

M E M O R A N D U M

MARCH 13, 2003

TO: DIVISION OF THE COMMISSION CLERK AND ADMINISTRATIVE SERVICES

FROM: OFFICE OF THE GENERAL COUNSEL (CHRISTENSEN) *AK*

RE: UNDOCKETED - UNE COSTING WORKSHOP

The following companies have submitted comments to be entered in this matter:

BellSouth Telecommunications, Inc.

Sprint-Florida, Inc.

AT&T Communications of the Southern States, LLC; TCG South Florida, Inc., MCI WorldCom Communications, Inc.; MCI WorldCom Network Services, Inc. and MCI metro Access Transmission Services, LLC

Verizon Florida, Inc.

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Attachment

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BellSouth Telecommunications, Inc.

Regulatory Relations

150 South Monroe Street

Suite 400

Tallahassee, FL 32301

nancy.sims@bellsouth.com

Nancy H. Sims

Director

850 222 1201

Fax 850 222 8640

February 28, 2003

Patricia A. Christensen
Florida Public Service Commission
Senior Attorney
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: UNE Costing Workshop Comments

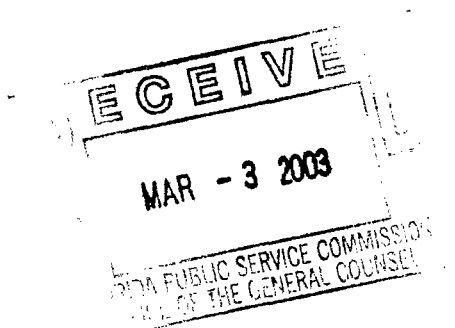
Dear Ms. Christensen:

Attached are BellSouth's comments to the framework and issues developed by the UNE costing Task Force. Please call me or MaryRose Sirianni at (850) 224-5244 if you have additional questions or concerns.

Yours truly,



Director – Regulatory Relations



Framework for Comments on Issues Pertaining to Standardization in UNE Costing

I Introduction that summarizes the party's position and states its understanding of the workshop's objectives.

It is BellSouth's understanding that the impetus for this workshop was the Commission's desire to enhance its ability to compare unbundled network element ("UNE") rates established for the different incumbent companies (BellSouth, Sprint, and Verizon) in Florida. It appears that the Commission desires a process that would allow it to easily understand and accurately explain the differences in the charges Alternative Local Exchange Carriers ("ALECs") pay when leasing network components from the incumbent providers and to potentially expedite the resolution of future generic cost proceedings and arbitration hearings.

However, the fact that there are legitimate differences in cost among the three incumbents cannot be circumvented. The companies have different geographic serving areas, different contractual restrictions and obligations, different provisioning practices, different deployment guidelines and network initiatives, different data sources, different financial risks, and different rate structures. Any attempt to "standardize away" these legitimate differences in cost is inappropriate and violates the Federal Communications Commission's ("FCC's") directive that UNE rates should reflect costs the incumbents "actually expect to incur in making network elements available to new entrants." *See* FCC First Report and Order, ¶685.

It is also BellSouth's understanding that the Commission did not mandate the outcome of this workshop, i.e., the Commission did not state that this workshop would result in a "one-size-fits-all" set of standards for models, methodology, inputs, and/or outputs. BellSouth does not support the standardization of models, not even if its own models are chosen. Instead, BellSouth will actively participate in this workshop to assist the Commission in achieving its goals by other means, i.e., to establish methods to accurately compare the incumbents' rates without mandating extreme, inflexible, and unmanageable rules.

II Discuss each of the possible workshop outcomes listed below.

A. Design and/or selection of a single model to be used by all parties to estimate the recurring and nonrecurring costs of UNEs in Florida.

(1) Identify the potential benefits of a single model, including a discussion of whether or not a single model will promote competition.

The 1996 Telecommunications Act ("Act") generally outlined the incumbent local exchange carriers' ("ILECs") unbundling obligations – "to provide, to any requesting telecommunications carrier for the provision of telecommunications service, nondiscriminatory access to network elements on an unbundled basis at any technical feasible point on rates, terms, and conditions that are just reasonable, and nondiscriminatory." *See* Act, §251(c)(3). It was the FCC's First Report and Order, however, that provided the details as to which network components must be offered on an unbundled basis (later updated by the FCC's UNE Remand Order) and defined the pricing standards that must be met in establishing rates for UNEs, i.e., Total Element Long Run Incremental Cost ("TELRIC") methodology. Ever since these orders were issued, BellSouth and the other incumbents in Florida have negotiated

interconnection agreements with the ALECs that comport with the FCC's rulings. These contracts defined the unbundled offerings and provided the foundation for the methods and procedures, operational support systems, billing processes, and performance measures associated with provisioning these unbundled elements. Even though each incumbent began with the same set of FCC standards, since each incumbent company independently negotiated with the ALECs, the unbundled offerings are not defined in exactly the same manner. Additionally, the provisioning process and supporting systems are not identical. These differences are reflected in the incumbents' cost studies.

Subsequent to the release of the Act, all three incumbent companies have expended considerable resources to develop and refine a set of cost models, which interface with each other and with the data sources required to populate them. If one model were chosen over another, this effort would be scrapped. Further, there is nothing in the FCC's TELRIC Pricing Rules that obligates the ILECs to use common models. Thus, the Commission cannot use FCC requirements as justification for its actions. In fact, this Commission recently deemed BellSouth's cost results, based on its set of models, TELRIC-compliant.

Currently no "single model" can accurately reflect the recurring and nonrecurring costs associated with every aspect of the unbundled network on an integrated basis. Indeed, BellSouth employs the BellSouth Telecommunications Loop Model[®] ("BSTLM") to develop investments associated with loops less than a DS3, Telcordia's Switching Cost Information System/ Model Office ("SCIS/MO") module to calculate unit switching investments, the Simplified Switching Tool ("SST")[®] to determine usage and feature-related investments, a host of other less complicated models to develop fundamental unit investments, and the BellSouth Cost Calculator[®] to convert investments and work times to cost. Furthermore, many of the investment calculations are done on worksheets, not within a model. Even if the Commission confines the scope of this workshop to only the UNE-P offering (loop, port, end office switching, tandem switching, and common transport), every one of the models previously listed would be utilized. Thus, instead of a "single model," BellSouth will discuss a "single set of models."

While BellSouth does not endorse the standardization of models, listed below are potential benefits to the Commission and Florida Public Service Commission Staff:

- The Commission's involvement would be limited to the review of the inputs and assumptions used by the "standard" applications.
- One set of models would make comparisons straightforward since basically only differences in input data and assumptions would result in differences in cost.
- Another plus is that since the same set of models would be used by all parties, the required inputs, by necessity, would have to be defined in the same way, i.e., there would be no room for interpretation of what an input means. Of course, this ability to easily compare results and tie differences to model input also assumes that the UNEs would be defined in the same way and the network components that comprise the UNE would be identical, no matter which company actually provided the UNE.

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[®] 2000 BellSouth Corporation All Rights Reserved (the SST model)

[®] 1999 BellSouth Corporation All Rights Reserved (BellSouth Cost Calculator)

- Another result of a transition to a standard set of models is that the Florida Public Service Commission Staff, the Commission, the ALECs, and the incumbents would only have to learn, understand, and maintain one common set of applications in Florida.

There are, however, issues that must be resolved prior to the establishment of standard models and more importantly, disadvantages to authorizing a single set of models. One of the first problems that must be attacked is the determination of a representative set of applications that are appropriate for all the incumbents; i.e., the Commission must determine the right set of models. During this process, the Commission would need to evaluate the existing models, consider the pros and cons of each model, decide if an existing model should be used or alternatively determine if new models need to be developed that incorporate the best features of existing models, and finally ensure that the resulting “standard model” produces costs reflective of those actually incurred by the incumbents on a going-forward basis. To fulfill the FCC’s requirement that the UNE rates reflect the forward-looking costs that the incumbents will actually incur, consensus would need to be reached by the parties. In other words, each company would have to “buy into” the models ordered by the Commission and find the models’ assumptions, methodologies, and results accurate. Assuming that the Commission can broker an agreement among all of the parties, the set of models would only be applicable to Florida and would only be valid for the current network architecture. As stated previously, the incumbent companies have expended considerable resources in the development of methods and procedures, operational support systems, billing processes, and performance measures and are held to providing elements as defined by existing contractual agreements. In order to be valid, the Commission’s “standard model” would need to reflect the very real differences among the companies – a requirement that a common model would have difficulty in satisfying.

All three incumbents serve more than one state. Currently, the same set of models is used to support costs in each state within the incumbent’s jurisdiction. If this Commission orders a standard set of unique models, additional work for the incumbents would be introduced since cost studies conducted for Florida would be different from all other states. It can also be anticipated that the other state commissions within the incumbent’s jurisdiction would desire a comparison of results to the “Florida model” requiring the incumbents to conduct additional and unnecessary studies. Further, the incumbents would need to maintain two sets of models, one unique to Florida and one for all other states. This duplicative effort unnecessarily exhausts limited resources.

Furthermore, introduction of a standard set of models would potentially require development of new data sources since the input required by the Commission’s “standard model” might not be readily available or easily supportable.

With respect to the question on modeling and competition, BellSouth cannot fathom how the standardization of models would or even should be used to encourage competition. A model is evaluated on how well it fulfills the Act’s requirement that the rates supported by the model be “just, reasonable, and nondiscriminatory.” Additionally, the model must comport with the FCC’s TELRIC methodology, which mandates that the cost be forward-looking and reflect the least-cost, most efficient network deployment. Adhering to these directives, the Commission has already set rates that are TELRIC-compliant for the incumbents based on the use of existing models. The fact is that ALECs are actively competing in BellSouth’s territory in Florida right now. By September 2002, the ALEC share of the residential market has grown to 12.4%. Additionally, the ALECs have captured 29.7% of BellSouth’s business access lines. In total, BellSouth has lost 18.4% of its customers to ALECs. *See Ruscilli Direct Testimony in Docket No. 020507-TL, dated November 26, 2002, page 16.* Furthermore,

this take rate is prior to any impact that may result from the Commission's recent Order in Docket No. 990649-TP that established updated UNE rates for BellSouth. Thus, it is difficult for BellSouth to reconcile the perceived need to now mandate a set of standard models and the implied need to promote competition. Competition is occurring without the need for artificial manipulation of the models used by the incumbents.

If the concern is that the ALECs should be able to easily compare the unbundled offerings made by the ILECs, as mentioned previously, even with a standard set of models, input alone may not be sufficient to explain the differences in cost between the three incumbents. Differences may also be dependent upon the way in which the unbundled element is defined. It is, however, a little late in the game to be considering a "standard" definition for each element – provisioning methods have been implemented, billing processes have been established, and negotiated agreements define the existing elements offered by BellSouth and the other incumbents.

(2) Identify the costs of implementing use of a single model.

The actual costs, both in terms of actual monetary expenditures and with respect to time, to implement standard modeling would vary dramatically with the models selected and how closely they comport with the company's existing models and its cost developmental process. Potential "costs" are associated with:

- 1) Programming – to develop new code or modify existing programs; contractor costs. These costs can be enormous. For example, BellSouth spent over \$1 million to develop the BSTLM.
- 2) Administration of the Models – to maintain program once establish, modify as necessary, to respond to questions concerning models.
- 3) Right-to-Use Fees, Licensing Fees for Existing Models – compensation would need to be made to the owners/developers of the existing models.
- 4) Testing - verification of the computer logic, verification of the network assumptions, verification of the results.
- 5) Obtaining Equipment Vendor Information – potentially vendors may need to provide configurations, equipment capacities/limitations, installation methods and procedures. This information would need to be incorporated in the models.
- 6) Production of Documentation and Manuals – documentation would need to be developed to assist users in the operation of the models, explain inputs, discuss assumptions, flowchart the cost development process, etc.
- 7) Training - new users would need to learn how to install, populate, and use the Commission-ordered models – how to input data, set-up the programs, generate reports, etc.
- 8) New Computer Equipment – if the new models demand additional resources, equipment purchases may need to be made. Also, software programs may need to be purchased.
- 9) Development of New Data Sources – the users would need to examine existing inputs and sources and compare those to the new data requirements.
- 10) Geocoding/sampling – the identification of customer locations is an important consideration in the development of loop costs. Depending on the model chosen by the Commission, either a geographically coded (geocoded) approach or a sample technique would probably be required. Either method requires considerable time and expense to implement.

