BellSouth reviewed all of the nonrecurring inputs for all types of loops to ensure consistency of work time estimates and the correctness of the underlying assumptions." Part of the analysis I performed on BellSouth's Version 2.3 Cost Calculator and identified in my Rebuttal Testimony was consistent application of similar work activities. BellSouth has modified several inputs that affect this work analysis and could result in changes to the non-recurring rates to be proposed. Certain of BellSouth's proposed modifications, however, will not affect a change in NRC rates as proposed

by AT&T and MCI WorldCom if the modification was for a work group (e.g., the Local Customer Service Center) that should not be considered under competitively-neutral, non-discriminatory costing principles.

BellSouth also appears to have modified the structure of its non-recurring cost studies. As I stated in my rebuttal testimony "the non-recurring cost of a particular action, then, is simply the sum of the costs of each of the necessary work activities, calculated as the product of (1) the required time, (2) the labor rate, and (3) the probability of occurrence of each work activity." BellSouth's revised studies now attempt to account for these variables. The non-recurring rates I proposed on August 8, 2000 continue to apply, however, as the adjustments I provided in Exhibit JAK-3 also have accounted for these same variables.

I am also concerned that BellSouth has used this re-filing opportunity to actually increase many of their costs, and thus rates. For UNE elements such as the 2-W Voice Grade Analog Loop (SL2), BellSouth has actually introduced new provisioning variables that should not even be considered in a proper forward-looking cost study. Specifically, in addition to the routine work that BellSouth claims a work group (e.g., the UNE Center) performs,

BellSouth has now included work times associated with maintenance routines, such as escalations and jeopardies. Recovery of any such work activity constitutes double cost recovery (actually more, since BellSouth's maintenance loading factor includes cost recovery and BellSouth has recovered 3 more times within the non-recurring study itself). BellSouth is openly admitting that each ALEC loop order should include payment of a premium because that UNE loop could be the one that BellSouth can not provision on time and will require BellSouth to spend additional man-power to resolve issues and satisfy customer expectations. BellSouth can not be allowed to create excessive barriers to competition by forcing its competitors to pay for BellSouth inefficiencies.

Q. HOW DO YOU RECOMMEND THIS COMMISSION ADDRESS THE REVISED COST STUDIES FILED BY BELLSOUTH ON AUGUST 16, 2000?

A. AT&T and MCI WorldCom recommend that this Commission either reject all evidence submitted by BellSouth in its revised filing or allow us to make the corrections identified in our rebuttal and supplemental rebuttal testimony to address BellSouth's revised filings

and to address those issues we were mislead into believing would be corrected in this revised filing.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BY MR. LAMOUREUX:

Q Associated with your rebuttal testimony, did you prepare and cause to be filed three exhibits identified as JAK-1, dated September 11, 2000; JAK-3, dated September 8, 2000, and served on September 11; and JAK-4 a CD-ROM filed on July 31, 2000, which contains BellSouth proprietary information?

A Yes.

Q Do you have any changes or corrections to any of your exhibits?

A Yes. In my revised Exhibit JAK-1, I have two rate elements on Page 2 of 17 on Line 56, Column C, where I currently show a recurring rate for the intrabuilding network cable, the two-wire intrabuilding network cable of 84 cents, that should read .5535.

On Column C, Row 58, for the four-wire intrabuilding network cable, I show $1.22 currently, that rate should read .9354. That's all.

Q No other changes or corrections?

A No, sir.

MR. LAMOUREUX: Mr. Chairman, can we identify JAK-1 and JAK-3 as the next exhibit number.

CHAIRMAN DEASON: Yes, Exhibit 135.

(Exhibit 135 marked for identification.)

MR. LAMOUREUX: And since JAK-4 is proprietary,

can we identify that separately as 136?

CHAIRMAN DEASON: Yes, 136.

(Exhibit 136 marked for identification.)

BY MR. LAMOUREUX:

Q Mr. King, can you please give a summary of your testimony.

A Yes. Good afternoon. My name is, of course, Jeff King, and I'd first like to thank the Commission and all the parties for accommodating my schedule. I'm currently vacationing in sunny Daytona Beach and hopefully will be able to get out of here and enjoy the rest of it through the remainder of this week, but I do appreciate the accommodations.

On behalf of AT&T and MCI WorldCom, I am proposing the recurring and nonrecurring charges recommended for unbundled network elements for the purpose of interconnection with BellSouth. The basis for these UNE rates is the BellSouth Cost Calculator Version 2.4 and all of its associated cost models, including the loop model, et cetera.

For the recurring rate development, I do rely on the subject matter experts of which have filed testimony in this case already to make necessary adjustments to BellSouth's defaults, including input assumptions and network architecture assumptions.

I am also responsible for the nonrecurring charges, and I'll be using an acronym, NRC going forward proposed based on necessary adjustments to BellSouth's NRC cost studies. These modifications provide consistency with work activities of the forward-looking network that has been modeled. It assumes efficient operational support systems are in place and assumes nondiscriminant treatment between ALECs and BellSouth's own operations. Thank you.

MR. LAMOUREUX: Mr. King is available for cross-examination.

CHAIRMAN DEASON: I'll start with my right. Questions? BellSouth.

MR. ROSS: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. ROSS:

Q Good afternoon, Mr. King.

A Good afternoon.

Q I hope you're enjoying your vacation. Let's talk about the nonrecurring cost that you're sponsoring. You're the only AT&T and MCI witness who has submitted testimony on nonrecurring costs; is that correct?

A Yes, sir.

Q And as I recall from your deposition, you have approximately 14 years of experience with AT&T; is that

right?

A Yes.

Q But your experience in the local exchange part of the business has really been limited to the last four years since the passage of the '96 Act; is that correct?

A Yes.

Q During your employment, have you ever been responsible for network operations?

A Field operations?

Q Yes.

A No, sir.

Q During your employment with AT&T, have you ever been responsible or involved in actual work in the field in the provisioning of facilities used to provide local exchange service?

A No.

Q And have your responsibilities with AT&T ever involved providing technical support for individuals in the field who are actually involved in providing local exchange service?

A No.

Q Let's talk about fallout for just a moment, which is an issue you discussed in your testimony. Would you agree that the fallout assumptions in the cost study drive nonrecurring costs?

A Yes. And let me explain.

Q Certainly.

A Manual human intervention causes the cost. To the extent that a particular work group is involved in any particular provisioning activity at the request of the ALEC, there is a variable called fallout that determines whether something should be mechanically or electronically managed by operational support systems in the databases that support that process, and that would be a factor determining whether that work group would need to be involved in any one particular order, yes.

