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**BELLSOUTH TELECOMMUNICATIONS, INC.**  
**REBUTTAL TESTIMONY OF W. BERNARD SHELL**  
**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**  
**DOCKET NO. 001797 - TP**  
**MAY 23, 2001**

**Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

A. My name is W. Bernard Shell. My business address is 675 W. Peachtree St., N.E., Atlanta, Georgia. I am a Manager in the Finance Department of BellSouth Telecommunications, Inc. (hereinafter referred to as "BellSouth"). My area of responsibility relates to the development of economic costs.

**Q. ARE YOU THE SAME W. BERNARD SHELL THAT FILED DIRECT TESTIMONY IN THIS DOCKET?**

A. Yes. I filed direct testimony on April 23, 2001.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. The purpose of my testimony is to respond to certain statements made by Covad witnesses Ms. Elizabeth Kientzle and Mr. Joseph Riolo with respect to the development of Line Sharing costs.

**Q. ON PAGE 4, THE COVAD WITNESSES STATE THAT PRICES "MUST**

1 **MEET THE CRITERIA ESTABLISHED IN THE**  
2 **TELECOMMUNICATIONS ACT OF 1996 (“ACT”), THAT PRICES FOR**  
3 **UNBUNDLED NETWORK ELEMENTS BE COST-BASED AND**  
4 **NONDISCRIMINATORY.” (LINES 15-17) DOES BELLSOUTH’S LINE**  
5 **SHARING COST STUDY COMPLY WITH THE FEDERAL**  
6 **COMMUNICATIONS COMMISSION’S (“FCC’S”) DIRECTIVES WITH**  
7 **RESPECT TO COST METHODOLOGY?**

8

9 A. Yes. The FCC outlines its cost methodology in Rule 51.505 in its First Report and  
10 Order. Rule 51.505(a) states that “[t]he forward-looking economic cost of an  
11 element equals the sum of : (1) the total element long-run incremental cost of the  
12 element, as described in paragraph (b); and (2) [a] reasonable allocation of  
13 forward-looking common costs, as described in paragraph (c).”

14

15 Rule 51.505(b) states: “[t]he total element long run incremental cost of an element  
16 is the forward-looking cost over the long run of the total quantity of the facilities  
17 and functions that are directly attributable to, or reasonably identifiable as  
18 incremental to, such element, calculated taking as a given the incumbent LEC’s  
19 provision of other elements.”

20

21 Rule 51.505(b)(1) states: “[t]he total element long-run incremental cost of an  
22 element should be measured based on the use of the most efficient  
23 telecommunications technology currently available and the lowest cost network  
24 technology currently available and the lowest cost network configuration, given the  
25 existing location of the incumbent LEC’s wire centers.”

1

2 These rules can be summarized into the following cost methodology principles:

3

4 (1) **Efficient network configuration** – the cost should be based on the use of

5 the most current telecommunications technology presently available and the

6 economically efficient configuration, given the existing wire center locations.

7 (2) **Long run** – the study should consider a timeframe long enough to reflect

8 the variability of the cost components.

9 (3) **Volume sensitive and volume insensitive costs are considered** – these

10 are the costs that will be avoided by discontinuing, or incurred by offering, an

11 entire product or service, holding all other products or services offered by the

12 firm constant. A corollary to this directive is the principle of cost causation,

13 i.e., the costs included in the study are those that are caused because BellSouth

14 offers an unbundled element.

15 (4) **Forward-looking** – a forward-looking perspective is required.