As the Commission can see, the resources required are significant and the associated costs can be substantial. The magnitude of these costs, however, is dependent upon the types of changes that the Commission orders to the existing cost study process; i.e., how radical are the modifications?

(3) Identify the factors that affect the successful implementation of a single model.

As mentioned previously, it is imperative that the parties that would be required to use the “standard model” buy into the process. The incumbents would need to feel comfortable with the results produced by whatever model the Commission orders – i.e., the model, with appropriate input, must produce results that are indicative of the incumbent’s forward-looking costs. Additionally, to glean the most from this effort, the ALECs must support the modeling process or this point of contention would remain open. The quality of the model would have to of such a level that its use would not be disputed in the cost proceedings.

Any model adopted by the Commission model cannot and should not remain stagnant. The model must be flexible enough to incorporate future enhancements, e.g., changes in technology, the addition/deletion of elements, and updates to provisioning/deployment guidelines. One must also consider the fact that BellSouth may require a change due to its provisioning or deployment plans that Sprint or Verizon may not endorse. This highlights another set of issues that must be resolved; who has ultimate control of the standard model; how are changes requested; how are changes approved – consensus, democratically, or dictatorially, and who pays for the updates.

From a user’s perspective, the interfaces should be easily understood, processing time should be reasonable, reports (both inputs and output reports) should be generated in an exportable format, and the application should be able to reside on a standard PC configuration. If the Commission chooses an existing model, the developer of that model should be fairly compensated. Any charges that may be levied for the use of the model should be fair and reasonable.

The model must still accurately reflect the variability among the incumbents at a geographic level that would allow deaveraging.

B. Development of criteria or methodologies that must be met by any model (or set of models) used by a party to estimate the recurring and nonrecurring costs of UNEs in Florida.

(1) Identify the potential benefits of such criteria or methodologies.

TELRIC is the current underlying guideline for the development of UNE costs. Thus, any model must fulfill the following criteria: direct, incremental costs must be identified, forward-looking initiatives must be reflected, least-cost, most efficient deployment must be considered, and the existing wire center locations must be maintained. Furthermore, a reasonable allocation of forward-looking shared and common costs needs to be determined. As this Commission has determined, BellSouth, through the use of its existing models, is in compliance with these TELRIC principles.

Each of the incumbents has developed recurring and nonrecurring costs under the same FCC TELRIC regime for over 6 years and this Commission has established compliant rates based upon these costs. What this workshop could accomplish is a refinement of those TELRIC principles by defining the criteria that the Commission believes constitutes forward-looking, most efficient, and least cost.

(2) Identify the costs of developing these criteria or methodologies.

Costs would be dependent upon the extent of the modifications ordered by the Commission. For example, if as part of the standardization of methodology, the Commission mandates that actual customer locations must be used there would be a substantial cost associated with obtaining and processing that data. Potential “costs” are associated with:

- 1) Programming – to develop new code or modify existing programs; contractor costs if ordered methodology is not compatible with existing models.
- 2) Testing - verification of the computer logic, verification of the network assumptions, verification of the results to ensure compliance with “standard methodology.”
- 3) Development of New Data Sources – the users would need to examine existing inputs and sources and compare those to the new data requirements resulting from the establishment of a “standard methodology.”
- 4) Geocoding/sampling – the identification of customer locations is an important consideration in the development of loop costs. Depending on the methodology chosen by the Commission, either a geographically coded (geocoded) approach or a sample technique would probably be required. Either method requires considerable time and expense to implement.

It is difficult to itemize the potential costs based on establishing standard approaches to cost development without knowing the extent of the adjustments required. BellSouth is not totally familiar with Sprint’s and Verizon’s actual cost development process. Thus, BellSouth is unsure how far apart the companies are with respect to methodology and what or if any modification to BellSouth’s current approach is justified. However, as stated previously this Commission has found the incumbents’ cost methodology TELRIC-compliant.

(3) Identify the factors that affect the successful development of these criteria or methodologies.

The methodologies would need to adhere to the FCC’s current pricing rules, but remain open to potential changes that may occur. In order to be successful, all parties would need to agree that the methodologies/criteria are appropriate and reflective of the costs that the incumbents would incur on a going-forward basis.

C. Development of a set of standard inputs or input-development processes to be used by a party to estimate the recurring and nonrecurring costs of UNEs in Florida.

(1) Identify the potential benefits of such standard inputs or processes.

When BellSouth produces a new cost study, an effort is made to update all inputs, as necessary, to reflect the latest information available. Thus, BellSouth believes that there is little benefit to standardizing the actual inputs. Demanding that certain inputs be “standardized” and thus, cannot be altered, creates a stagnant approach to developing costs and ignores the fact that over time inputs will change. For example, economic conditions influence the cost of capital parameters. Setting a “standard” value for these cost of capital inputs for future cost studies based on existing risk factors is inappropriate. The same can be said for all cost study inputs. Furthermore, setting common inputs for

all of the incumbents dilutes the legitimate differences between the ILECs. In fact, parties to the cost proceedings legally have the right to challenge the default values that would be established through this standardization process. Thus, the anticipated savings in time may not come to fruition since standardization of inputs implies that some level of compromise has taken place.

(2) Identify the costs of developing such standard inputs or processes.

Costs would be dependent upon the extent of the modifications ordered by the Commission. However, many areas of cost would potentially be applicable to the standardization of inputs – programming to incorporate inputs, testing to ensure results are reasonable, development of new data sources. Additionally, time/resources would need to be spent defending these default values if parties fail to totally agree with them.

(3) Identify the factors that affect the successful development of standard inputs or processes.

The success is dependent on the incumbents' ability to develop standard inputs, incorporate adjustments to the input development process, and the ability of the workshop to culminate in a viable consensus.

D. Development of a set of standard output reports to be used by a party presenting the recurring and nonrecurring costs of UNEs in Florida.

(1) Identify the potential benefits of standard output reports.

First, the Commission must define what is meant by “output reports.” Does the Commission envision being able to launch queries in any of the model applications? How granular is the information desired e.g., investments by field reporting code, direct costs segmented by depreciation, cost of capital, etc., nonrecurring costs by work group? Is this confined to the final cost summaries?

Assuming this topic relates to just the final cost summaries, if a standard output report is established, it potentially could make comparisons between companies easier to prepare.

(2) Identify the costs of developing standard output reports.

Costs would be dependent upon the Commission's definition of output reports and the extent of the modifications ordered by the Commission to existing reports/programs. Furthermore, depending on the information required by the output report, additional programming may be required. Currently, in the development of BellSouth's costs, every piece of information is not retained throughout the entire cost calculation process. If the standard report requires data that is not stored, additional and potentially extensive, programming would be required. Furthermore, maintaining additional data throughout the calculations would hamper the program's runtime.

(3) Identify the factors that affect the successful development of standard output reports.

The success of this point would depend on the extent of the modifications that would be required. If the modifications are relatively simple, the success rate should be rather high, if it is extensive the success

rate may suffer. Also, creation of a standard output report for all three companies may be difficult since the UNEs may not be defined in the same manner.

III Identify and discuss any desired outcomes unrelated to modeling issues, inputs or outputs, or that cannot be adequately addressed by the range of outcomes listed in Section II.

BellSouth believes that it would be beneficial to the Commission's understanding of the differences in the incumbents' UNE rates, if each of the ILECs provides a description of the network components (e.g., NID, drop, distribution facilities, feeder facilities, test point, central office termination) that comprise the unbundled element and any relevant characteristics of the element (e.g. length limitations, transmission standards) that are reflected in the recurring rates. If applicable, design drawings may also be helpful. Additionally, the ILEC should describe what basic activities take place during the provisioning process (e.g., testing, travel, coordination, conditioning) and thus, are reflected in the nonrecurring rates. This descriptive matrix should hopefully explain some of the differences in rates without the extreme step of ordering standard models, inputs, and/or outputs. BellSouth also recommends that this exercise be limited to those UNEs most often requested by the ALECs and provisioned by the incumbents.

IV Identify and discuss any other means of achieving the workshop's objectives or the benefits identified above.

As mentioned in Section III, a descriptive matrix of the unbundled network elements and associated costs would benefit the Commission in its quest to understand the differences between the companies' rates. Thus, BellSouth proposes that the incumbents and the Staff develop a form that can be populated by each company and included in the cost filings. BellSouth also suggests that the Commission limit the number of elements to the ten most often provisioned. Potentially, this form may contain other pieces of information related to the development of UNE costs that the Staff deems important.

V A concluding section that identifies any issues that a party believes are particularly critical and also offers suggestions for the direction of future workshop efforts.

Depending upon the effort necessary to implement the Commission's rulings, it might be difficult to justify the added expense and resources required to establish standard models, methodologies/criteria, inputs, and outputs for all three of the incumbents especially if the sole purpose of this workshop is to assist the Commission in understanding the differences in rate structure and charges that the ALECs are faced with in Florida. In fact, standardization is expensive, time-consuming, burdensome, and does not promote competition. BellSouth contends that there are other avenues open to the Commission to achieve its objective. Those less expensive and less time-consuming alternatives need to be explored first, prior to the extreme measures currently under consideration.

While there are differences in the incumbents' approach to developing UNE costs – different models, different inputs, different outputs – BellSouth's cost methodology, by this Commission's own findings, has been found TELRIC-compliant. Thus, an effort to mandate standardization will not result in any substantial improvement to the quality of BellSouth's cost results. Instead, the basic outcome of this standardization exercise would be the possible elimination of certain contested issues and the potential development of a consistent method of cost processing and formatting of results. The success of this endeavor hinges on how extreme the Commission's modifications are, the ability for parties to agree to those modifications, and the resources that must be dedicated to implementing them. For the reasons discussed previously, BellSouth does not believe that the end justifies the means.

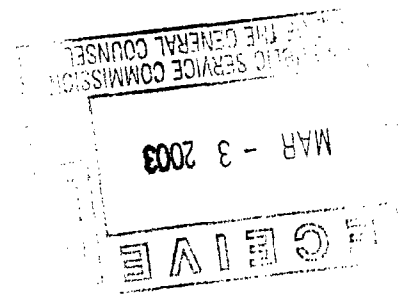
Furthermore, BellSouth, and any other incumbent provider, has the legal right to present and defend models, inputs, and methodologies it supports and challenge any default standards set by this Commission. Thus, there is in reality little to be gained by forcing common practices. Furthermore, the potential for distorting legitimate differences among the companies is great and could violate the FCC's pricing rules.

AUSLEY & McMULLEN

ATTORNEYS AND COUNSELORS AT LAW

227 SOUTH CALHOUN STREET
P.O. BOX 391 (ZIP 32302)
TALLAHASSEE, FLORIDA 32301
(850) 224-9115 FAX (850) 222-7560

February 28, 2003



Patricia A. Christensen
Senior Attorney
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Undocketed - Standardization of Unbundled Network
Elements Costing

Dear Ms. Christensen:

Enclosed please find a copy of Sprint-Florida, Inc.'s Comments on the issues identified during the Commission Workshop on December 18, 2002, in the above matter.

Yours truly,

John P. Fons

Enclosure

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In RE: Undocketed
Standardization of Unbundled
Network Element Costing

Filed: February 28, 2003

COMMENTS OF SPRINT-FLORIDA, INC.

Sprint-Florida, Inc. (Sprint) respectfully submits the following comments on the issues identified during the Commission workshop on December 18, 2002, pertaining to standardization in unbundled network element costing.