Q And all things being equal, a lower fallout will result in lower nonrecurring charges than would otherwise be the case; is that correct?

A Yes.

Q And would you agree that the fallout assumptions that appear in BellSouth's cost study actually appear in several different places?

A Yes.

Q For example, you have fallout in the ordering process; is that correct?

A Correct.

Q And then you also have fallout in the downstream provisioning process with -- the work group is actually involved in installing or engineering the facilities?

A The real work, yes.

Q Now, with respect to the fallout in the ordering process, you have assumed no fallout; is that correct?

A Correct.

Q And the zero percent fallout assumption is based on the notion that every time a CLEC submits an order that may have an error on it, BellSouth's systems will be able to electronically identify that error, electronically resubmit the order back to the CLEC, and have the CLEC correct that error; is that correct?

A Correct.

Q Would you agree that BellSouth's systems today cannot electronically do that, what we've just described?

A They probably cannot on every order today; correct.

Q Are you aware of any carrier that has deployed the capability to electronically identify every CLEC error in an order?

A I am unaware -- I don't know would be my answer, first of all. The -- of course, we are in an environment that is trying to develop competition, that is trying to ensure that every carrier gets one leg up, and so I think every exchange carrier that is trying to get into the marketplace has advantages to it if it is more efficient than the next guy. So whether you want to call it an

ISO9000, 9001, various quality initiatives that are out there to try to ensure that there is as little fallout and as little human intervention in any process today, whether it be for nonrecurring cost activities that we're discussing here today or other actions of our business.

Q Fair enough. But just so the answer to my question is clear, you do not know of a carrier that has deployed the technology that would enable an incumbent to identify every error in every CLEC order electronically; is that fair?

A Well, I'm hoping you're going to be there. No. I'm hoping you're going to be there.

Q Thank you. Can I ask you to look at Page 8 of your rebuttal testimony?

A Are you going to be working from the revised one without the GTE -- is this the --

Q You know, I'll be honest, I don't know that I have a copy of the revised rebuttal.

A I just need to know which one to pull out if you're going to reference or pick your line number.

Q I'm afraid that I have the original rebuttal testimony that you filed which, I believe, does include GTE.

MR. LAMOUREUX: And that should be the only difference between the two is the inclusion or

noninclusion of the GTE passages, but the pages are going to be different.

MR. ROSS: Yes.

BY MR. ROSS:

Q On Page 7 of your revised rebuttal testimony, Lines 17 and 18, when you're describing the underlying themes that should be in a forward-looking cost study, you state that, quote, forward looking yet currently available and deployed technology, close quote, should be used; is that correct?

A Yes.

Q So at least with respect to the OSS technology that you're assuming for purposes of your OSS fallout, that technology has not been yet deployed, to your knowledge?

A I'm not sure how to answer that question. I don't know. And clarification would be, we traditionally look at operational support systems today as being classified as so-called legacy systems. They have been around for a lot of years now, have continued to go through enhancements. I think the current goal is the so-called total network management. TNM is kind of the buzzword where OSSs ultimately will be driven to total machanization, the ability to communicate with any other piece of OSS equipment. That has been something that the

industry has been working on over the last 20 years and investing a lot of money to enhance existing operational support systems.

You have various companies such as Bellcore and others that are continuing to provide new enhancements, new operational support systems to do the things that I'm essentially claiming should be considered in a forward-looking cost study. Whether BellSouth may or may not have implemented them today is somewhat irrelevant to trying to create that competitive environment, because if a company were to manage the network that is being modeled today, and I am -- and BellSouth had the capability to indeed go in and put new systems in, it would have every capability in which I have based my cost study adjustments against.

So, yes, they are -- or I don't know in that I'm not sure how many of these new TNM conformant OSSs are currently in place, but that does not mean that a legacy OSS has not been enhanced to have somewhat equivalent functionality.

Q You just can't name a carrier who has the functionality that you're assuming in your study; correct?

A 100 percent, no.

Q Let's talk about the downstream fallout where I believe you have assumed either 5 or 10 percent depending

upon the work group; is that correct?

A Correct.

Q And is it fair to say that in each case you reduced the fallout assumption that BellSouth had in its studies for the respective work groups?

A In those instances, yes, generally.

Q And is it also fair to say that there was no quantifiable data report or study that you relied upon to support your reduced fallout assumptions rather than those used by BellSouth?

A The actual 10 percent, no, I don't have any factual basis to say that 10 percent is the right number. I have a number of -- there have been documentation of BellSouth's own retail operations in Georgia, for instance, having 97 percent plus flow through capability. We have quotes out of SBC territory on some of their OSS enhancements where they are targeting 99 percent flow through, which would mean 1 percent fallout.

So I think that, you know, the way that I take this is, just because something is inefficient today and is driving 50 percent fallout does not make it right. What is the right fallout? I've been through a number of these cases, you know, and have plenty more still to come in other jurisdictions, and what I have found is that the 2 percent, which I normally am a very strong advocate of,

almost seems too unrealistic for many people. And so I have tried to be a little bit more conservative, and so, no, I don't have any factual basis for the 10 percent other than to say it is conservative off of what I do have documentation on.

Q Let's talk about the work centers. In developing your nonrecurring rate proposals, you have eliminated work times associated with certain BellSouth work groups; is that correct?

A Correct.

Q And one such group is the local carrier serving center or the LCSC; is that right?

A Correct.

Q What does, just briefly, the LCSC do?

A That is the -- what I would call the customer facing -- and in this case the customer would be the ALEC -- customer facing group that ensures orders are properly placed into BellSouth's provisioning process. They are the work group that handles any requests by ALECs for manually entering local service orders. They are also within BellSouth's cost study, the work center that is involved, if an electronic service order comes across and it has errors.

In BellSouth's process, these errors are not kicked back to the ALEC, let's say AT&T in this case, but

rather stay within the BellSouth process. Bell's LCSC fixes the problem and gets it put into the provisioning process. Part of the problems that I have with that is, I never got any notification, per se, that I had anything wrong, so I'm going to keep sending you bad orders, and we haven't fixed anything.

So one of the goals of trying to put together this forward-looking cost study is to drive the incentive to ideed put the proper edits in place, kick those orders back to me. I have work groups similar to the LCSC, which is essentially just an order writing group. I'm paying AT&T's own customer representatives to be able to process or input orders, and I need them to be able to do it correctly.

Q I want you to assume for purposes of my question that the Commission disagrees with your assumption of zero percent fallout in the ordering process and decides that there should be some, let's say, 3, 5 percent fallout. Is it fair to say that in that circumstance under my hypothetical the LCSC would be the work center to handle those orders that fallout and that the costs of the LCSC should be reflected in nonrecurring costs?