16 (5) **Shared and common costs are considered.**

17

18 BellSouth’s Line Sharing cost study adheres to these principles. Thus, the cost-

19 based rates proposed by BellSouth will “recover their forward-looking economic

20 costs, but no more” as Ms. Kientzle and Mr. Riolo require on page 5. (Line 2)

21

22 **Q. ON PAGE 7, MS. KIENTZLE AND MR. RIOLO CONTEND THAT**

23 **“PRICES CONSISTENT WITH THESE PRINCIPLES WOULD ASSUME**

24 **EFFICIENT COSTS BASED ON THE PLACEMENT OF THE SPLITTER**

25 **ON THE MAIN DISTRIBUTION FRAME (“MDF”). (LINES 11-13)**

1       **PLEASE COMMENT.**

2

3    A. The issue of “most efficient” technologies is a continual area of controversy. In  
4       fact, the Eighth Circuit recently ruled that certain portions of FCC Rule 51.505 are  
5       vacated. Of course, this entire issue is now teed-up to be decided by the Supreme  
6       Court later this year. However, the debate still remains and thus, I will briefly  
7       discuss its implications.

8

9       In vacating Rule 51.505(b)(1), the Eighth Circuit eliminated the requirements for  
10       the Total Element Long Run Incremental Cost (“TELRIC”) portion of cost  
11       development, as described in Rule 51.505(a) above, to be based on the FCC’s  
12       efficient network configuration standard. The Eighth Circuit held that the FCC’s  
13       hypothetical network TELRIC standard “violates the plain meaning of the Act,”  
14       finding that the Act requires that rates be based on:

15

16               the cost ... of providing the interconnection or network  
17               element ... not the cost some imaginary carrier would incur  
18               by providing the newest, most efficient, and least cost  
19               substitute for the actual item or element which will be  
20               furnished by the existing ILEC pursuant to Congress’s  
21               mandate for sharing. Congress was dealing with reality, not  
22               fantasizing about what might be.

20

21       Because the Eighth Circuit eliminated the most efficient, least-cost network  
22       requirement, the remaining FCC rules require costs to reflect the total long run  
23       forward-looking cost of facilities actually used to provide an unbundled network  
24       element (“UNE”). Consequently, if the Eighth Circuit’s Ruling holds, the costs  
25       BellSouth filed are below the level that the Eighth Circuit believes are appropriate

1 and changes to the underlying methodology will need to be made. As I stated,  
2 however, the full impact of that decision will not be known until the appeal process  
3 is concluded. Thus, BellSouth has not attempted to adjust its cost methodology to  
4 incorporate anticipated changes from the Eighth Circuit Court's Ruling in this  
5 filing, nor is it advocating a change to cost methodology at this time.

6

7 The Line Sharing cost study does, in fact, reflect an efficient configuration that is  
8 consistent with the manner in which BellSouth provisions the UNE. Also, as  
9 BellSouth witness Mr. Tommy Williams explains, placing the splitter on the MDF  
10 is not the most efficient configuration.

11

12 **Q. PLEASE DESCRIBE THE NETWORK CONFIGURATION FOR LINE**  
13 **SHARING THAT WAS ASSUMED IN THE COST STUDY FILED WITH**  
14 **YOUR DIRECT TESTIMONY.**

15

16 A. The cost study reflects two options; either a BellSouth-owned splitter or an ALEC-  
17 owned splitter. If the ALEC chooses the BellSouth-owned splitter arrangement,  
18 then the splitter is assumed to be located on a frame (relay rack) which is on the  
19 average 75 feet from the MDF. If the other option is chosen, then it is assumed the  
20 splitter will be located in the ALEC's collocation space. Exhibit WBS-2 depicts  
21 the network configurations that support BellSouth's cost study. Ms. Kientzle and  
22 Mr. Riolo also advocate a third option, allowing the ALEC to place its splitter on  
23 BellSouth's MDF. BellSouth witness Mr. Williams discusses why BellSouth is  
24 not obligated to allow such an arrangement.

25

1 Q. ON PAGE 13, MS. KIENZLE AND MR. RIOLO CONTEND THAT  
2 “BELLSOUTH’S CHOICES ABOUT EFFICIENT PLACEMENT OF THE  
3 SPLITTER CAN DRAMATICALLY INCREASE THE COST OF LINE  
4 SHARING THROUGH CABLE COSTS, CABLE PLACEMENT  
5 EXPENSES, LOADING FACTORS, CROSS CONNECTIONS, AND  
6 RELATED CHARGES.” (LINES 2-4) PLEASE COMMENT.