I. INTRODUCTION

The idea for standardization of unbundled network element (UNE) costing originated with discussion among the Commissioners during the Special Agenda Conference on October 14, 2002, In the Matter of Investigation into Pricing of Unbundled Network Elements, Docket 990649. In the discussion, the Commissioners expressed concerns over the comparability of UNE rates for BellSouth, Verizon and Sprint, and the efforts associated with understanding and evaluating multiple cost models. It was suggested that if UNE filings were going to be annual, the Commission needed some basis whereby all of the companies would be treated the same, and all parties would know what model was going to be used.

As an underlying premise to the review of the issue of standardization in UNE cost models, Sprint believes an annual review of cost studies is unnecessary and unproductive. Furthermore, an annual review is unworkable not only for the ILECs, but also for the Commission and its Staff and the ALECs as well. UNE cost studies and rate filings

should be required no more frequently than every 3 years. There are not sufficient changes to the network or to input values on an annual basis to warrant a review or filing more than every 3 years.

To support its ILEC operations in all 18 states, Sprint must provide cost studies to support not only UNE price lists, but also cost studies supporting switched access, reciprocal compensation, wholesale discounts, retail services, and USF studies. Sprint achieves this with a cost staff of approximately 28 people. Ten people are assigned to create and support the cost models while the remaining staff are responsible for collecting the thousands of inputs necessary to run the models. To require an annual filing for Florida would be overly burdensome and counter-productive. In addition to Sprint's costs of an annual filing, unnecessary costs would also be incurred by the ALECs and the Commission in these proceedings.

Sprint is encouraged that both the Commission and Staff recognize that efforts associated with evaluating the comparability of UNE rates across ILECs would not be cured by the utilization of one model. The record amply demonstrates, and the Commission recognizes, that the ILECs have cost systems that are consistent with the way they operate and manage their companies, and that their cost models are consistent with the overall way their ordering, billing, provisioning, and information systems are set up. Sprint's concerns are similar to those expressed by the Commission; that to impose a particular model on the ILECs would be burdensome and costly. The development, maintenance and filing of a cost model is very labor-intensive and complex.

In looking at the standardization of UNE costing, the Commission is exploring a range of outcomes, from complete model and rate standardization, to a guiding set of criteria. Sprint is supportive of the development of criteria or methodologies that must be met by an ILEC's cost modeling. Sprint also believes there is merit in creating a tool which accumulates total charges for a few key ALEC ordering scenarios, facilitating review by ALECs of ILEC rates. However, Sprint is not supportive of the development of one standard cost model or a single set of input values. No single set of input values can accurately calculate the costs which all ILECs incur to provide UNEs. When the resulting impacts to ILEC ordering, billing, provisioning and information systems are fairly acknowledged and accounted for, it is clear that the development of a standard cost model will not meet Commission objectives of fair and comparable UNE rates in the most efficient manner.

II. POSSIBLE WORKSHOP OUTCOMES

A. Design and/or Selection of a Single Model

1. Potential benefits of a single model:

To promote competition, UNE rates must be accurately calculated and properly reflect true geographic specific costs. No one model can accurately and efficiently calculate the costs which all ILECs incur to provide UNEs due to the differences in individual ILEC's network technologies, rate structures, provisioning systems and billing systems.

No state commission has issued an order forcing Sprint to adopt and exclusively use any single UNE model other than its own. Sprint operates as an ILEC in 18 states, and in all 18 states, Sprint develops the cost of its UNEs based on Sprint's own cost model and rate structure. Sprint has developed a single price list format for use in all 18 states. This process combines state-specific rates with system-standard rate elements, rate structures, billing systems, and Operational Support Systems (OSS). Sprint has also developed a system-standard methodology for collecting the thousands of inputs necessary to complete UNE cost studies. This standardization has enabled Sprint to develop cost studies and UNE price lists for each of its 18 states in the most efficient manner possible. Forcing Sprint to implement a non-Sprint cost model for Florida only would negate the efficiencies Sprint has otherwise achieved.

Sprint's use of a single price list format in its 18 states simplifies ordering for ALECs who order from Sprint nationally. To require Sprint to adopt a separate price list format for Florida will create confusion for ALECs ordering for multiple states because they would have to order differently with Sprint in Florida than they do in Sprint's 17 other states.

No two telecommunications companies have identical UNE rate structures. There are distinct differences in the types of UNE rate elements, the number of UNE rate elements, the degree of UNE rate deaveraging, the types of features and feature packages, and the type and number of nonrecurring charges among ILECs. For

example, Sprint has fewer sub-loop elements than BellSouth, and Sprint and BellSouth have different types of switch ports, SS7 rate elements, and NID rate elements, to name a few. It would be unreasonable to expect a single model to reflect multiple rate structures, or to expect each telecommunications company in the state to modify its rate structure to match the structure generated by a single cost model. In addition, Sprint, BellSouth, and Verizon have designed their provisioning systems, billing systems, and OSS specifically to reflect their respective rate structures and to comply with each company's individual practices. No single computer model can accommodate these many differences.

2. Costs of implementing a single model:

Neither Sprint nor any other ILEC can be expected to develop, maintain, and provide ongoing support of a model for use by other ILECs. In addition, the Florida Commission does not have the resources to develop, maintain, and provide ongoing support of a Florida-specific model. If Sprint were required to use a non-Sprint cost model solely for Florida, all of the cost efficiencies created and gained by Sprint in developing its standard cost model for use across its 18 state operations would be negated. Moreover, Sprint does not have the current resources necessary to support unique cost models in each of its 18 states, or even one cost model that is unique to the one that is used in the other 17 states. It would be costly and burdensome to require Sprint to acquire the additional resources necessary to support and operate a cost model solely for use in Florida.

Sprint estimates that if it were required to adopt the rate structure dictated by a single non-Sprint cost model, the costs would be significant. Sprint maintains approximately 80 Product Guides serving Wholesale Markets, Carrier Operations, Customer Service Organization and Network. To duplicate these guides and develop the associated processes, Sprint estimates 4000 hours of development. Supporting the product guides are four Methods and Procedures (M&P) manuals with 31 chapters per manual. Within these manuals, 41 chapters were identified as needing potential modification if the Florida Commission were to require Sprint to deviate from its Sprint standard rates, processes and systems. An estimate to develop new M&Ps or modify existing M&Ps is 400 hours per chapter. Two hours of training per employee per product are anticipated, affecting 1900 employees. Twelve systems have been identified as being impacted by a change in the rate structure, including various ordering, provisioning, trouble reporting and billing systems. Other inefficiencies would include the need to redo Sprint's wholesale performance measurements for Florida. Three years were spent on the development of software for these measurements for Sprint's Nevada operations and they were recently implemented for Florida. A separate internet website would be needed for Florida ALECs, thus doubling Sprint's investment in the internet reporting system for these measures. Sprint's on-line ordering system, Integrated Request Entry System (IRES), would need to be enhanced to present different product ordering codes for Florida, unique from the Sprint standard codes used for Sprint's 17 other states.

Although Sprint cannot anticipate all of the system related issues associated with implementing a unique UNE rate structure for Florida operations, it is clear from the above listing of necessary system and process changes that the price tag would be several million dollars. Certainly by avoiding the costs of Florida specific systems, M&Ps, training, operations, etc., ALECs will benefit. Clearly the costs of implementing a single cost model for Florida ILECs outweigh any perceived potential benefit.

3. Factors affecting successful implementation of a single model:

The adoption of a single cost model in Florida will not necessarily result in regulatory efficiencies in Florida. In Nevada Docket No. 96-9035 and its follow-up proceedings in Docket No. 98-6005 the Commission required use of the Hatfield model to develop UNE prices for 2-wire UNE loops. However, that proceeding took nearly three years, including a district court challenge of the Nevada Commission's order, to set the price for just one network element, 2-wire UNE loops. After the conclusion of Nevada Docket No. 98-6005, the FCC issued its Third Report and Order requiring a host of new UNE elements, for which UNE cost studies needed to be developed. Because the Nevada Commission had not made any arrangements for ongoing administration of a single model, Sprint was required to utilize its own internally developed model to address this need for new UNE cost studies. Thus 121 of 122 UNE monthly recurring charges and 265 UNE nonrecurring charges in Nevada continue to be developed using Sprint's uniform UNE cost model and associated processes. Sprint's first-hand experience with an attempt by a state commission to utilize a standard cost model for

all local exchange carriers provides direct evidence that the concept does not result in regulatory efficiencies.

The development of a standard UNE cost model would result in a huge and protracted work effort. Additionally, the maintenance of a cost model is continuous, due to changing technologies as well as evolving state and federal requirements. Ongoing maintenance of Sprint's cost model requires a staff of 10 people.

Sprint also notes that there are now much bigger issues to be pursued by the state commissions. On February 20, 2003, the FCC adopted an order in its Triennial Review of its TELRIC rules and unbundling requirements, under which the FCC is to establish a presumptive list of national unbundled network elements, but would give state commissions the authority to rebut those presumptions based on local market conditions. For mass market switching, a key UNE-P element, the FCC established criteria that state commissions must apply to determine whether economic and operational impairment exists in a given market. State commissions must complete such proceedings within nine months of the effective date of the FCC order. This FCC order will require significant effort and will fully challenge the Florida Commission and Staff, as well as ILEC and ALEC resources.

B. Development of Criteria or Methodologies that must be met by any Cost Model

1. Potential benefits of such criteria or methodologies:

Sprint supports the adoption of a single cost methodology that incorporates principles for UNE cost analysis and cost model design, but allows each ILEC the ability to efficiently utilize its own UNE rate development process. Each ILEC UNE cost model should be measured and judged based on a standard set of expectations.

Efficient evaluation of cost models should not be burdensome if all models are based on a single cost methodology.

Sprint submits eight Proposed Principles for UNE Cost Analysis and twelve Proposed Principles for Cost Model Design, summarized in Attachment A. These Principles comply with the Telecommunications Act and the FCC's First Report and Order in CC Docket 96-98, and provide basic fundamental qualities that a cost model must possess to achieve TELRIC standards. The Proposed Principles for Cost Model Design provide a framework for all cost models that would ensure consistency of cost study processes and functionality and allow for a thorough review and analysis by all parties – Commission Staff, ALECs, and ILECs. Sprint recommends that the Commission approve these costing principles.

2. Costs of developing these criteria or methodologies:

The costs involved in developing standard criteria or methodologies would be minimal if ILECs are allowed to utilize their existing UNE costing models, modified as

necessary to incorporate the standard criteria suggested. Standard methodologies would not require a protracted industry effort, and would avoid court challenges that would be likely if a standard cost model was required.

3. Factors affecting the successful development of these criteria or methodologies:

A high degree of success is likely with standardization of methodologies and without forcing a single cost model on all ILECs. Standardized methodologies complying with FCC requirements will provide parameters for modeling which will allow for integrity of output, as well as allow for efficient review and evaluation of each company's individual cost model.

C. Development of a Set of Standard Inputs or Input Development Processes

1. Potential benefits of standard inputs:

Sprint's UNE cost studies are based on inputs developed using current, company-specific data where possible, so as to best predict the cost of serving Sprint-specific wire centers within Florida. Sprint's territories are very different from other Florida ILEC territories in terms of geography, customer density, and local market conditions. Additionally, Sprint is different from other Florida ILECs in terms of size, economy of scale, and purchasing power. These factors necessarily affect inputs so as to produce the best possible cost estimates for a specific ILEC.

Many of the factors that determine the cost of providing unbundled elements are specific to customer location or service area and the company providing the service. In constructing the network, Sprint's UNE cost model takes into account natural characteristics of the area served such as topography, geology and geography. The model considers specific soil types encountered, as well as terrain and slope of the area covered. It takes into account the dispersion of actual customer locations and the amount of land area that must be covered in order to reach all customers in the market. In addition, Sprint's UNE cost model can also accommodate company specific inputs which reflect location-specific factors that can affect plant costs, such as local zoning codes impacting construction techniques or use of aerial plant.