A To the extent that this Commission under your hypothetical says that Bell should be entitled to help support electronic service orders, then, yes, that is a

work group they have decided that should be alone or should be included in the cost study. I argue that it should not.

Q Let's talk about another work group whose time you have eliminated, and that's the UNE center, the unbundled network elements center; is that correct?

A Correct.

Q And the UNE center performs a coordination function of coordinating BellSouth's technicians and AT&T's technicians in the provisioning of unbundled loops, among other things; is that correct?

A Correct.

Q And would you agree that the coordination function is an important function when we're talking about cutting over an unbundled loop that's being used to serve a BellSouth customer that's now going to be used to serve an AT&T or another ALEC customer?

A Again, the way to answer your question -- yes, coordination is important. My argument is that coordination activities are already capable of being provided via the local service request within FIDs, or field identifiers, on that local service request that says, I'd like to cut this circuit over Friday at 5:00 p.m. I'll be there, you be there. And your UNE center is simply a group that does assist in this

coordination to ensure that, one, the BellSouth technician does arrive Friday at 5:00 p.m., and will also place a call to the ALEC to ensure that they are also there Friday at 5:00 p.m. Is it necessary? No. Does it help the customer experience -- or does it help to ensure that it will happen at 5:00? Yes.

Q I'm going it hand you an exhibit, Mr. King. Actually, Ms. White will hand you an exhibit.

CHAIRMAN DEASON: While she's doing that, let me ask a question. Is the LCSC something that is available to you, and to utilize those services, you make an inquiry to that service center, or how does that work?

THE WITNESS: Well, the inquiry is not made to the LCSC. That is a work group that simply sits on BellSouth's side and is the first group to come in contact with the local service request. Bell's LCSC is, of course, more familiar with how that order should look going into their own process, but it is also part of trying to drive competition that they should be helping our own customer service representatives to be able to place a clean order such that that group never needs to touch the order.

So they are the first group if there is any problems, because they are the ones that help ensure the order gets put into the downstream provisioning processes

and that there are, per se, no errors or defects on that order.

My argument is that I want to be able to send you a clean order without that group being involved, and so that's why I put a zero fallout into that group. I want Bell to help provide -- I want the proper incentives put in place so that an electronic kickback of those errors come back to me. I'll fix them. My service reps need to know how to write a proper order. I don't want to keep sending them with, you know, an error every day. All that does is increase my own costs, and it increases their costs, which is what I see in these nonrecurring charges they are proposing.

CHAIRMAN DEASON: Well, I'm trying to understand, if you submit an order and it gets kicked out -- say, an order gets kicked out electronically, all you want BellSouth to do is collect those in a box and then send them back to you?

THE WITNESS: That's essentially how the interface works today. It will have an error code that says this FID has an error, and you would go through an RMA, a resolution of that, and that would be something that our side, the ALEC side, would attempt to clear.

You know, did we send an invalid input in that particular FID? I think as -- I'm not sure whether I had

it in deposition, but the most fields that exist on a local service request are done via in an industry forum. The ordering and billing forum helps to create the standards of what these FIDs are, what they mean, what can be populated into those FIDs. The capability is out there to create all the proper edits, but they may not all be in place today.

CHAIRMAN DEASON: So all you're looking for is, you want to submit an order, and if it does not go through the automated system, that you just be notified?

THE WITNESS: That it would be kicked back to clear, put the right data in so that it can come back through and not be kicked out at all. It would just go straight into the provisioning process.

BY MR. ROSS:

Q Just to follow up Chairman Deason's questions, you don't want to just be notified that an order has an error in it, you what to be notified what the error is so that you can correct the error?

A Absolutely.

Q And isn't it correct that BellSouth systems have in many respects that capability through what is called autoclarification where certain types of errors are automatically returned with the clarification saying there's a problem with this order; correct?

A Yes, yes.

Q And what we're talking about are a number of errors for which BellSouth does not have the capability to electronically identify that this isn't a CLEC error as opposed to some other type of error, and it requires manual intervention for BellSouth to make that determination?

A The -- is your question divided into CLEC caused errors or some other --

Q Yes.

A I'm trying to differentiate. To the extent that the CLEC has an error on its local service request, those should be kicked back. There's a number of edits, as you've mentioned, that are already in place to do that, but not every field, not every edit is necessarily there today. And my argument, of course, this being a forward-looking cost study, we should assume they are in place.

The second aspect of that, the implication there was that your LCSC was the only ones that can fix some errors. That again would get back to the, I guess my discrimination point of view in that the only way they can fix it is to have direct access into some of these OSSs that gives them the information to fix it on that order. The assumption would be that the ALEC has that same direct

access in an nondiscriminant environment.

And the ideal situation would be that I can fix that order just as well as the LCSC, even though that may not be, you know, as easily accomplished as we say it can happen. You know, there is definitely work there.

Q I'm sorry, maybe my question was unclear. Do you understand that one of the functions of the LCSC is when there is an error on an order where the systems cannot readily determine whether it is CLEC caused or BellSouth caused, that the order falls out to the LCSC so they can investigate, and if it is, in fact, a CLEC error, return that order to the CLEC so they can fix it?

A I would agree.

Q Going back to the UNE center. I have handed you a document which I hope you have recognized. This is a petition for arbitration filed before this Commission by AT&T Communications of the Southern States that was filed in June of this year seeking arbitration on a number of issues. Are you aware that BellSouth and AT&T are arbitrating before this Commission?

A Yes.

MR. ROSS: Mr. Chairman, I would like to have this marked as the next exhibit, which I believe is 137.

CHAIRMAN DEASON: Yes, 137.

(Exhibit 137 marked for identification.)

BY MR. ROSS:

Q Mr. King, I had understood you to say in your response to an earlier question about the coordination function that the UNE center provides that that coordination function really wasn't really necessary. Was that your testimony?

A In a forward-looking cost study; correct.

Q If I could ask you to look at Attachment B to the petition, which is a matrix of the issues that AT&T is arbitrating, and look at Page 7, Issue 14. This issue is, "What coordinated cut-over process should be implemented to ensure accurate, reliable, and timely cut-overs when a customer changes local service from BellSouth to AT&T." Is that correct?

A Yes.

Q And the coordinated cut-over process that AT&T has proposed involves the UNE center; is that correct?

A Yes.

Q Are you aware of the specific procedures that AT&T has proposed that this Commission adopt for purposes of the interconnection agreement between BellSouth and AT&T in the state of Florida on a going-forward basis?

A I am not personally handling this particular issue as part of my workload. I am somewhat aware of the cut-over process, and I do not disagree that in the

negotiations for interconnection that a process is required that both sides do understand how cut-overs occur.