7

8 A. As I have already stated, the configuration reflected by BellSouth’s cost study is an  
9 efficient arrangement. Let me, however, address each of the areas listed by the  
10 Covad witnesses.

11

12 • Cable Costs – BellSouth’s vendor charges the same rate for cables from 1 to  
13 150 feet, thus, the distance from the splitter to the MDF does not effect the cost  
14 results. Additionally, the ALEC is not charged a “per foot” rate thus from a  
15 cost development perspective this concern is moot.

16 • Cable Placement Expenses – these expenses are directly related to the cable  
17 investment and since BellSouth is charged the same whether the distance is one  
18 foot or 150 feet, these expenses do not vary with the distance from the MDF.

19

20 • Loading Factors – these factors are applied against the investment. The cost  
21 study reflects the equipment, which enables ALECs to line share based on  
22 BellSouth’s provisioning practices. Thus, the costs generated by applying the  
23 loading factors to the investment accurately reflect the costs BellSouth incurs  
24 in provisioning these UNEs.

25 • Cross Connects – BellSouth proposes that the cost-based rates for cross

1 connects contained in costs study submitted by BellSouth in this docket for  
2 Physical Collocation be charged in Line Sharing. In fact, this is exactly the  
3 proposal endorsed by the Covad witnesses on pages 23-24.

4  
5 However, Ms. Kientzle and Mr. Riolo appear to expand the FCC's quote, found on  
6 pages 23-24 of their testimony, regarding the cost of cross connects to an  
7 endorsement of MDF-mounted splitters. I would caution this Commission against  
8 such a broad interpretation of the quote. In the discussion being referred to, the  
9 FCC is presenting two alternative Line Sharing arrangements, either splitter  
10 placement other than at the MDF or MDF-mounted splitter. The FCC does not  
11 state that one arrangement is more suitable than the other. The FCC does state that  
12 the cost of the cross connects in both arrangements should be close.

13  
14  
15 **Q. ON PAGE 20, MS. KIENZLE AND MR. RIOLO STATE THAT THE**  
16 **PRICE OF THE HIGH-BANDWIDTH PORTION OF THE LOOP SHOULD**  
17 **BE SET TO \$0. HOW DOES THIS PROPOSAL CORRESPOND TO**  
18 **BELLSOUTH'S COST STUDY?**

19  
20 A. BellSouth's cost study for Line Sharing does not include any allocation of loop  
21 costs. Thus, it is consistent with the FCC's directive on this issue and is also  
22 consistent with Ms. Kientzle and Mr. Riolo's proposal. However, genuine  
23 incremental costs of provisioning the high-bandwidth portion of the loop (beyond  
24 the costs of the loop itself) should, of course, be considered in the cost analysis.  
25 For example, the cost of providing the splitter system, provisioning costs, and

1 enhancements to computer systems need to be recognized. BellSouth has  
2 identified these incremental costs in the studies filed in this docket in support of  
3 the Line Sharing elements.

4

5 **Q. THE COVAD WITNESSES CLAIM THAT “THERE ARE NO**  
6 **NONRECURRING CHARGES ASSOCIATED WITH” A BELLSOUTH-**  
7 **OWNED SPLITTER ARRANGEMENT. (PAGE 25, LINES 13-14) ARE**  
8 **THEY CORRECT?**

9

10 A. No. The costs included in the nonrecurring calculations reflect activities that occur  
11 once BellSouth receives a firm order from the ALEC for the splitter. For example,  
12 the splitter equipment and cable/pair information must be inventoried. Also, these  
13 nonrecurring costs are incremental to any of the labor costs included in the  
14 recurring cost development. The costs associated with installing the splitter are  
15 reflected in the recurring cost calculation via the in-plant loadings.