The primary purpose of Sprint's cost model is to develop deaveraged cost estimates by geographic area. If a standard set of inputs were included for all companies, the model's precision in developing cost by location would be materially diminished and ILECs will likely be forced to challenge the results in court.

UNE loops provide an illustration of the integral nature of company specific inputs in developing an accurate cost study. The costs of unbundled loops vary more on a geographic basis than any other UNE defined by the FCC's 96-325 Order. Under the broad category of physical geography, numerous factors affect the cost of providing loops to a specific customer location.

- a. Customer Density – Customer density is the single largest factor impacting the cost of local loops. Customer density is commonly expressed in terms of

customers or access lines per square mile. The density of customers impacts loop costs in an inverse manner: the higher the customer density, the lower the cost of the local loop. Customer density ultimately determines how many customers or loops there are over which to spread the cost of digging the trench, placing conduit or placing aerial pole line. Customer density also drives the unit cost of other equipment components associated with loops, such as Serving Area Interfaces (SAIs), Digital Loop Carrier (DLC) devices, and Drop Terminals. Sprint's Florida territories are predominantly rural, with a lower customer density, whereas BellSouth and Verizon serve more urban areas in Florida with greater customer densities.

- b. Distance – The distance of a given customer location from the central office increases loop costs as the distance increases. This relationship results from the obvious need to place more cables, trenches, conduit and/or aerial pole lines as the distance of the loop increases. As the distance increases, it generally increases the need for, and overall cost of maintenance. Longer cables have more splice points and result in more exposure to risk of failure.
- c. Terrain – The type of terrain in which cable is placed impacts both the cost of the initial cable placement and the maintenance of the cable. The cost of below-ground cable construction increases as the presence and hardness of rock increases. Terrain factors such as the water table, trees, and mountains all affect the initial construction cost of loops and subsequent maintenance expense. Again, Sprint's Florida territories differ significantly from BellSouth and Verizon, causing needed differences in specific inputs.

d. Local Market Conditions – Issues such as local zoning laws requiring below-ground plant, screening and landscaping around SAI and DLC sites, construction permits and restrictions, heavy presence of concrete and asphalt, traffic flows, and local labor costs, all impact the construction and maintenance costs of loop plant and will vary between locations. Certainly Sprint’s locations will be subject to differences in local market conditions from BellSouth and Verizon in Florida, and those differences should be reflected in company specific inputs.

Clearly there is no single set of cost inputs for unbundled loops that can appropriately represent the cost differences each ILEC in Florida experiences. Any attempt to utilize standard inputs for all ILECs would result in costs that are not accurate for any of the ILECs in Florida.

2. Costs of developing standard inputs:

Costs incurred in the actual development of standard inputs would be high, as ILECs are unlikely to agree on a standard set of inputs. It is probable that the process would prove to be protracted and painful. Even if a standard set of inputs were prescribed by the Commission, individual ILECs are not likely to accept them, or the resulting outputs. For example, if inputs were developed that fairly reflected BellSouth and Verizon’s costs, Sprint’s costs, because they are unquestionably higher, would be understated.

3. Factors affecting successful development of standard inputs:

As noted previously, if Florida ILECs are forced to use a standard set of inputs, the resulting UNE rates are not likely to be accepted by any party. Certainly there will be strenuous debate over whose data better reflects each ILECs operations. Is the input data of various companies averaged? Which company's technology is modeled? Which vendor's products are assumed? It is unquestioned that prices for critical inputs (such as central office switches, cable, structure, etc.) vary greatly, depending on the size and scale of the purchaser of those inputs. Variations in prices reflect the ILEC's ability to negotiate such things as volume purchase discounts. To the extent the parties – ILEC and ALEC – disagree with the standard default inputs, court challenges regarding resultant UNE rates would be likely.

D. Development of Standard Output Reports

1. Potential benefits of standard output reports:

As noted previously, Sprint operates as an ILEC in 18 states. Sprint's TELRIC UNE Model has been used to develop a single standard price list format for use in all 18 states. Hundreds of hours are spent on the development of this standard price list, which includes 122 monthly recurring prices, 265 nonrecurring prices, and an entire list of dedicated transport prices on a route specific basis. The price list is used not only in state UNE rate filings, but for various other purposes, including interconnection agreement negotiations.

Forcing Sprint to develop a price list format with unique rate elements for Florida would negate the efficiencies Sprint has gained from developing a standard price list reflecting its standard billing and OSS. Rather, Sprint believes there is merit in creating a tool which accumulates total charges for a few key ALEC ordering scenarios, facilitating ALEC review of ILEC rates. Sprint would continue to develop its standard price list, but from that would populate a comparison tool that would allow ALECs to compare not only individual element rates, but the total cost of specific activities.

The ALEC industry could be queried by the Commission to determine the top 5 to 10 UNE ordering scenarios, such as order/install 2 wire loops, migrate resale to UNE-P, order/install UNE-P, order/install xDSL capable loop at a location that doesn't have service today, order/install xDSL capable loop at a location that has service today, or order/install high capacity loops. Once the most logical set of UNE ordering scenarios is established, specific pricing information to be reported to the Commission could be prescribed. For each ordering scenario, reportable information could include applicable nonrecurring charges such as service order charge, loop qualification, loop conditioning, and loop installation, applicable monthly recurring charges, and any other charges that may be appropriate for a particular scenario. The report should include the specific facilities that would be utilized in the ordering scenario.

2. Costs of developing standard output reports:

The costs of developing the suggested output report will be minimal, assuming that Sprint is allowed to continue producing its current, standard price list. The suggested output report would be developed utilizing the currently produced standard price list.

3. Factors affecting successful development of standard output reports:

The burden would be on the ILEC to clearly communicate the specific prices included in a particular type of order, as well as the facilities involved. Allowing the ILECs to retain their current UNE cost model and output, and supplementing with prescribed reporting on specific ordering scenarios as suggested above, a high degree of success is likely. The suggested report should meet ALEC requirements. While an ALEC will be interested in the individual element charges, from a business case perspective, the ALEC will be most interested in the total charges associated with a given activity. Reporting in the manner suggested by Sprint will allow the ALEC to compare – ILEC-by-ILEC – the total charges associated with a given type order.

III. CONCLUSION

Sprint recommends that UNE cost studies and rate filings should be filed no more frequently than every 3 years. An annual review of cost studies is unnecessary.

Sprint is not supportive of the development of one standard cost model. No one model can accurately and efficiently calculate the costs which all ILECs incur to provide UNEs

due to the differences in individual ILEC's network technologies, rate structures, provisioning systems, and billing systems. Neither Sprint nor any other ILEC in Florida can be expected to develop, maintain, and provide ongoing support of a model for use by other ILECs. Further, Sprint estimates that if it were required to adopt the rate structure dictated by a single non-Sprint cost model, the costs would be significant.

Sprint does not support the development of a single set of standard inputs. The primary purpose of the cost model is to develop deaveraged cost estimates to best predict the cost of serving specific wire centers within Florida. Sprint's territories are very different from other Florida ILEC territories in terms of geography, customer density, and local market conditions, and Sprint is different from other ILECs in terms of size, economy of scale, and purchasing power. An attempt to utilize standard inputs for all ILECs would result in costs that are not accurate for any of the ILECs.

Sprint is supportive of the adoption of a single cost methodology that incorporates principles for UNE cost analysis and cost model design, but allows each ILEC the ability to efficiently utilize its own UNE rate development process. Sprint recommends that the Commission approve its Proposed Principles for UNE Cost Analysis and Proposed Principles for Cost Model Design, included in Attachment A.

Finally, Sprint supports the creation of a tool which accumulates total charges for a few key UNE ordering scenarios, facilitating ALEC review of ILEC rates.

Proposed Principles for UNE Cost Analysis

1. TELRIC should represent the cost of providing a quantity sufficient for the total demand for each network element. The increment that forms the basis for a TELRIC study shall be the entire quantity of the network element provided.¹

2. Forward-looking costs should be based on the incumbent LEC's actual or planned location of switching facilities, as well as actual customer locations. Forward-looking costs should reflect the most efficient technology and network design that is known, proven, and at least in partial use within a compatible/comparable network today. This benchmark of forward-looking costs and existing network design most closely represents the incremental costs that incumbents actually expect to incur in making network elements available to new entrants.²

3. Any function necessary to produce a network element must have an associated cost.³

4. Costs must be attributed on a cost causative basis. Costs are causally related to the network element if the costs are incurred as a direct result of providing the network element, or can be avoided, in the long run, should the company cease to provide

¹ See FCC First Order ¶690.

² See Id.

³ See FCC First Order ¶691.

the network element. Only those costs that are incurred in the provision of the network elements in the long run shall be directly attributable to those elements.⁴

5. Long-run implies all costs are variable and avoidable. In a TELRIC methodology, the “long-run” used shall be a period long enough that all costs are treated as variable and avoidable.⁵

6. Shared costs are costs that are attributable to a group of outputs but not specific to any one within the group, which are avoidable only if all outputs within the group are not provided. Common costs are common to all outputs offered by the firm and are avoidable only if all outputs of the firm are not provided or if the firm ceases operations. Costs should be assigned to the specific UNEs to the greatest extent possible and, where that is not possible, the shared/common costs should be reasonably allocated. Forward-looking common costs shall be allocated among elements and services in a reasonable manner.⁶ A properly conducted TELRIC methodology will attribute costs to specific elements to the greatest possible extent.⁷

7. Costs should be based on a reasonable projection of fill. Per-unit costs shall be derived from total costs using reasonably accurate “fill factors” (estimates of the proportion of a facility that will be “filled” with network usage); that is, the per-unit costs

⁴ See Id.

⁵ See FCC First Order ¶692.

⁶ See FCC First Order ¶696.

⁷ See FCC First Order ¶695.

associated with a particular element must be derived by dividing the total cost associated with the element by a reasonable projection of the actual total usage of the element.⁸

8. Forward-looking costs should be identified through the use of economic costing models and studies (which comply with these principles). The legitimate intellectual property rights of the model developers and sponsors should be protected. Provided there are appropriate arrangements where the intellectual property and proprietary information of the model owner or sponsor are protected, access to such models and studies should be "open" and "public."

Proposed Principles for Cost Model Design

The Cost Model should satisfy the following twelve criteria.

1. The Cost Model should possess logical coherence. The relationship between inputs and outputs should be logical.
2. The Cost Model should be capable of performing sensitivity analysis.
3. All inputs should be capable of being modified by a user. (The inputs should not be hard-coded.) The Cost Model must be able to accept and use company-specific detailed input data.
4. All algorithms should be open. (The algorithms should not be hard-coded.) The algorithms should be capable of being easily examined.
5. The Cost Model should be able to provide specific forward-looking costs for all relevant UNEs. These UNEs should be described with particularity and relate to actual UNEs available from the ILEC (*e.g.*, types of loops, combinations, vertical

⁸ See FCC First Order ¶682.

features), as well as to the UNEs typically required in interconnection agreements within each ILEC's service territory.

6. The Cost Model should be manageable. The Cost Model should be easy to run. Documentation for the cost model should describe the process that is driving costs sufficiently to permit intelligent use of the cost model.

7. Results generated utilizing the Cost Model should be replicable. It should be possible to verify the accuracy of the cost and price or rate results generated by the Cost Model.

8. The Cost Model should be open and public, subject only to intellectual property rights.

9. The Cost Model should comply with the UNE Cost Analysis Principles.

10. The Cost Model should run on a personal computer.

11. The Cost Model should include the capability to examine and modify the critical assumptions and engineering principles.

12. The Cost Model should be capable of producing deaveraged cost results.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In RE: Undocketed
Standardization of Unbundled
Network Element Costing

Filed: February 28, 2003

COMMENTS OF SPRINT-FLORIDA, INC.