And to the extent that work group is required to help ensure that that process works well, because this is a new world, so to speak, for local interconnection, I don't see a reason that that has any impact on the cost study side of the equation, which is to try to develop a cost study that mirrors a forward-looking environment and efficiencies of that environment and to try to drive -- you will never get competition if we don't have the right incentives in place.

MR. ROSS: Mr. Chairman, I'd like to hand the witness another exhibit, or Mr. White would.

Mr. Chairman, I would like to have this marked as the next exhibit, 138.

CHAIRMAN DEASON: Yes, 138.

(Exhibit 138 marked for identification.)

BY MR. ROSS:

Q Mr. King, this is the actual proposed contract language between BellSouth and AT&T for inclusion in the interconnection agreement that this Commission has been asked to arbitrate, and I would ask you to look at Exhibit C, or actually, Exhibit C and D, but I would like to focus on Exhibit C, which is AT&T's proposed language,

and direct your attention to Paragraphs 3.4.3, which appears on Page 4 of Exhibit C, and you can take a moment to read this, if you'd like.

A I've read that section.

Q Is if fair to say that under this proposal, AT&T wants the UNE provisioning center to determine whether dial tone is present to the AT&T switch and verify that the automatic number identification listed on the service order is the same one as detected on the frame?

A The language that has -- that is listed here does allow for the UNE provisioning center to be involved. I would argue, however, that it's not necessarily a function of -- this is what will work and so -- but again, I would drive it back to does this -- just because this is a process that is required today to make something happen, does that mean it should be part of the forward-looking cost study? And so there are two different approachs there. I am looking at it from a cost study perspective and trying to drive the incentives and rates, which includes incentives for both AT&T and BellSouth to not have to have such work centers involved.

Knowing that that is the only way that it will happen today, does it make any sense for AT&T through arbitration or through negotiation to take this out and say, no, I never want BellSouth's UNE provisioning center

involved, I can't answer that type of question. I am looking at it from a cost study perspective.

Q Let me also quickly ask you to look at the following page, Page 5, specifically Paragraphs 3.4.4 and 3.5.1, which again would require that the UNE provisioning center perform certain tasks, including calling AT&T at least 48 hours prior to the cut-over; is that correct?

A Yes.

Q And just so I'm clear, when you said that the coordination function that the UNE center provides wasn't really necessary, would you agree that it's at least necessary enough that AT&T has decided to arbitrate the question as to whether or not BellSouth should be required to provide that coordination function?

A Is the language -- there are differences in how that coordination -- or that cut-over occurs. I don't know that there are differences in the fact that the UNE provisioning center is involved or not. So I'm not quite sure I -- I mean, yes, there is language here that suggest that that provisioning center is involved and that AT&T accepts that that provisioning center is involved and has actually built it into the methods and procedures, but is that a function of AT&T if you want that cut-over, this is the way it's going to be, or -- again, I separate out things that are being done in order to allow competition

to develop versus the right incentives to try to drive a better behavior.

Q Going back to the arbitration, you may have been confused. The language, I think, we were looking at is AT&T proposed language of what they want BellSouth to do. Do you understand that to be the case?

A Right.

Q And in going back to the arbitration petition, AT&T wants this Commission to order this particular language to be incorporated into the parties' interconnection agreement; is that correct?

A Yes.

Q Just so I understand your position, do you believe that as part of a forward-looking interconnection agreement BellSouth should provide a coordination function to AT&T, but as part of a forward-looking cost study, AT&T shouldn't have to pay for it?

A I believe even within my price proposal here in this docket -- well, my answer would be yes. And that is because you have an element called coordination, service coordination, in which I have -- I did make some adjustments to, but it's not as if I just zeroed it out. And my argument is that if indeed a company wishes to request that BellSouth manually get involved in the coordination, then there would be a charge to cover that.

And give me a moment. Order coordination N.1.5, N.1.6, order coordination for specified conversion time, I do have a nonrecurring charge for that activity.

Q What do you understand that particular element to be?

A That is an order coordination charge. That is just as it -- this is essentially your UNE-type center coordinating activities using manual involvement. The specified conversion time is taking it to the 5:00 p.m. on Friday evening and the so-called I want guarantees that that's going to be there at 5:00 p.m. Friday, and I'm willing to pay an extra charge for that.

Q I just want to make sure the record is clear. The order coordination for a specified conversion would apply if AT&T says, I want to cut that loop at exactly 5:00, and I want to make sure that someone is there to do it actually at that hour. Do you understand that to be the case?

A This is when a -- if a CLEC specifically requests manual intervention, as you are trying to lay out here for those cut-overs, if AT&T says indeed this is a -- I'm in a cut-over situation, and I want it to be coordinated, I want to follow our arbitration guidelines, then this additional charge would apply.

Q Do you understand that the specified conversion

time that is referenced in that particular element refers to the ability of a CLEC to say, I want a cut-over at a specific time, and I want you to coordinate with me to make sure that it's cut-over at that specific time? Do you understand that to be the indicates?

A Yes.

Q Now, what we're talking about here though is, AT&T is asking for coordination on every single unbundled loop cut-over whether or not AT&T specifies a specific conversion time; isn't that correct?

A Well, I read it -- this not being my particular issue, I don't know that that is the case.

Q Okay. That's fine. Now, your view, I believe, is that the costs of the LCSC and the UNE center should be recovered from BellSouth's stockholders; is that correct?

A Yes. I've made that claim in the deposition that to the extent that BellSouth provides support above and beyond what I believe an efficient process requires, then that is a work group, so to speak, that BellSouth feels that they need to have in the process to help the customer satisfaction level, to help keep BellSouth in good light with their customers, so to speak, and of course, that is what drives value for your business and drives value for your shareholders. So, yes, that was my position.

Q And I believe at your deposition I also asked you to give me an example of a cost of AT&T doing business that it recovers from its shareholders rather than its customers, and I believe you could not recall or could not give a specific one; is that correct?

A True.

Q Let's talk about some of the work activities that you assume in your nonrecurring cost studies. Is it fair to say that some of your nonrecurring rates are based on certain work times such as six minutes to install cross-connect, five minutes to test, and three minutes to tag particular elements?

A Yes.

Q And the time to process and complete an order that you have assumed for purposes of your proposed nonrecurring rates in this proceeding are very close to the times that were in the AT&T/MCI nonrecurring cost model that AT&T and MCI submitted in the arbitration in 1998; is that correct?

A Yes.

Q And is it fair to say that the Commission in the arbitration in 1998 did not accept the AT&T and MCI nonrecurring cost model?

A They did not accept the model; correct.