16

17 **Q. MS. KIENZLE AND MR. RIOLO’S ATTACHMENT ERYK/JPR-4**  
18 **“RECALCULATES” LINE SHARING SPLITTER COSTS. ARE THEIR**  
19 **CALCULATIONS APPROPRIATE?**

20

21 A. Absolutely not. The Covad “cost study” suffers from the following maladies:

22 1) It does not accurately reflect the costs BellSouth will incur in providing Line  
23 Sharing arrangements.

24 2) The analysis relies on input from another company (Bell Atlantic – NY) and  
25 thus, has no bearing on the costs of BellSouth’s operations in Florida.



- 1 3) Legitimate costs are ignored, e.g., ad valorem and other taxes, shared costs,  
2 sales tax, and gross receipts tax.
- 3 4) Required equipment and support investments have been excluded, as explained  
4 more fully below.
- 5 5) Nonrecurring time estimates do not reflect the activities that are required to  
6 provision Line Sharing.

7

8 **Q. PLEASE EXPAND ON EACH OF THE DEFICIENCIES IN THE LINE**  
9 **SHARING COST ANALYSIS PRESENTED BY COVAD.**

10

11 A. First, BellSouth is deploying splitters in the central office on either a 96-Line or  
12 24-Line basis, not on a per line basis as is assumed by Covad. BellSouth witness,  
13 Mr. Williams, discusses BellSouth's proposed offering in greater detail in his  
14 testimony.

15

16 Second, because Ms. Kientzle and Mr. Riolo rely on data from another company,  
17 the results cannot, and do not, reflect the costs BellSouth will incur in providing  
18 Line Sharing. The FCC's TELRIC methodology specifically states that costs  
19 should reflect "the incremental costs incumbents actually expect to incur." (FCC  
20 First Report and Order ¶685) The recent decision from the Eighth Circuit Court  
21 reinforced this principle, that the only relevant cost is the incremental cost that the  
22 incumbent provider will incur.

23

24 Third, BellSouth must pay taxes on the goods and services that either it provides or  
25 that it purchases. These are direct costs to BellSouth that must be recognized in

1 any legitimate cost study, a fact supported by this Commission in past proceedings.  
2 Additionally, it appears that Ms. Kientzle and Mr. Riolo did not understand the  
3 common cost factor in Docket No. 990649-TP. I agree that the staff has proposed  
4 a 6.24% factor, however, this is just the common cost factor, not the Shared and  
5 Common Cost Factor as labeled on page 2 of the Covad "study." Thus the Covad  
6 analysis does not reflect any consideration of shared costs at all. This Commission  
7 has previously allowed BellSouth's shared costs associated with the development  
8 of recurring costs. These witnesses offer no evidence why the Commission should  
9 change that decision now.

10

11 Fourth, in their zeal to lower the cost, Ms. Kientzle and Mr. Riolo have ignored  
12 required equipment and supporting investments in its calculation. BellSouth's cost  
13 study appropriately includes the cost of a Test Access Bay. This arrangement  
14 enables the ALEC to test the line sharing arrangement. (BellSouth witness Mr.  
15 Williams explains in further detail the testing arrangement BellSouth provides with  
16 Line Sharing.) Ms. Kientzle and Mr. Riolo also failed to include the cost of the  
17 cable from the splitter bay to the MDF. Also, even though the cost of a splitter  
18 shelf was included (Exhibit ERYK/JPR-4, page 2, line 10), it doesn't appear as if  
19 the cost of the splitter bay has been considered. (This is another reason why  
20 extracting numbers from another company's cost study is inappropriate; without  
21 the supporting work papers one cannot determine exactly what the costs reflect.)  
22 By attempting to use work times to bring a material price to an installed investment  
23 (Exhibit ERYK/JPR-4, page 2, line 4), both the exempt material and engineering  
24 labor that is required have been ignored.