Sprint-Florida, Inc. (Sprint) respectfully submits the following comments on the issues identified during the Commission workshop on December 18, 2002, pertaining to standardization in unbundled network element costing.

I. INTRODUCTION

The idea for standardization of unbundled network element (UNE) costing originated with discussion among the Commissioners during the Special Agenda Conference on October 14, 2002, In the Matter of Investigation into Pricing of Unbundled Network Elements, Docket 990649. In the discussion, the Commissioners expressed concerns over the comparability of UNE rates for BellSouth, Verizon and Sprint, and the efforts associated with understanding and evaluating multiple cost models. It was suggested that if UNE filings were going to be annual, the Commission needed some basis whereby all of the companies would be treated the same, and all parties would know what model was going to be used.

As an underlying premise to the review of the issue of standardization in UNE cost models, Sprint believes an annual review of cost studies is unnecessary and unproductive. Furthermore, an annual review is unworkable not only for the ILECs, but also for the Commission and its Staff and the ALECs as well. UNE cost studies and rate filings

should be required no more frequently than every 3 years. There are not sufficient changes to the network or to input values on an annual basis to warrant a review or filing more than every 3 years.

To support its ILEC operations in all 18 states, Sprint must provide cost studies to support not only UNE price lists, but also cost studies supporting switched access, reciprocal compensation, wholesale discounts, retail services, and USF studies. Sprint achieves this with a cost staff of approximately 28 people. Ten people are assigned to create and support the cost models while the remaining staff are responsible for collecting the thousands of inputs necessary to run the models. To require an annual filing for Florida would be overly burdensome and counter-productive. In addition to Sprint's costs of an annual filing, unnecessary costs would also be incurred by the ALECs and the Commission in these proceedings.

Sprint is encouraged that both the Commission and Staff recognize that efforts associated with evaluating the comparability of UNE rates across ILECs would not be cured by the utilization of one model. The record amply demonstrates, and the Commission recognizes, that the ILECs have cost systems that are consistent with the way they operate and manage their companies, and that their cost models are consistent with the overall way their ordering, billing, provisioning, and information systems are set up. Sprint's concerns are similar to those expressed by the Commission; that to impose a particular model on the ILECs would be burdensome and costly. The development, maintenance and filing of a cost model is very labor-intensive and complex.

In looking at the standardization of UNE costing, the Commission is exploring a range of outcomes, from complete model and rate standardization, to a guiding set of criteria. Sprint is supportive of the development of criteria or methodologies that must be met by an ILEC's cost modeling. Sprint also believes there is merit in creating a tool which accumulates total charges for a few key ALEC ordering scenarios, facilitating review by ALECs of ILEC rates. However, Sprint is not supportive of the development of one standard cost model or a single set of input values. No single set of input values can accurately calculate the costs which all ILECs incur to provide UNEs. When the resulting impacts to ILEC ordering, billing, provisioning and information systems are fairly acknowledged and accounted for, it is clear that the development of a standard cost model will not meet Commission objectives of fair and comparable UNE rates in the most efficient manner.

II. POSSIBLE WORKSHOP OUTCOMES

A. Design and/or Selection of a Single Model

1. Potential benefits of a single model:

To promote competition, UNE rates must be accurately calculated and properly reflect true geographic specific costs. No one model can accurately and efficiently calculate the costs which all ILECs incur to provide UNEs due to the differences in individual ILEC's network technologies, rate structures, provisioning systems and billing systems.

No state commission has issued an order forcing Sprint to adopt and exclusively use any single UNE model other than its own. Sprint operates as an ILEC in 18 states, and in all 18 states, Sprint develops the cost of its UNEs based on Sprint's own cost model and rate structure. Sprint has developed a single price list format for use in all 18 states. This process combines state-specific rates with system-standard rate elements, rate structures, billing systems, and Operational Support Systems (OSS). Sprint has also developed a system-standard methodology for collecting the thousands of inputs necessary to complete UNE cost studies. This standardization has enabled Sprint to develop cost studies and UNE price lists for each of its 18 states in the most efficient manner possible. Forcing Sprint to implement a non-Sprint cost model for Florida only would negate the efficiencies Sprint has otherwise achieved.

Sprint's use of a single price list format in its 18 states simplifies ordering for ALECs who order from Sprint nationally. To require Sprint to adopt a separate price list format for Florida will create confusion for ALECs ordering for multiple states because they would have to order differently with Sprint in Florida than they do in Sprint's 17 other states.

No two telecommunications companies have identical UNE rate structures. There are distinct differences in the types of UNE rate elements, the number of UNE rate elements, the degree of UNE rate deaveraging, the types of features and feature packages, and the type and number of nonrecurring charges among ILECs. For

example, Sprint has fewer sub-loop elements than BellSouth, and Sprint and BellSouth have different types of switch ports, SS7 rate elements, and NID rate elements, to name a few. It would be unreasonable to expect a single model to reflect multiple rate structures, or to expect each telecommunications company in the state to modify its rate structure to match the structure generated by a single cost model. In addition, Sprint, BellSouth, and Verizon have designed their provisioning systems, billing systems, and OSS specifically to reflect their respective rate structures and to comply with each company's individual practices. No single computer model can accommodate these many differences.

2. Costs of implementing a single model:

Neither Sprint nor any other ILEC can be expected to develop, maintain, and provide ongoing support of a model for use by other ILECs. In addition, the Florida Commission does not have the resources to develop, maintain, and provide ongoing support of a Florida-specific model. If Sprint were required to use a non-Sprint cost model solely for Florida, all of the cost efficiencies created and gained by Sprint in developing its standard cost model for use across its 18 state operations would be negated. Moreover, Sprint does not have the current resources necessary to support unique cost models in each of its 18 states, or even one cost model that is unique to the one that is used in the other 17 states. It would be costly and burdensome to require Sprint to acquire the additional resources necessary to support and operate a cost model solely for use in Florida.

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3. Factors affecting successful implementation of a single model:

The adoption of a single cost model in Florida will not necessarily result in regulatory efficiencies in Florida. In Nevada Docket No. 96-9035 and its follow-up proceedings in Docket No. 98-6005 the Commission required use of the Hatfield model to develop UNE prices for 2-wire UNE loops. However, that proceeding took nearly three years, including a district court challenge of the Nevada Commission's order, to set the price for just one network element, 2-wire UNE loops. After the conclusion of Nevada Docket No. 98-6005, the FCC issued its Third Report and Order requiring a host of new UNE elements, for which UNE cost studies needed to be developed. Because the Nevada Commission had not made any arrangements for ongoing administration of a single model, Sprint was required to utilize its own internally developed model to address this need for new UNE cost studies. Thus 121 of 122 UNE monthly recurring charges and 265 UNE nonrecurring charges in Nevada continue to be developed using Sprint's uniform UNE cost model and associated processes. Sprint's first-hand experience with an attempt by a state commission to utilize a standard cost model for

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Sprint also notes that there are now much bigger issues to be pursued by the state commissions. On February 20, 2003, the FCC adopted an order in its Triennial Review of its TELRIC rules and unbundling requirements, under which the FCC is to establish a presumptive list of national unbundled network elements, but would give state commissions the authority to rebut those presumptions based on local market conditions. For mass market switching, a key UNE-P element, the FCC established criteria that state commissions must apply to determine whether economic and operational impairment exists in a given market. State commissions must complete such proceedings within nine months of the effective date of the FCC order. This FCC order will require significant effort and will fully challenge the Florida Commission and Staff, as well as ILEC and ALEC resources.

B. Development of Criteria or Methodologies that must be met by any Cost Model

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2. Costs of developing these criteria or methodologies:

The costs involved in developing standard criteria or methodologies would be minimal if ILECs are allowed to utilize their existing UNE costing models, modified as

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A high degree of success is likely with standardization of methodologies and without forcing a single cost model on all ILECs. Standardized methodologies complying with FCC requirements will provide parameters for modeling which will allow for integrity of output, as well as allow for efficient review and evaluation of each company's individual cost model.

C. Development of a Set of Standard Inputs or Input Development Processes

1. Potential benefits of standard inputs:

Sprint's UNE cost studies are based on inputs developed using current, company-specific data where possible, so as to best predict the cost of serving Sprint-specific wire centers within Florida. Sprint's territories are very different from other Florida ILEC territories in terms of geography, customer density, and local market conditions. Additionally, Sprint is different from other Florida ILECs in terms of size, economy of scale, and purchasing power. These factors necessarily affect inputs so as to produce the best possible cost estimates for a specific ILEC.

Many of the factors that determine the cost of providing unbundled elements are specific to customer location or service area and the company providing the service. In constructing the network, Sprint's UNE cost model takes into account natural characteristics of the area served such as topography, geology and geography. The model considers specific soil types encountered, as well as terrain and slope of the area covered. It takes into account the dispersion of actual customer locations and the amount of land area that must be covered in order to reach all customers in the market. In addition, Sprint's UNE cost model can also accommodate company specific inputs which reflect location-specific factors that can affect plant costs, such as local zoning codes impacting construction techniques or use of aerial plant.

The primary purpose of Sprint's cost model is to develop deaveraged cost estimates by geographic area. If a standard set of inputs were included for all companies, the model's precision in developing cost by location would be materially diminished and ILECs will likely be forced to challenge the results in court.

UNE loops provide an illustration of the integral nature of company specific inputs in developing an accurate cost study. The costs of unbundled loops vary more on a geographic basis than any other UNE defined by the FCC's 96-325 Order. Under the broad category of physical geography, numerous factors affect the cost of providing loops to a specific customer location.

- a. Customer Density – Customer density is the single largest factor impacting the cost of local loops. Customer density is commonly expressed in terms of

customers or access lines per square mile. The density of customers impacts loop costs in an inverse manner: the higher the customer density, the lower the cost of the local loop. Customer density ultimately determines how many customers or loops there are over which to spread the cost of digging the trench, placing conduit or placing aerial pole line. Customer density also drives the unit cost of other equipment components associated with loops, such as Serving Area Interfaces (SAIs), Digital Loop Carrier (DLC) devices, and Drop Terminals. Sprint's Florida territories are predominantly rural, with a lower customer density, whereas BellSouth and Verizon serve more urban areas in Florida with greater customer densities.

- b. Distance – The distance of a given customer location from the central office increases loop costs as the distance increases. This relationship results from the obvious need to place more cables, trenches, conduit and/or aerial pole lines as the distance of the loop increases. As the distance increases, it generally increases the need for, and overall cost of maintenance. Longer cables have more splice points and result in more exposure to risk of failure.
- c. Terrain – The type of terrain in which cable is placed impacts both the cost of the initial cable placement and the maintenance of the cable. The cost of below-ground cable construction increases as the presence and hardness of rock increases. Terrain factors such as the water table, trees, and mountains all affect the initial construction cost of loops and subsequent maintenance expense. Again, Sprint's Florida territories differ significantly from BellSouth and Verizon, causing needed differences in specific inputs.

d. Local Market Conditions – Issues such as local zoning laws requiring below-ground plant, screening and landscaping around SAI and DLC sites, construction permits and restrictions, heavy presence of concrete and asphalt, traffic flows, and local labor costs, all impact the construction and maintenance costs of loop plant and will vary between locations. Certainly Sprint’s locations will be subject to differences in local market conditions from BellSouth and Verizon in Florida, and those differences should be reflected in company specific inputs.

Clearly there is no single set of cost inputs for unbundled loops that can appropriately represent the cost differences each ILEC in Florida experiences. Any attempt to utilize standard inputs for all ILECs would result in costs that are not accurate for any of the ILECs in Florida.

2. Costs of developing standard inputs:

Costs incurred in the actual development of standard inputs would be high, as ILECs are unlikely to agree on a standard set of inputs. It is probable that the process would prove to be protracted and painful. Even if a standard set of inputs were prescribed by the Commission, individual ILECs are not likely to accept them, or the resulting outputs. For example, if inputs were developed that fairly reflected BellSouth and Verizon’s costs, Sprint’s costs, because they are unquestionably higher, would be understated.