Q There are other work activities such as

installation and travel which you have eliminated from your nonrecurring rates because you believe those work activities are recovered in recurring rates; is that correct?

A Yes.

Q Now, where specifically in the cost study do you believe the cost for such things as installation and travel are recovered in recurring rates?

A Well, you have built a forward-looking network through your -- and we can take your loop model as an example. You have geo-coded, so to speak, every customer location, you have put a NID on the side of the house, you have put a drop coming off that house, you have got your distribution facilities coming back to various cross boxes or remotes interconnecting with your feeder facilities all the way back to your central office, central office allows to -- has your switches, your various terminating equipment to utilize the interoffice facilities of the network, and what the cost model is doing is connecting all of those piece parts. You are, in essence, recreating the network to serve the demand of BellSouth's Florida customers.

And part of building that network is all of the assumptions of sending a technician out to a customer's premises, all of the factors and loadings associated with

engineering, the furnishing and installation of those material investments that you have placed into your network account for all of the costs associated with the various technicians to go out and place that plant.

Q Here's my problem. I want you to assume for purposes of my question, as Ms. Caldwell has testified, that the actual times for installation and travel to actually connect the piece parts of the network are not reflected in BellSouth's loadings that were used in developing recurring rates. What I'm asking is, can you specifically point to me where in the cost study you believe these costs are, in fact, being recovered and where Ms. Caldwell is wrong?

A Well, first of all, I was not here for Ms. Caldwell to understand -- or to see that she was able to prove that she adjusted the various accounts to remove all installation of cross-connects in every -- at various cross boxes, whether at the NID, the drop to your distribution. I mean, there are a lot pieces that are put together in the entire network, so I can't say that Ms. Caldwell has justified that.

I am leaning on Mr. Darnell from my perspective relative to the in-plant or plant-specific loadings that were applied, and was not given any indication from him that BellSouth had made any adjustments to those accounts

to remove that type of work labor or work times.

Q Have you read Mr. Darnell's testimony in this proceeding?

A Yes.

Q Do you recall any testimony or any evidence in Mr. Darnell's testimony that specifically addresses the types of activities that you're describing to suggest that the costs of those activities are being recovered in BellSouth's recurring rates?

A I do not recall anything specific in his testimony. I also don't recall anything specifically saying that it was not.

Q Did you read Ms. Caldwell's rebuttal testimony where she specifically said those costs are not being recovered in recurring rates?

A I read her testimony. I do not recall that specific statement.

Q Mr. King, you also have eliminated certain work functions that you believe are duplicative; is that correct?

A Yes.

Q And you eliminated those work activities because you assumed that they were duplicative. Is that fair?

A That is fair.

Q Did you make any effort through discovery or

otherwise to determine whether, in fact, those work functions were duplicative?

A No, I did not.

Q Let's talk briefly about loop conditioning. It's my understanding that your position -- AT&T and MCI's position is that there should be no costs associated with the removal of load coils and bridge tap; is that correct?

A In a nonrecurring cost study; correct.

Q And if BellSouth's recurring cost studies do not reflect the removal of load coils, how is it that BellSouth is compensated for the actual work involved in conditioning a loop?

A How I have compensated you is, I am paying you rates through recurring charges today that puts in a new network without loop conditioning.

Q Okay. So your view is that if by assuming that BellSouth has built a forward-looking network with no load coils and no bridge tap, BellSouth is adequately compensated for the costs of actually sending the technician out to do the work involved in removing the load coils and the bridge tap?

A Yes. I -- let me caveat. You are being compensated. To suggest that that compensation is dedicated to going out and removing load coils, how you use the money is up to you. The argument is that the --

number one, you would not put load coils into your network today, yet you're asking for us to pay for their removal, of course. And two, you know, the assumption is that the recurring cost study is free of load coils provides adequate revenue to have a network free of load coils.

Q Finally, Mr. King, let's just talk about geographic deaveraging briefly. AT&T and MCI is not proposing that switching or transport be geographically deaveraged; is that correct?

A Correct.

Q AT&T is proposing that loops and subloops and combinations involving the loops be deaveraged into six zones, as I recall; is that correct?

A Correct.

Q Do you recall offhand what the weightings that you have used for purposes of the geographic deaveraging in each of the six zones?

A I'd have to look. I don't recall.

Q Would you agree, subject to check, that in Zone 5, the zone weighting is approximately 273 percent?

A Subject to check.

Q And that the weighting to Zone 6 is approximately 428 percent?

A Subject to check.

Q Let's assume -- let's take the existing

Commission-approved loop rate of $17. Under AT&T and MCI's proposal in using those zone weightings, would you agree, subject to check, that the cost of a loop in Zone 5 would be $46.52?

A Subject to check.

Q And would you agree, subject to check, that in Zone 6 the loop rate would be $72.76?

A Subject to check.

Q How many unbundled loops does AT&T expect to buy at $46 or $72 a pop?

A I do not know.

MR. ROSS: No further questions, Mr. Chairman.

CHAIRMAN DEASON: Staff.

MS. KEATING: Staff has no questions.

CHAIRMAN DEASON: Commissioners. Redirect.

MR. LAMOUREUX: Just a few questions.

REDIRECT EXAMINATION

BY MR. LAMOUREUX:

Q I want to ask, first, about the issue of install and travel time in the nonrecurring cost study. When we're talking about a loop -- and I want to use an example of a loop, and particularly look at the cross box that's in between the point of the loop at the central office and the NID at the customer's premises -- is install and travel time associated with the cross box on that loop

some of the nonrecurring charge for install and travel that you eliminated?

A Yes.

Q Can you explain why it is that when I purchase the entire loop, included within the recurring rate for that already would be installation and travel time for building that entire loop, including the cross box?

A Well, that is the entire assumption, is that to build demand to any particular customer or end user requires all the connections to be there in order to provide service, and the basis of the recurring rates is to develop or put together a working network. BellSouth, of course, has a different approach, which is that nothing works, and you have to pay a nonrecurring charge to make everything work.

Q Let's talk about the question of order coordination of hot cuts or whatever you want to call it. I know that you testified this is not your issue. Do you know whether AT&T is proposing the language in Exhibit C that Mr. Ross showed you as the forward-looking means of order coordination between BellSouth and AT&T?

A I did not know. Again, it was not my issue. I am addressing it from a nonrecurring study relative to forward looking. It does not suggest that AT&T has not attempted to try to negotiate via a forward-looking

methods and procedures, but this apparently is the language that is currently on the table in order to allow it to happen.

Q Let's talk about fallout for a little bit, specifically about fallout in the ordering process. I think Mr. Ross talked to you about two types of fallout; one of which being fallout because the electronic interfaces cannot identify the cause of the error. Okay. If that falls out to the LCSC because the interfaces cannot determine the cause of the error, do you believe ALECs should incur costs because of that?