25

1 Fifth, the work time estimates proposed do not reflect the manner in which  
2 BellSouth provisions Line Sharing.

3

4 **Q. HOW DOES BELLSOUTH'S COST OF THE SPLITTER ITSELF**  
5 **COMPARE WITH THE VALUE MS. KIENTZLE AND MR. RIOLO USED**  
6 **FROM BELL ATLANTIC – NY?**

7

8 A. If the splitter value included in Ms. Kientzle and Mr. Riolo's "cost study" (Exhibit  
9 ERYK/JPR-4, page 2, line 1) is multiplied by 96 the result corresponds closely to  
10 the input used by BellSouth. Exhibit WBS-3 displays the breakdown of  
11 BellSouth's Splitter System investments between the splitter, test access shelf, bay  
12 shelf, and connectorized cable. Thus, the splitter cost is not the reason for the  
13 difference in recurring costs between what BellSouth proposed and what Ms.  
14 Kientzle and Mr. Riolo derived. Instead, the difference is due to the deficiencies I  
15 have discussed previously.

16

17 **Q. MS. KIENTZLE AND MR. RIOLO CONTEND THAT BELLSOUTH**  
18 **INTENDS TO CHARGE ALECS FOR THE SPLITTER IN AN ALEC-**  
19 **OWNED ARRANGEMENT. (PAGE 17) IS THIS TRUE?**

20

21 A. No. As shown in the cost results, the only charge associated with an ALEC-owned  
22 splitter is a nonrecurring charge. Thus, no cost has been calculated that would  
23 result in a charge for the splitter, itself, since this would be reflected as a recurring  
24 charge.

25

1 **Q. ON PAGE 22, MS. KIENTZLE AND MR. RIOLO “RECOMMEND THAT**  
2 **THE INPUT VALUES USED TO CALCULATE LINE-SHARING PRICES,**  
3 **INCLUDING THE COMMON COST MARKUP, BE CONFORMED TO**  
4 **THE FINAL COMMISSION-ADOPTED VALUES IN DOCKET NO. 99-**  
5 **649-TP.” (LINES 16-18) DO YOU AGREE?**

6

7 A. For the most part, yes. Specifically, I agree that certain inputs impact all UNEs –  
8 cost of capital, depreciation, shared factors, and common cost factors. However,  
9 there are inputs that are very specific to the UNE being studied. In particular, the  
10 work times and provisioning activities. The Commission and its staff have made  
11 an extensive review of the elements presented in Docket No. 990649-TP. Line  
12 Sharing, however, was not one of them. Thus, it was not reviewed. (Collocation  
13 elements were also excluded from Docket No. 990649-TP and have been filed in  
14 this proceeding.) BellSouth requests the Commission to rule specifically on the  
15 Line Sharing and Collocation elements presented in this proceeding. Once a final  
16 Order in Docket No. 990649-TP is released, applicable changes will be  
17 incorporated.