3. Factors affecting successful development of standard inputs:

As noted previously, if Florida ILECs are forced to use a standard set of inputs, the resulting UNE rates are not likely to be accepted by any party. Certainly there will be strenuous debate over whose data better reflects each ILECs operations. Is the input data of various companies averaged? Which company's technology is modeled? Which vendor's products are assumed? It is unquestioned that prices for critical inputs (such as central office switches, cable, structure, etc.) vary greatly, depending on the size and scale of the purchaser of those inputs. Variations in prices reflect the ILEC's ability to negotiate such things as volume purchase discounts. To the extent the parties – ILEC and ALEC – disagree with the standard default inputs, court challenges regarding resultant UNE rates would be likely.

D. Development of Standard Output Reports

1. Potential benefits of standard output reports:

As noted previously, Sprint operates as an ILEC in 18 states. Sprint's TELRIC UNE Model has been used to develop a single standard price list format for use in all 18 states. Hundreds of hours are spent on the development of this standard price list, which includes 122 monthly recurring prices, 265 nonrecurring prices, and an entire list of dedicated transport prices on a route specific basis. The price list is used not only in state UNE rate filings, but for various other purposes, including interconnection agreement negotiations.

Forcing Sprint to develop a price list format with unique rate elements for Florida would negate the efficiencies Sprint has gained from developing a standard price list reflecting its standard billing and OSS. Rather, Sprint believes there is merit in creating a tool which accumulates total charges for a few key ALEC ordering scenarios, facilitating ALEC review of ILEC rates. Sprint would continue to develop its standard price list, but from that would populate a comparison tool that would allow ALECs to compare not only individual element rates, but the total cost of specific activities.

The ALEC industry could be queried by the Commission to determine the top 5 to 10 UNE ordering scenarios, such as order/install 2 wire loops, migrate resale to UNE-P, order/install UNE-P, order/install xDSL capable loop at a location that doesn't have service today, order/install xDSL capable loop at a location that has service today, or order/install high capacity loops. Once the most logical set of UNE ordering scenarios is established, specific pricing information to be reported to the Commission could be prescribed. For each ordering scenario, reportable information could include applicable nonrecurring charges such as service order charge, loop qualification, loop conditioning, and loop installation, applicable monthly recurring charges, and any other charges that may be appropriate for a particular scenario. The report should include the specific facilities that would be utilized in the ordering scenario.

2. Costs of developing standard output reports:

The costs of developing the suggested output report will be minimal, assuming that Sprint is allowed to continue producing its current, standard price list. The suggested output report would be developed utilizing the currently produced standard price list.

3. Factors affecting successful development of standard output reports:

The burden would be on the ILEC to clearly communicate the specific prices included in a particular type of order, as well as the facilities involved. Allowing the ILECs to retain their current UNE cost model and output, and supplementing with prescribed reporting on specific ordering scenarios as suggested above, a high degree of success is likely. The suggested report should meet ALEC requirements. While an ALEC will be interested in the individual element charges, from a business case perspective, the ALEC will be most interested in the total charges associated with a given activity. Reporting in the manner suggested by Sprint will allow the ALEC to compare – ILEC-by-ILEC – the total charges associated with a given type order.

III. CONCLUSION

Sprint recommends that UNE cost studies and rate filings should be filed no more frequently than every 3 years. An annual review of cost studies is unnecessary.

Sprint is not supportive of the development of one standard cost model. No one model can accurately and efficiently calculate the costs which all ILECs incur to provide UNEs

due to the differences in individual ILEC's network technologies, rate structures, provisioning systems, and billing systems. Neither Sprint nor any other ILEC in Florida can be expected to develop, maintain, and provide ongoing support of a model for use by other ILECs. Further, Sprint estimates that if it were required to adopt the rate structure dictated by a single non-Sprint cost model, the costs would be significant.

Sprint does not support the development of a single set of standard inputs. The primary purpose of the cost model is to develop deaveraged cost estimates to best predict the cost of serving specific wire centers within Florida. Sprint's territories are very different from other Florida ILEC territories in terms of geography, customer density, and local market conditions, and Sprint is different from other ILECs in terms of size, economy of scale, and purchasing power. An attempt to utilize standard inputs for all ILECs would result in costs that are not accurate for any of the ILECs.

Sprint is supportive of the adoption of a single cost methodology that incorporates principles for UNE cost analysis and cost model design, but allows each ILEC the ability to efficiently utilize its own UNE rate development process. Sprint recommends that the Commission approve its Proposed Principles for UNE Cost Analysis and Proposed Principles for Cost Model Design, included in Attachment A.

Finally, Sprint supports the creation of a tool which accumulates total charges for a few key UNE ordering scenarios, facilitating ALEC review of ILEC rates.

Proposed Principles for UNE Cost Analysis

1. TELRIC should represent the cost of providing a quantity sufficient for the total demand for each network element. The increment that forms the basis for a TELRIC study shall be the entire quantity of the network element provided.¹

2. Forward-looking costs should be based on the incumbent LEC's actual or planned location of switching facilities, as well as actual customer locations. Forward-looking costs should reflect the most efficient technology and network design that is known, proven, and at least in partial use within a compatible/comparable network today. This benchmark of forward-looking costs and existing network design most closely represents the incremental costs that incumbents actually expect to incur in making network elements available to new entrants.²

3. Any function necessary to produce a network element must have an associated cost.³

4. Costs must be attributed on a cost causative basis. Costs are causally related to the network element if the costs are incurred as a direct result of providing the network element, or can be avoided, in the long run, should the company cease to provide

¹ See FCC First Order ¶690.

² See Id.

³ See FCC First Order ¶691.

the network element. Only those costs that are incurred in the provision of the network elements in the long run shall be directly attributable to those elements.⁴

5. Long-run implies all costs are variable and avoidable. In a TELRIC methodology, the “long-run” used shall be a period long enough that all costs are treated as variable and avoidable.⁵

6. Shared costs are costs that are attributable to a group of outputs but not specific to any one within the group, which are avoidable only if all outputs within the group are not provided. Common costs are common to all outputs offered by the firm and are avoidable only if all outputs of the firm are not provided or if the firm ceases operations. Costs should be assigned to the specific UNEs to the greatest extent possible and, where that is not possible, the shared/common costs should be reasonably allocated. Forward-looking common costs shall be allocated among elements and services in a reasonable manner.⁶ A properly conducted TELRIC methodology will attribute costs to specific elements to the greatest possible extent.⁷

7. Costs should be based on a reasonable projection of fill. Per-unit costs shall be derived from total costs using reasonably accurate “fill factors” (estimates of the proportion of a facility that will be “filled” with network usage); that is, the per-unit costs

⁴ See Id.

⁵ See FCC First Order ¶692.

⁶ See FCC First Order ¶696.

⁷ See FCC First Order ¶695.

associated with a particular element must be derived by dividing the total cost associated with the element by a reasonable projection of the actual total usage of the element.⁸

8. Forward-looking costs should be identified through the use of economic costing models and studies (which comply with these principles). The legitimate intellectual property rights of the model developers and sponsors should be protected. Provided there are appropriate arrangements where the intellectual property and proprietary information of the model owner or sponsor are protected, access to such models and studies should be "open" and "public."

Proposed Principles for Cost Model Design

The Cost Model should satisfy the following twelve criteria.

1. The Cost Model should possess logical coherence. The relationship between inputs and outputs should be logical.
2. The Cost Model should be capable of performing sensitivity analysis.
3. All inputs should be capable of being modified by a user. (The inputs should not be hard-coded.) The Cost Model must be able to accept and use company-specific detailed input data.
4. All algorithms should be open. (The algorithms should not be hard-coded.) The algorithms should be capable of being easily examined.
5. The Cost Model should be able to provide specific forward-looking costs for all relevant UNEs. These UNEs should be described with particularity and relate to actual UNEs available from the ILEC (*e.g.*, types of loops, combinations, vertical

⁸ See FCC First Order ¶682.

features), as well as to the UNEs typically required in interconnection agreements within each ILEC's service territory.

6. The Cost Model should be manageable. The Cost Model should be easy to run. Documentation for the cost model should describe the process that is driving costs sufficiently to permit intelligent use of the cost model.

7. Results generated utilizing the Cost Model should be replicable. It should be possible to verify the accuracy of the cost and price or rate results generated by the Cost Model.

8. The Cost Model should be open and public, subject only to intellectual property rights.

9. The Cost Model should comply with the UNE Cost Analysis Principles.

10. The Cost Model should run on a personal computer.

11. The Cost Model should include the capability to examine and modify the critical assumptions and engineering principles.

12. The Cost Model should be capable of producing deaveraged cost results.

LAW OFFICES
Messer, Caparello & Self
A Professional Association

Post Office Box 1876
Tallahassee, Florida 32302-1876
Internet: www.lawfla.com

Reply to: P.O. Box 1876
Tallahassee, FL 32302-1876

February 28, 2003

BY HAND DELIVERY

Patty Christensen, Esq.
Office of General Counsel
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

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FLORIDA PUBLIC SERVICE COMMISSION
OFFICE OF THE GENERAL COUNSEL

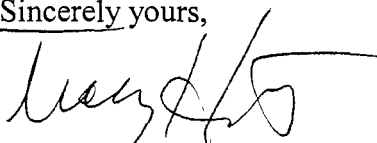
Re: Undocketed: Commission's Examination of Standardization in UNE Costing

Dear Patty:

Enclosed is a copy of AT&T Communications of the Southern States, LLC, TCG South Florida, Inc., MCI WorldCom Communications, Inc., MCI WorldCom Network Services, Inc. and MCImetro Access Transmission Services, LLC's Comments in the above referenced undocketed matter.

Please call me if you have any questions.

Sincerely yours,



Tracy W. Hatch

TWH/amb
Enclosure

RECEIVED

FEB 28 2003

FLORIDA PUBLIC SERVICE COMMISSION
OFFICE OF THE GENERAL COUNSEL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**Undocketed: Commission's Examination of Standardization In UNE
Costing**

COMMENTS

OF

**AT&T COMMUNICATIONS OF THE SOUTHERN STATES, LLC.
TCG SOUTH FLORIDA, INC**

AND

**MCI WorldCom Communications, Inc.
MCI WorldCom Network Services, Inc.
MCImetro Access Transmission Services, LLC.**

FILED: FEBRUARY 28, 2003

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I INTRODUCTION

When results are desired that are comparable and consistent across companies and/or across time, it is both more efficient and more reliable to apply a single process than it is to employ multiple processes. The American manufacturing process, and the resulting industrial success of the United States, is founded on such principles that were first attributed to Henry Ford's construction of the Model T.

The Florida Public Service Commission ("Commission") recently undertook a *de novo* analysis of the individual unbundled network element (UNE) cost models proposed BellSouth, Verizon, and Sprint in the cost proceedings, and the inputs that were appropriate for use with those models. The results were predictable -- the separate models and proceedings did not generate comparable and consistent UNE prices -- even though the characteristics of the territories served by the three Florida incumbent local exchange carriers ("ILECs") are similar. Under these circumstances, the fact that the results were not comparable or consistent strongly suggests that at least one set, and possibly all, of the resulting UNE prices are inaccurate.

A primary cause of the different results obtained in each proceeding is that three different costing methodologies were used by the ILECs to calculate the rates for UNEs. Achieving accurate, comparable and consistent results using three different methods is considerably less likely and clearly less efficient than using a single modeling approach. For this reason, AT&T and WorldCom believe that the Commission should standardize the UNE costing process as much as possible. Specifically, AT&T and WorldCom recommend that the Commission should set in motion the process necessary to design and/or

select a single model to be used by all parties to estimate the recurring and nonrecurring costs of UNEs in Florida. AT&T and WorldCom further recommend that the Commission should develop a set of standard inputs or input development processes and develop a set of standard output reports to be used by a party presenting the recurring and nonrecurring costs of UNEs in Florida. Standardization of UNE costing in this way will help:

- significantly improve the administrative efficiency of the UNE costing process;
- enhance the predictability of the resulting UNE rates for all territories in Florida (which will encourage parties to agree on UNE prices without Commission input);
- eliminate unreasonable discrimination that exists in Florida caused by the use of multiple cost models;
- reduce the costs of participation in regulatory proceedings; and
- focus the parties' collective energy on the implementation and evolution of a single regulatory tool.