A No, I do not.

Q Why not?

A Well, again, it is a function of operating efficiently. It is a -- probably a better way of putting that is that oftentimes the error -- oftentimes a CLEC's order will actually identify an error that exists in BellSouth's own databases, and it is something that had our order never come across, they may not have ever found out about it, so it was, more or less, something saying, hey, I found something for you, don't penalize me for this. I'm helping you to make your process better. So that's kind of the angle that I have in the adjustments to the model.

CHAIRMAN DEASON: Let me ask a question. Well,

then if you don't want to pay any of the costs to the LCSC but, nevertheless, you submit an order that there is an error that you made and it is something that cannot readily be determined by the electronic means and someone has to physically look at that to determine if it's your error or BellSouth's error and they determine that it is your error, wouldn't it send the right pricing signal to you to charge you for that so that from now on you wouldn't do that anymore?

THE WITNESS: Are the signals crossed? You know, I look at it just the opposite way. The signal is, you have identified something electronically for me, and I need to fix it because I don't want to continue to send you errors. All you're doing is looking at system processing time. This is not a cost to an LCSC.

Where their cost comes in with the LCSC is that they actually want to pick that order up on their side, fix it, and move it on in. And they will send me a little something back saying, you know, I fixed it, or that this thing had errors, but it would not necessarily stop me from continuing to send an error, you know, depending on how the process gets worked out.

So I kind of take it the other way. I think the signal should be to help drive the efficiencies versus trying to penalize the CLECs or ALECs for identifying

errors that do already exist in their own databases. And what I was getting at with Mr. Lamoureux before is, usually the errors are a result of problems within one or more databases that have all of the same information, but one database says something -- you know, uses an address, you know, address one versus address two, and it's simply getting them in synch. It's a synchronization of databases which have the same information. And all the CLEC order did was just help identify to BellSouth that there was a database error. It was not something that we caused, per se. We didn't cause them to have the error in the first place. We helped to identify the error.

So it falls into maintenance of their OSSs, and that maintenance is part of the loading factors and all the OSSs that exist today that get lumped into recurring rates. So all I'm trying to do is to ensure that there is consistency between our recurring and nonrecurring studies, keep all of the -- you know, if you've got costs being recovered in recurring such as the current OSS systems, all the maintenance of those OSSs are already thrown into recurring rates.

Because I've identified a problem through an LSR, a local service request, going over to Bell, because that identified the problem, BellSouth wants to charge me again even though the recurring rates they are receiving

have some accountability for the maintenance and upkeep of those systems in the first place. So it's almost like a double whammy. I'm just trying to keep the processes in synch, keep them together relative to both recurring and nonrecurring rate development.

CHAIRMAN DEASON: Well, where is the incentive for you to make sure that your orders are as accurate as they can be?

THE WITNESS: Well, if they send me back an order, I potentially jeopardized meeting customer due date. I cannot afford to -- I mean, and I think even BellSouth will acknowledge, customers want service now, and it's very important that orders are placed properly the first time, that you've done all the proper service inquiries to get the right information about that customer to get that populated properly on that order so it does not have to have fallout.

And, you know, a lot of these NRCs, if you start looking at some of these work times that are included in there -- you know, if a CLEC were to order ten facilities, it may take BellSouth a year if you just look at the work times. So, I mean, there has to be some sanity check in there as well from that perspective.

BY MR. LAMOUREUX:

Q Let me ask a follow-up question to that. If a

CLEC or an ALEC submits an order to BellSouth that has an error on it and that error is returned to the ALEC, does the ALEC incur cost in trying to fix the error on that order?

A Yes. That same service rep that sent the error the first time now has to fix it again, which is a cost of doing business that AT&T would incur to do the same work twice.

Q Would you believe that trying to minimize that on internal cost is an incentive or a signal in trying to get error-free orders?

A Sure.

Q In response to Mr. Ross, you said with respect to ordering fallout that BellSouth's systems cannot return all orders that have an error on them as of today. When you say, "cannot," do you mean they are not capable of doing that, or that they have not deployed systems that are able to do that?

A I'd probably lean more towards the latter in that, you know, capabilities are out there. It's just a function of implementing them or deploying them or making it happen.

MR. LAMOUREUX: That's all I have.

CHAIRMAN DEASON: Okay. Exhibits.

COMMISSIONER JABER: Chairman, can I follow up

on --

CHAIRMAN DEASON: Yes, sure.

COMMISSIONER JABER: In response to Chairman Deason's question, did I understand you correctly to say that sometimes BellSouth in lieu of returning them will fix the error and accept the order?

THE WITNESS: Well, that is how their process is set up today, except there are -- I mean, on those where they have the electronic capability in place where they have, you know, deployed it, those do get kicked back.

COMMISSIONER JABER: All right. So whether BellSouth incurs a cost in fixing that error and then passes the cost on to you, or whether you have to incur the cost of fixing it when BellSouth kicks it back to you, what's the difference?

THE WITNESS: Well, the difference is, is that there shouldn't be any errors at all, and there should not be any errors that entail manual intervention. And to the extent that manual intervention does occur, I would rather have control over my own people than to just blanketly paying BellSouth, I guess would be the way I would phrase that.

I mean, I can control the work activities and work functions of my own work centers. That does not necessarily -- you know, once you've made a decision and

allowed BellSouth's LCSC to have cost recovery and you allow them to keep their 20 percent or 30 percent or whatever fallout you decide, or I think generally they use 20 percent in their cost study, you have essentially said that any going-forward efficiencies really don't matter because Bell's already got a compensation mechanism in place.

COMMISSIONER JABER: Compensation mechanism in place, what do you mean by that?

THE WITNESS: Because that cost -- all of those costs associated with that work center are included in their cost study, and so it is part of what's driving their rate proposal today.

COMMISSIONER JABER: Okay. So what you're -- then that would be true even if they kicked the order back and let you fix any error that was a CLEC error?

THE WITNESS: It would be true that I still have to pay my own people to fix it; correct. My goal is to limit my expenses to interconnect.

MR. LAMOUREUX: May I ask a follow-up question?

CHAIRMAN DEASON: Yes.

FURTHER REDIRECT EXAMINATION

BY MR. LAMOUREUX:

Q If the cost of fallout is paid through a nonrecurring charge to BellSouth that assumes a certain

percentage of fallout, does that provide any incentive to BellSouth to reduce that fallout percentage?

A No.

Q If the cost of fallout is borne by the CLEC because the errors are sent back to the CLEC for fixing, does that provide an incentive to the CLEC to reduce the fallout?