18

19

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21

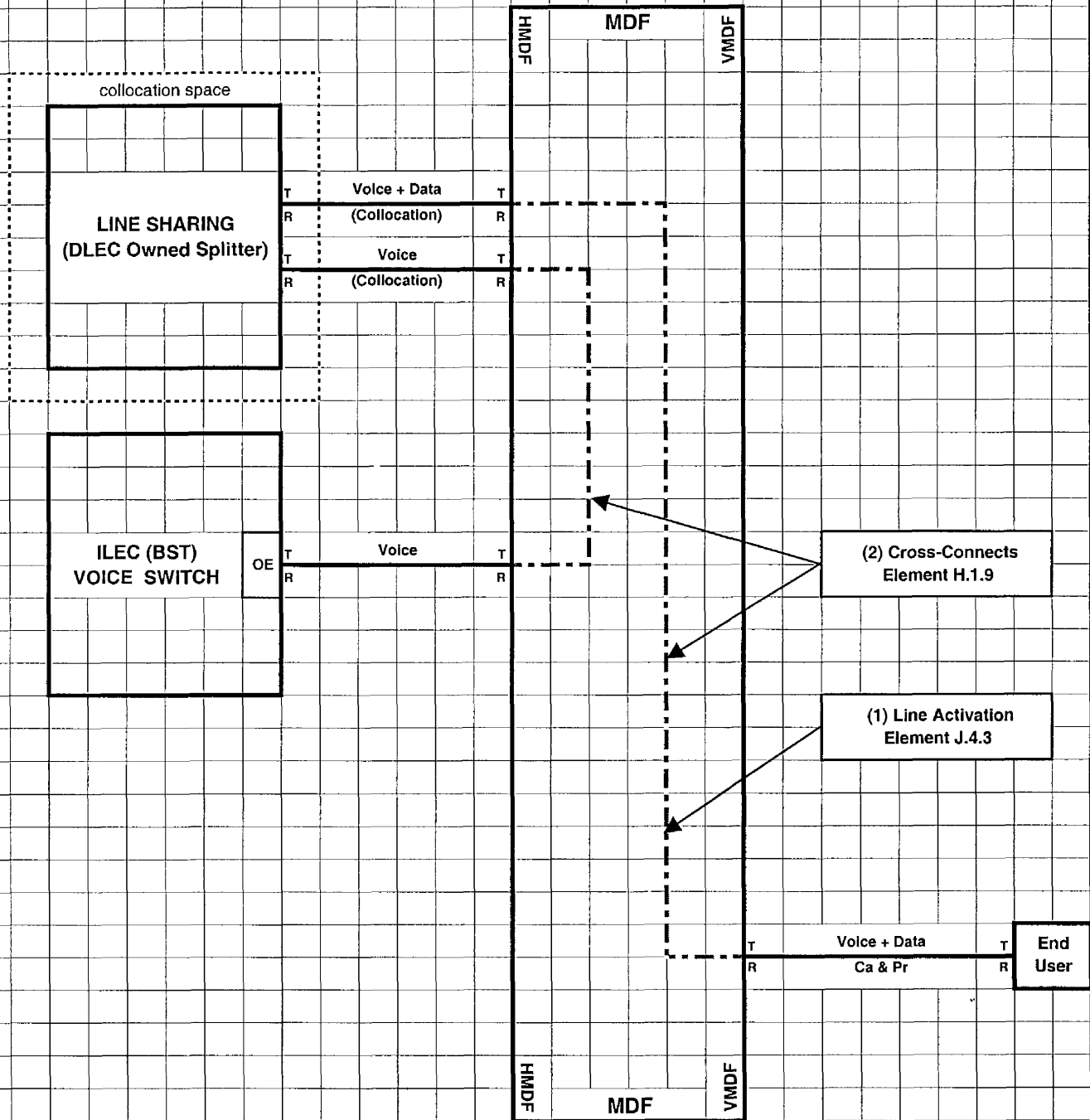
22 A. Yes.