The Commission should be pragmatic in this endeavor and not strive to standardize all UNE costing at once – an effort to do would likely end up in a mire and accomplish nothing. Instead, the Commission should first concentrate its standardization efforts on recurring UNE loop rates, which have the greatest impact on the broadest group of consumers in Florida. With the lessons learned from this effort, the Commission would then be able to shift its efforts to the standardization of costing methodologies for other UNEs, such as switching, transport and collocation.

II DISCUSSION OF THE POSSIBLE WORKSHOP OUTCOMES

AT&T and WorldCom understand that there are several possible outcomes to the Staff's current investigation into "Standardization of UNE Costing." As we iterate below, AT&T and WorldCom strongly support the highest form of standardization. The reasons are straightforward – this process will

inevitably involve the most thorough analysis of the costing processes and methodologies – leaving less uncertainty in the UNE rates ultimately adopted. While this Commission should require each party to file UNE rates using the standardized process resulting from these workshop effort, each party also should have the opportunity to present its own evidence using any additional alternative methodology it chooses to present.

A. Design And/Or Selection Of A Single Model

The ultimate objective of this effort is to determine a single approach to developing UNE costs that will be applied to all ILECs operating in the state on a going-forward basis. The Commission should begin by standardizing an approach to developing costs for the local loop. For this reason, the rest of these comments focus on loop studies; however, the concepts and issues discussed below apply equally to all manner of UNE costs.

With the objective of a consistent approach to UNE costing, the Commission has two choices available to it: develop a new cost model of its own, or start with an existing cost model and adapt it for the Commission's use. The Commission can easily streamline the standardization process by selecting a model that it believes comes closest to achieving its objectives. Along these lines, the Commission currently has available to it five different cost models that could be adapted to meet its requirements.¹ Each of these cost models has its strengths and weaknesses, but AT&T and WorldCom believe that it is both desirable and possible to determine which of these models most accurately, consistently and reliably incorporate the FCC's TELRIC standards.

¹ AT&T/WorldCom's HAI Model, FCC's Synthesis Model, BellSouth's BSTLM, Sprint's BCPM and Verizon's ICM.

In the end, there is one cost model that most faithfully incorporates TELRIC concepts and it makes no sense to rely on an inferior approach to establish UNE rates in some Florida locations when a superior cost model is available.² As of today, AT&T and WorldCom believe that either the newest release of the HAI Model (Release 5.3), the FCC's Synthesis Cost Model, or the bottom-up version of BellSouth's Telecommunications Loop Model ("BSTLM") provides the best foundation for making the necessary adjustments to develop one standardized cost model for use in Florida.

The Commission's interest in standardizing a cost-finding tool is consistent with approaches that have been adopted in other regulatory contexts. For example, the Surface Transportation Board (and its predecessor agency, the Interstate Commerce Commission) have for decades relied upon a single regulatory costing tool (currently the Uniform Regulatory Costing System, or "URCS" that was adopted in the mid- to late-1980s) that is applied to all major U.S. railroads in its regulation of railroad rates across the country. When the Interstate Commerce Commission was responsible for regulating motor carriers, it had a comparable, standardized truck cost model. Similarly, the Federal Energy Regulatory Commission ("FERC") has developed standardized techniques for calculating the costs of oil pipeline costs (the "154B" process), and is currently undertaking an effort to standardize the way in which electric utility prices will be established across the country (referred to as "standard market design"). What these efforts demonstrate is that standardization does not mean one is incapable of reflecting legitimate, relevant differences in service territories or customers served by a given incumbent – only that a standard tool is used to assess the effects of those differences. In short, this Commission's interest in standardization is necessary, logical, and supported by a long series of regulatory precedents.

² In the following sections, AT&T and WorldCom will elaborate on the numerous reasons why standardization of costing techniques is essential to ensure non-discriminatory treatment of customers.

(1) Identification of Potential Benefits

The use of a single model for developing UNE costs, and the coherent rate structure that will eventually emerge from this process, will promote competition in a number of ways including: (1) keeping a level playing field by helping to ensure that ALECs and ILECs operate on a more equal regulatory footing; (2) improving the accuracy of the UNE cost estimates by focusing all parties toward the same goal rather than cross-purposes; (3) eliminating the discrimination that results from drastic variances in UNE rates for areas with similar characteristics; (4) decreasing litigation expenses by eliminating much of the disputed areas; and (5) encouraging ALECs and ILECs to negotiate, rather than litigate, interconnection rates by making it easier to predict future rate changes.

ALECs and ILECs Will Operate on More Equal Regulatory Footing

The standardization of costing techniques for UNEs is a critical component of the Commission's efforts to foster the emergence of effective statewide competition in telecommunication markets and to eliminate unreasonable discrimination in Florida. The current process permits each ILEC to frame the debate by deciding on the initial structure and content of the cost support it presents. This is undesirable, from an administrative perspective, for many reasons.

First, it forces the Commission to become familiar with three or four different costing methodologies, even though they all purport to do the same thing. Second, it makes comparisons of inputs and outputs *among* ILECs difficult at best, and potentially meaningless. Merely trying to make such comparisons evokes a firestorm of protest from the ILECs, who contend that the effort is impossible and unfair. Third, it creates an unruly, time-consuming and truly burdensome discovery process – in which the Commission and intervenors must first try to understand how each model

functions, and to determine the key input determinants, before meaningful discovery can be propounded. In most cases, there is insufficient time to complete this process, resulting in a diminished quality of evidence.

In addition, the use of non-standardized, ILEC-specific (and ILEC-developed) costing models provides the ILECs with an inappropriate strategic advantage over intervenors and the Commission in the UNE rate-making proceedings. It encourages the ILECs to “game” the regulatory system by designing costing models that bury key assumptions in obscure computer code.³ Moreover, this process allows the ILECs complete control over the form and type of inputs into the costing process.⁴ An ILEC may have taken years to design its cost models to achieve a particular result, yet the Commission and intervenors may have only weeks – with inadequate documentation of both the model and the development of the model inputs – to evaluate the resulting UNE costs.

Furthermore, while each ILEC need only become expert in a single costing model – its own – the current process requires the Commission and intervenors to become expert at three ILEC models in

³ For example, BellSouth has consistently fought the production of an uncompiled version of the BSTLM computer code that would allow a user to change key assumptions. Since the BellSouth phase of the UNE proceeding, additional errors have been uncovered – by chance – that BellSouth successfully kept in its “black box” during the proceeding. Absent the ability to fully evaluate and modify the cost model source code, the Commission and intervenors cannot truly know how the model performs its calculations and, therefore, what the cost models is actually calculating. It is not sufficient for the Commission to think it knows how the cost model works, or to take an ILEC’s description of how the model works at face value – the devil is always in the details, and the Commission and intervenors must be able to fully explore these details.

⁴ Indeed, the Commission determined that an entirely new proceeding was necessary to evaluate BellSouth’s BSTLM using bottoms-up inputs – inputs that BellSouth previously resisted using.

Florida alone. Moreover, the current rate-making process not only permits, but quite clearly encourages, each ILEC to unilaterally change its underlying costing methodology – thereby forcing the Commission and intervenors back to square one as soon as they begin to effectively evaluate its assumptions and calculations and make the necessary corrections. Moreover, the constant modification of the costing process makes it nearly impossible for the Commission or intervenors to determine the difference in assumptions and inputs between costing approaches.⁵

In short, the current process is tailor-made to raise potential competitors' (and the Commission's) costs and to frustrate the Commission's goal of determining accurate, comparable and consistent, cost-based UNE rates that ultimately would benefit all Florida customers. Because the current process creates tremendous advantages for them, WorldCom and AT&T expect that the ILECs will resist this Commission initiative and make a concerted effort to derail it. It is for precisely these reasons that the Commission must stay the course and establish a standardized costing method to be applied to all price-capped ILECs. This will facilitate the Commission's and each party's understanding of the cost models, which will enable the Commission to make more accurate cost determinations which ultimately will benefit Florida consumers by treating them in an identical fashion, rather than fostering an environment in which one group of customers is likely to be disadvantaged *vis-a-vis* others.

⁵ For example, BellSouth's BSTLM produces higher DS-1 costs than its prior cost studies – despite the fact that DS-1 demand has grown dramatically and the cost of electronics have declined considerably. Such a result makes no sense but intervenors have been effectively precluded from being able to identify the source of such a discrepancy.

Improve the Accuracy of the UNE Cost Estimates

The current process fosters an environment in which all three ILECs, and some ALECs, are each working separately to develop and promote loop cost models that purportedly follow the FCC's TELRIC rules. Each of these models must address the same issues – customer location, design of efficient customer groupings and logical distribution areas, creation of efficient feeder routes, determination of appropriate structure sharing and fill assumptions, estimating forward-looking technologies, materials costs and labor rates, and determining appropriate forward-looking expenses levels. Substantial duplication of effort by the parties in developing these models is inevitable. Moreover, the Commission and intervenors must divide their resources in reviewing, analyzing and testing multiple models rather than one.

Focusing the parties on developing a single platform that follows the FCC's TELRIC rules ensures that this Commission will be setting rates based on methodologies that it fully understands and supports. Moreover, the Commission can be assured that all parties understand how to use the models, thereby avoiding the common problem of creating inconsistencies between the development of model inputs and the application of those inputs in the model. As stated previously, there is one cost model that most faithfully incorporates TELRIC concepts and it makes no sense to rely on an inferior approach to establish UNE rates in some Florida locations when a superior cost model is available.

There are two important factors that cause differences among the cost models propounded by the parties: conceptual differences and implementation differences. The more fundamental problem is that the various cost models have different conceptual interpretations of TELRIC. This means that the various parties are actually using different costing standards in arriving at their proposed UNE rates.

Under such a structure, the Commission cannot send consistent economic signals to potential competitors across the state.

Determining the correct conceptual standards should lead to largely consistent UNE cost results. For example, the parties generally agreed at the workshop that it is appropriate to geocode customer locations as the basic building block of an appropriate cost model. However, there were several different geocoding approaches discussed: address geocoding (using a customer's address and a database of street references); individually geocoding each customer location; or geocoding the customer's drop terminal. While additional discussion would need to take place to fully understand these alternatives, AT&T and WorldCom are generally amenable to any of these approaches. This illustrates that the implementation issues can be discussed and decided much more easily once the Commission determines the correct conceptual standards.

Further, once the conceptual standards are determined, there is simply no logical justification for three parties spending their resources to implement the same standards in three different models. A single model platform that incorporates the conceptual standards developed by this Commission will ensure that all parties focus on the development of a model that more accurately accomplishes the Commission's objectives.

Discrimination Caused By Variations In Cost Modeling

Today, the UNE costs ALECs incur to provide service to Florida consumers often depend on nothing more than the particular cost model that was used to establish the UNE rates. For example, there is a fifteen mile stretch of US 301 north of Tampa, Florida that covers the territory of BellSouth, Sprint and Verizon. The houses along this road are similarly situated about the same distance back from

the road, and each receives its drop line from similar loop plant structure (e.g., telephone poles, trench). However, ALECs have to pay UNE charges ranging from \$30.94 (BellSouth) to \$36.76 (Verizon) to \$48.36 (SPRINT). See Attachment 1. There is simply no reason why it should cost SPRINT over 55% more to serve similarly situated customers than it costs BellSouth under TELRIC. Further, there is no logical or valid reason why Verizon should charge 68% more for switching than BellSouth. Both companies should have similar purchasing power with vendors, similar economies of scale in their networks, and should use fairly similar standard engineering standards. Moreover, the soil type in this territory is about the same, the type and amount of facilities required to serve each customer are similar, so facility investments should be comparable.