A I think as we mentioned earlier, the fact that our own service representative is now having to spend additional time on the same order, it takes them away from another order that they could be potentially looking at, and that all equates to new customers or revenue, so, yes, I think the incentive is there.

COMMISSIONER JACOBS: How do you respond to the argument, that I can't remember who made it, that there is a point beyond which you're incurring too high an expense to achieve a level of accuracy? That, in other words, it is cost effective to have some manner of fallout.

THE WITNESS: To this systems -- to pay to have systems in place versus to pay to have people in place?

COMMISSIONER JACOBS: Yeah.

THE WITNESS: Boy, I mean, this being a communications-type industry, there's -- other than that initial contact with a customer, there is really not a whole lot that does not have some form of electronic or

mechanized capability within our work.

CHAIRMAN DEASON: Further redirect.

MR. LAMOUREUX: No. But I would move for admission of Exhibits 135 and 136.

CHAIRMAN DEASON: 135 and 136, without objection shall be admitted.

(Exhibits 135 and 136 admitted into the record.)

MR. ROSS: BellSouth moves 137 and 138 into the record.

CHAIRMAN DEASON: Without objection, Exhibits 137 and 138 are admitted.

(Exhibits 137 and 138 admitted into the record.)

CHAIRMAN DEASON: Thank you, Mr. King. You may be excused.

(Witness excused.)

CHAIRMAN DEASON: The next witness is sponsored by Z-Tel, Mr. McGlothlin.

MR. McGLOTHLIN: Yes. On behalf of Z-Tel and pursuant to the stipulation of parties, I request that Dr. George Ford's testimony be inserted at this point.

CHAIRMAN DEASON: Without objection, it shall be so inserted.

MR. McGLOTHLIN: He has no exhibits.

CHAIRMAN DEASON: Very well.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

GEORGE S. FORD

ON BEHALF OF

Z-TEL COMMUNICATIONS, INCORPORATED

DOCKET NO. 990649-TP

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is George S. Ford. I am the Chief Economist for Z-Tel Communications, Incorporated ("Z-Tel"). My business address is 601 South Harbour Island Boulevard, Suite 220, Tampa, Florida 33602.

Q. BRIEFLY DESCRIBE YOUR EDUCATION EDUCATIONAL BACKGROUND AND RELATED PROFESSIONAL EXPERIENCE.

A. I received a Ph.D. in Economics from Auburn University in 1994. My graduate work focused on the economics of industrial organization and regulation with course work emphasizing applied price theory and statistics. After graduate school I spend two years at the Federal Communications Commission in the Competition Division of the Office of the General Counsel. The Competition Division of the FCC was tasked with ensuring that FCC policies were consistent with the goals of promoting competition and deregulation across the communications industries. I left the FCC to become a Senior Economist in the Law and

Public Policy group at MCI Worldcom where I was employed for three years. MCI Worldcom's Law and Public Policy group is responsible for developing MCI Worldcom's public policy positions for both federal and state regulatory proceedings. While at MCI Worldcom, I filed declarations and economic studies on a variety of topics with both federal and state regulatory agencies. In addition to my professional experience, I am an Affiliated Scholar with the Auburn Policy Research Center at Auburn University in Alabama. Through this professional relationship, I have maintained an active research agenda on communications issues and have published research papers in a number of academic journals *Journal of Law and Economics*, the *Journal of Regulatory Economics*, the *Review of Industrial Organization*, among others. I regularly speak at conferences, both at home and abroad, on the economics of telecommunications markets and regulation.

Q. COULD YOU DESCRIBE Z-TEL'S SERVICE OFFERINGS?

A. Z-Tel is a Tampa-based, integrated service provider that presently provides competitive local, long distance, and enhanced services to residential consumers in New York, Pennsylvania, Massachusetts, and Texas, with plans to expand nationally as the unbundled network element platform ("UNE-P") becomes available at reasonable rates. At present, Z-Tel serves nearly 200,000 *residential* customers ("Z-Tel Increases Subscribers by 97% During the Second Quarter to Reach a Total of 170,000," Company Press Release, Monday July 10).

Z-Tel's service is not just a simple bundle of traditional telecommunications services, but is unique in that is combines its local and long distance telecommunications services with Web-based software that enables each Z-Tel subscriber to organize his or her communications, including email, voicemail, fax, and even a Personal Digital Assistant ("PDA"), by accessing a personalized web-page via the Internet. In addition, the personal Z-Line number can be programmed to follow the customer anywhere he or she goes via the "Find Me" feature. Other service features include low long distance rates from home or on-the-road and message notification by phone, email, or pager. Customers can also initiate telephone calls (including conference calls in the near future) over the traditional phone network, using speed-dial numbers from their address book on their personalized web page.

Q. WHAT INTEREST DOES Z-TEL COMMUNICATIONS HAVE IN THIS PROCEEDING?

A. The Z-Tel service bundles many different communications services – voicemail, email, fax, Internet, PDAs, local and long distance telecommunications – into an easy-to-use communications control center. One element of that bundle is local exchange telecommunications service. To provide the local exchange portion of its service offering, Z-Tel must purchase unbundled network elements from incumbent local exchange carriers. At present, the primary means of local exchange service provision is UNE-P. Because Z-Tel is dependent upon the local exchange carrier's UNEs to provide service at this time, Z-Tel's interest in this and related proceedings where the cost of UNEs will be determined is apparent. The recurring and non-recurring costs for UNEs are a substantial percentage of Z-

Tel's costs. Further, Z-Tel is based in Tampa, Florida. Consequently, Z-Tel has a sincere interest in offering its services to residential consumers in the State of Florida.

Q. WHAT ELEMENTS OF THIS PROCEEDING ARE IMPORTANT TO A ALEC'S ABILITY TO OFFER SERVICE IN THE STATE OF FLORIDA?

A. A ALEC's decision to offer service in Florida's local exchange market – or any other market for that matter - depends critically on the expected relationship between the revenues and costs. Revenues must be sufficiently large to cover all expenses including the cost of UNEs and the ALEC's own internal cost. The cost of UNEs can be a substantial share of per-customer cost and this is particularly true for a ALEC offering competitive service to the residential market with UNE-P.