23

24

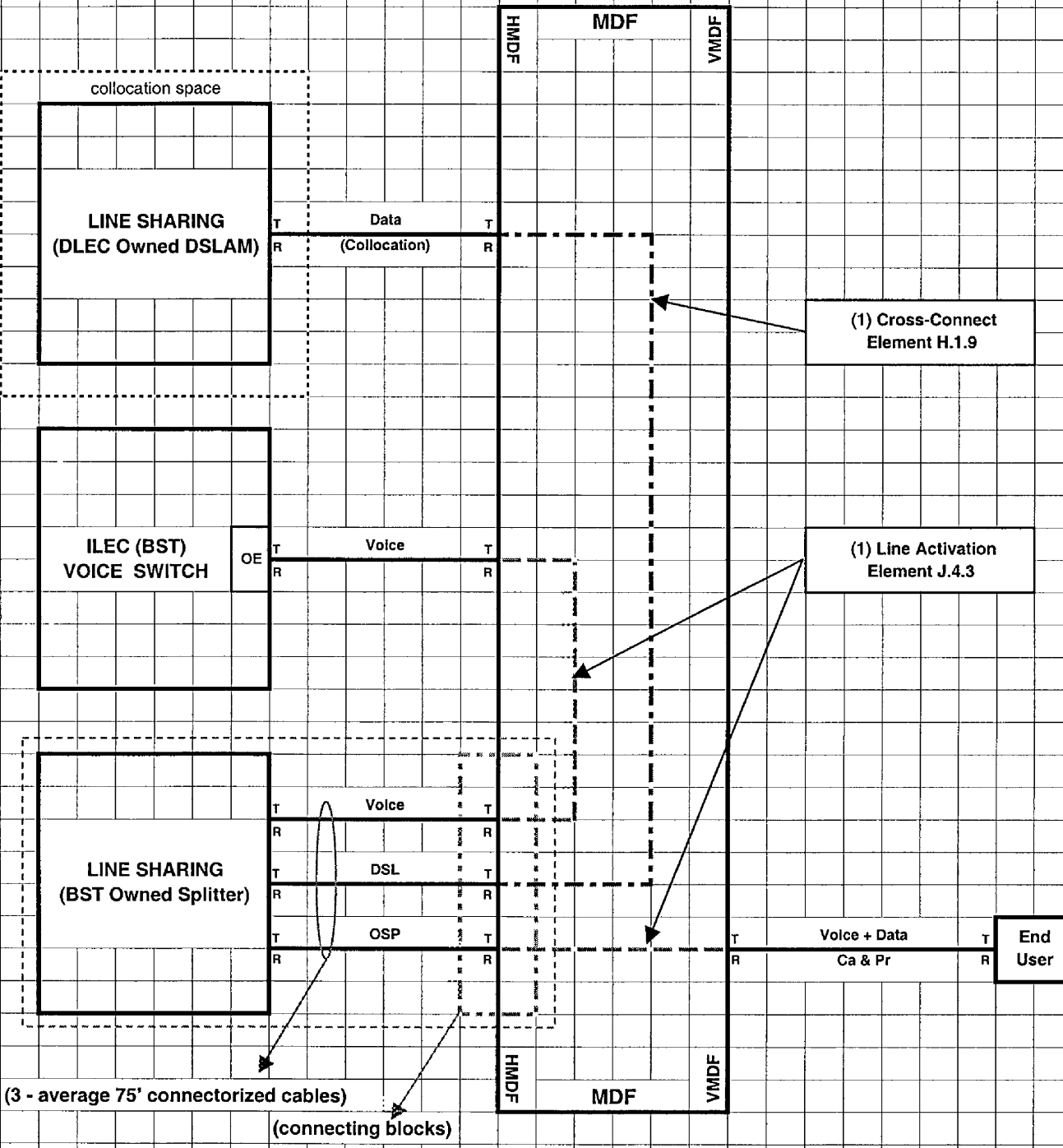
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# Line Sharing in the C.O. (DLEC Owned Splitter)



KEY	
T= Tip	HMDf= Horizontal MDF
R= Ring	VMDF= Vertical MDF
OE= Originating Equipment	MDF= Main Distributing Frame
Ca= Cable	Pr= Pair

# Line Sharing in the C.O. (BST Owned Splitter)



KEY	
T= Tip	HMDF= Horizontal MDF
R= Ring	VMDF= Vertical MDF
OE= Originating Equipment (LEN)	MDF= Main Distributing Frame
OSP= OutSide Plant	Ca= Cable
DSL= Digital Subscriber Line	Pr= Pair

	A	B	C	D	E
1	Alabama				
2	Development of Line Sharing Splitter Costs per Splitter System 96 Line Capacity in the Central Office				
3	Study Period: 2000 - 2002				
4					
5	Element #: J.4.1				
6	Item / Description				
7	Description	FRC	Sub FRC	Source	Amount
8	<b>Line Sharing Splitter (Shelf, Test Eqpt, Plug-Ins &amp; Cabling )</b>				
9					
10	Siecor Splitter				
11	Test Access Shelf				
12	Bay Shelf				
13	Connectorized Cable				
14	Material Price per System	257C	15	LN10+LN11+LN12+LN13	
15					
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REDACTED