Q. WILL THE RATES DETERMINED IN THIS PROCEEDING EFFECT THE PROSPECTS FOR COMPETITION IN THE STATE OF FLORIDA?

A. Absolutely. The prospect for competition is inversely related to the prices for UNEs – the higher the rates, the less likely competition will develop. Inflated non-recurring charges (NRCs), in particular, are potent entry barriers. In setting the rates for UNEs, the FLPSC will determine whether or not the residents of Florida will reap the full benefits of a competitive local exchange telecommunications market. In fact, because all three of Florida's ILECs (BellSouth, GTE, and Sprint) have proposed their own rates, and these rates differ substantially, the FLPSC will determine *which* Floridians reap the benefits of a competitive local exchange market. It is possible that the benefits of competition will be restricted to

regions served by particular carriers whose UNE rates are reasonable while the monopoly status-quo remains in other regions where UNE rates are in excess of cost.

Q. HAVE YOU REVIEWED THE UNE COST MODELS SUBMITTED IN THIS PROCEEDING BY BELLSOUTH?

A. Yes. I have reviewed the testimony related to and the manuals of the cost models submitted on behalf of BellSouth – Florida ("BS-FL").

Q. AS AN ECONOMIST, WHAT IS YOUR VIEW OF THE BS-FL MODELS?

A. With a few relatively minor changes -- some of which are described in my testimony and other in the testimony sponsored by other ALECs -- I believe the BS-FL cost model can produce reasonable estimates of UNE costs. UNE rates that incorporate these and other recommended changes may make it possible for the citizens of Florida, at least those located in BS service areas, to begin experiencing the benefits of competition in the local exchange market. These benefits are already accruing to residential consumers in New York as discussed in the testimony of Mr. Gillan.

Q. GIVEN THE 8TH CIRCUIT DECISION, DO YOU BELIEVE ALTERATIONS TO THE COST MODELS ARE REQUIRED?

A. I have reviewed the decision of the 8th Circuit. However, I am not prepared to make any firm recommendations as to its interpretation at this point. The testimony of Mr. Gillan does consider the impact of the Court's decision and, in general, I concur with his analysis.

However, I am not prepared at this time to recommend specific changes to the models to bring them into compliance with the decision. Even if the models need to be changed in the future to become more compatible with the 8th Circuit's decision, there is no reason to put off the prospect for competition in Florida during the interim period by delaying this proceeding.

Q. WILL YOU PLEASE SUMMARIZE YOUR RECOMMENDED CHANGES?

A. Yes. First, some of the changes I recommend were covered in Phase 1 of this proceeding. In particular, Phase 1 included testimony related to the cost of capital and depreciation lives. Both of these inputs have a meaningful effect on UNE rates, so I encourage the Commission to carefully consider the testimony filed on these issues in Phase I. Generally, I support the testimony and conclusions reached by John Hirshliefer regarding the cost of capital and Michael Majoros regarding depreciation. The cost of capital, in particular, has a substantial effect on UNE rates and, therefore, a substantial effect on the prospect for competition. Because those issues have been covered in detail earlier in this proceeding, my current testimony does not address either the cost of capital or depreciation.

Q. WHAT RECOMMENDATIONS ARE COVERED IN YOUR TESTIMONY?

A. I believe the BS-FL model uses the inappropriate discounts to estimate switching investments. Specifically, I believe the computation of the "replacement" discount is flawed.

Q. WHAT DISCOUNTS DOES BS-FL APPLY TO SWITCH INVESTMENTS?

A. According to the testimony of Joseph Page, switch vendors offer a bi-furcated discount structure in which the purchase of a new switch is subject to a larger discount (the "replacement" discount) than the purchase of an upgrade to an existing switch (i.e., the "growth" discount). For growth discounts, the BS-FL model uses those discounts "[s]tated in BellSouth's contracts with the switch vendors (Page Testimony, p. 23)." However, for replacement discounts, BS-FL does not use contracted discounts but computes discounts based on a comparison of historical contract prices to the current (non-discounted) output of SCIS/MO. No reason is given why the contracted "replacement" discounts are not employed.

Q. DOES THIS APPROACH TO CALCULATING DISCOUNTS UNDERSTATE THE DISCOUNT?

A. Possibly, yes. From the testimony of Joseph Page (p. 23), it appears as if the "replacement" discount is computed using the following formula:

$$d = 1 - P_h/P_c$$

where d is the discount, P_h is the historical price paid for replacement offices, and P_C is the current (non-discounted) price estimated by SCIS/MO. For example, if the historical price is $1M and SCIS/MO estimates the price as $2M, then the discount is 50%.

In a world of declining switch prices (as described in Mr. Page's Testimony, p. 10), BS-FL's computation of the replacement discount potentially is understated. To illustrate, assume the

historical, undiscounted price was the switch investment was $3M. At this price, the discount received at the time of purchase was 66% (= 1 - $1M/$3M) not the 50% calculated in the numerical example above. Thus, using the BS-FL approach to calculate the replacement discount, rather than using contract discounts as in the case of growth discounts, may deflate the replacement discount and raise switching costs. Switching cost are an important cost element of UNE-P, so inflated switching costs may impede competition.

Q. WERE YOU ABLE TO MEASURE THE IMPACT OF THE BS-FL COMPUTATION ON THE REPLACEMENT DISCOUNT?

A. No. It is unclear what effect this approach actually has on the discount, since the specifics regarding the calculations were not provided in Mr. Page's testimony. Nor have I personally reviewed any switch contracts between BS-FL and its switch vendors.

Q. WHAT DO YOU RECOMMEND?

A. If possible, the "replacement" and "growth" discounts should both equal the stated discounts in BellSouth's contracts. I see no reason (other than to reduce the discount) why the replacement discount should be treated differently than the "growth" discount. If there is a valid reason the "replacement" discounts cannot be obtained directly from contracts, then the historical contract prices and the non-discount prices from SCIS/MO must be from the same time period to avoid discount deflation. If prices change frequently, the time periods chosen for price comparisons are most relevant.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.

CHAIRMAN DEASON: BellSouth, has extensive is your cross-examination for Witness Murray?

MR. ROSS: Mr. Chairman, I don't have that many questions. I would like to think we can get concluded with my cross-examination in 30 minutes, depending on the answers.

CHAIRMAN DEASON: Thirty minutes. We're going to keep rolling then. On second thought, we're going to take a ten-minute recess.

(Brief recess.)

(Transcript continues in sequence in Volume 16.)

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

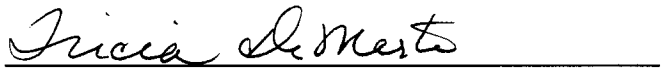
COUNTY OF LEON)

I, TRICIA DeMARTE, Official FPSC Commission Reporter, do hereby certify that the Hearing in Docket No. 990649-TP was heard by the Florida Public Service Commission at the time and place herein stated.

It is further certified that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript, consisting of 196 pages, Volume 15 constitutes a true transcription of my notes of said proceedings and the insertion of the prescribed prefiled testimony of the witness(s).

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 25th day of September, 2000.



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