Thus, the difference among the rates for these customers largely stems from the differences in the models propounded by the respective providers. The use of different cost models has served to distort the similarity in the costs of serving these customers. From a public policy perspective this should greatly concern the Commission, because it is clear that the use of multiple cost models has real competitive consequences and is causing unreasonable discriminatory conditions to exist in Florida. Specifically, such a rate disparity will render it unprofitable for ALECs to market certain services to SPRINT and Verizon customers, while ALECs will be able to offer such services to BellSouth customers. These competitive ramifications are a direct result of the fact that at least two of the three costing approaches are not based on TELRIC – because the costs and the UNE rates would be very similar if they were all based on the same interpretation of TELRIC.

Decreased Litigation Expense

Standardized cost modeling will also make the discovery process that occurs in UNE rate cases much more efficient. First, it will eliminate the need to seek extensive discovery on the

workings of the model; second it will permit the parties to focus more narrowly on the inputs to the model. This, in turn, will help all parties to more accurately forecast and control the costs of participating in UNE rate-making proceedings.

The current regime encourages the ILECs to create more complicated, burdensome litigation. ILECs can use resources made available from their monopoly position to fund litigation. At the same time, ALECs' budgets for litigation are constantly being squeezed, largely because of the current economic environment for competitive telecommunications carriers (part of which can be addressed by the benefits of standardization). While standardization of a UNE cost model will not eliminate this ILEC strategic advantage, it will minimize the negative effect on ALECs. Further, the process will become easier over time as all parties (Staff, ILECs and intervenors) become more facile with the model and more fully understand how certain inputs are handled in the model.

(2) Identification of Potential Costs

There will be additional short-run costs to implement a standardized cost model. ILECs and ALECs will be required to modify an existing cost model or to purchase licenses to use a cost model developed and maintained by a third party. Additional cost will be incurred to develop the underlying data that will be used in the model. However, certain costs will also be avoided because the parties will no longer need to develop separate data sets for three different models. In fact, the pooling and sharing of resources should make the data development process more efficient than would be achieved individually. Further costs savings can be achieved by using a single third-party vendor to process all of the input data.

In the long run, the Commission's reliance on a single standardized cost model will reduce the

costs for all parties – ILECs, ALECs and the Commission staff alike. Common sense dictates that it is much more efficient for three parties to contribute in developing one cost model than for three parties to each develop a cost model of their own. For this reason, standardization of cost modeling is efficient. Setting aside the tremendous strategic litigation advantage that ILECs can achieve under the current process (which is described above), standardization also is in the private interests of the ILECs, and always in the public interest.

(3) Factors Affecting Successful Implementation

There is a single factor that is essential to successfully implementing a single, standardized cost model – a Commission order requiring one. Absent an order, the ILECs benefit (as demonstrated above) from complicated cost models that change over time. AT&T and WorldCom believe that the ILECs will do everything possible to avoid creation of a single model unless the Commission issues an order and diligently enforces that order to standardize the loop costing methodology.

Before entering such an order, the Commission should conduct a series of workshops separated into topics. First, the Commission can determine whether it wishes to develop its own model or work from an existing model that it deems most consistent with TELRIC. Second, assuming the Commission determines to start with an existing framework, workshops should be held to address those modeling issues that parties believe are inconsistent with TELRIC or need to be modified.⁶ This can be best determined by (recorded) workshops where experts can ask other experts questions to better isolate the

⁶ AT&T and WorldCom propose that the parties work together to identify one common set of issues for comments – similar to the approach taken to identify a format for these comments. Then, all participants can arrive at the workshop prepared to discuss those critical issues.

issues of dispute. Parties can then file comments on those issues discussed at the workshop. Ultimately, the Commission will decide those issues and order a compliance filing with the one, standard model that is developed in this process. AT&T and WorldCom do not believe that there are any other factors that stand in the way of successful implementation of a single loop cost model.

B. Development of Criteria Or Methodologies that Must be Met by Any Model

The development of criteria or methodologies that must be met by any model is a necessary starting point for the Commission's development of a single, standardized cost model. However, standardizing the methodologies, without the implementation within a standardized model, will ultimately result in parties deviating from the stated methodologies. Without a standardized model, it is extremely burdensome to ensure that those concepts are applied in the same way the Commission intended. There is simply too much "wobble-room" created in this environment.

For an illustration of the problems inherent in stated standards without a standardized model, one need look no further than the wide range of interpretations of the Telecommunications Act of 1996. The FCC first interpreted the Act, which was then disputed and debated twice before the Supreme Court of the United States. Even after the Supreme Court's reaffirmation of the FCC's interpretation of TELRIC, a wide range of interpretations of TELRIC still exists between various parties. Further, the Commission surely did not consciously set out to employ different criteria and approaches in the three

UNE proceedings recently completed. Yet, by being forced to rely on different cost models in each proceeding, the Commission is left with UNE rates that are radically different between carriers due to the differences in the underlying interpretation embedded in their respective models.

AT&T and WorldCom believe that stopping at the implementation of criteria without

implementing those criteria in a uniform model perpetuates the current environment where the ILECs will selectively interpret portions of any criteria put forth by the Commission. This, in turn, will result in unfair, discriminatory UNE rates for ALECs and ultimately, certain Florida consumers. This situation can be effectively avoided only by employing a single, standardized cost model.

As an alternative to adopting a single standardized model, some have suggested that the Commission settle for the development of a single set of criteria or approaches that must be met by any party sponsoring a model in a UNE proceeding. This process, because it will not be based on a standardized model, necessarily requires the investigation into each component of the costing process. Further, this process will require very detailed descriptions and definitions to ensure that the meaning of the Commission is very precise. The following is a minimum list of issues that will need to be addressed under this approach:

- Does TELRIC require keeping existing wire centers, switch locations or both?
- Does TELRIC require keeping existing carrier service areas (DLC locations)?
- Does TELRIC require keeping existing distribution areas (FDI/SAI locations)?
- Does TELRIC require keeping existing drop terminal locations?
- Does TELRIC require keeping existing feeder cable routing?
- Does TELRIC require keeping existing distribution cable routing?
- Does TELRIC require the inclusion of POTS, DS-1, DS-3, OC services and other switched and non-switched services in one model?
- How will customer locations be identified?
- If customer locations are geocoded, what type of geocoding methodology must be used?
- How will surrogate customer locations (i.e., those that cannot be geocoded) be determined?
- If surrogate customer locations are surrogated using roads, what road dataset should be used and what types of roads should be included?
- How will the number of lines be determined?

- How should customers be grouped into serving areas?
- If a clustering approach is used, should an agglomerative clustering approach be used, a divisive clustering approach, a nearest neighbor approach, or a minimum spanning road tree approach?
- If a gridding approach is used, should it be based on longitude and latitude, or an ultimate grid concept?
- Should DLC's be located at the geographic centroid, the population centroid, the line-weighted centroid, or optimized?
- Should distribution areas be determined using a clustering approach or by using a quadrant approach?
- Should FDIs/SAIs be collocated with the DLC, located at the geographic centroid of the distribution area, at the line-weighted centroid of the distribution area, or optimized?
- Once the distribution areas are determined, should customer locations be assumed to be dispersed within the distribution area, dispersed over the rater area, be based on actual location, be based on a minimum spanning road tree, be based on an adjusted backbone and branch minimum spanning tree, or based on distribution templates?
- Should cable distances be calculated based on rectangular routing, actual street distances or using a route-to-air multiplier?
- Should the feeder plant be designed based on four basic directions, and should it include steering or splitting in the feeder route?
- Should feeder distances be calculated using minimum spanning trees, minimum spanning road trees, with four quadrants and steering, with feeder splitting?
- Should the feeder technology selection be based on the maximum copper loop limit, feeder design limit, optimized economic crossover, or on the existing technology?
- Should equipment be sized based on a design standard per unit, a fill factor, or a sizing factor?

The above list is in no way complete, but identifies a subset of issues that would need to be determined (with great specificity) in order to correctly standardize the methodologies that all parties must follow. Further, the above list applies only the loop component of plant and a different set of

topics would need to be developed for each type of facility.

(1) Identification of Potential Benefits

There are benefits associated with developing a set of standard criteria and methodologies that the parties must follow. However, as the following sections discuss, there is little likelihood that this approach will generate consistent models. Further, the regulatory oversight required to enforce such standards over three models would be extensive and burdensome. AT&T and WorldCom therefore believe that the theoretical benefits that would otherwise be achieved by following this path are illusory because of the inevitable differences in interpretation of the standards that would become embedded in the various models. The identification of standard criteria and methodologies is an essential first step in selecting a standardized model that encompass the majority of the Commission's criteria but the standards must also be implemented in a standardized model. To do otherwise will eviscerate the goal of consistency and comparability between ILECs' UNE rates.

(2) Identification of Potential Costs

The notion that less administrative effort is required to adopt a standard set of criteria or approaches than to adopt a single standardized cost model is illusory. First, the Commission's decisions on these issues would have to be extremely detailed and explicit in order to avoid misinterpretation or misapplication of the guidelines in future cases. The only logical and effective way to ensure that the criteria are sufficiently detailed and explicit would be to require each party proposing a particular cost model to prepare a "compliance run" with its model – using the proposed guidelines – to determine whether the guidelines would in fact result in consistent, comparable UNE costs for loops across ILECs and across the state. If this failed to occur – and for all of the reasons AT&T and WorldCom articulated

above, this would almost certainly be the outcome – then analyses would be required to determine: (1) whether each party implemented the proposed guidelines as the Commission intended; (2) if so, what is it about a given model that caused its results to differ from the others; and (3) based on those findings, how the proposed guidelines could be modified to force the proposed model to perform consistently with the others and with the intentions of the Commission.

Obviously, such a process would be an administrative nightmare. Even more distressing is the fact that it would all be for naught as soon as one party made any substantive change to its modeling approach notwithstanding its purported consistency with the standards. It is clear that stopping short of requiring a single standardized model would merely perpetuate today’s environment in which ILECs have tremendous incentives to use cost modeling to raise costs of competitive entry and to frustrate Commission efforts to encourage competition for Florida customers.

The proposal to adopt UNE cost standards without adopting a model will require significant up-front costs by requiring numerous extensive workshops to develop the appropriate standards for each detail relating to cost models. Developing a set of standards and guidelines would require many rounds of comments to develop the final set of “criteria and guidelines” that are clear and precise.

Notwithstanding all of this effort, this approach would still leave ultimate control of the modeling methodology in the hands of the ILECs. This control would allow the ILECs to make frequent unannounced changes at will. This will in turn result in the long-run costs associated with discovery, increased litigation, and the need to fully review and understand multiple models filed by various parties.

(3) Factors Affecting Successful Implementation

The factors affecting successful implementation associated with developing a consistent set of criteria or methodologies that must be met by any model (or set of models) used by a party to estimate the cost of UNEs encompass all of the items identified for the factors affecting the successful implementation of a single, standardized model – with several additions. First, the Commission will need to be diligent in fully understanding each issue underlying the formation of cost models. Second, the Commission will need to be very clear and precise in describing the standards, so as to minimize the “wobble-room” created by the possible range of interpretation. Third, the Commission will need to put procedures in place to ensure that the models are sufficiently open and verifiable to ensure that its criteria are fully met – no “black-boxes” can exist. Fourth, the Commission will have to institute a procedure allowing it to order specific changes to an ILEC cost study – changes that could be costly.

In the end, AT&T and WorldCom do not believe that the above task is achievable. For the reasons outlined above, there is virtually no way to ensure that the ILECs will consistently interpret the Commission’s criteria and guidelines. The end result will be that UNE rates for the three ILECs will still not be standardized, resulting in UNE rates that are inconsistent with TELRIC.

C. Development Of A Set Of Standard Inputs Or Input-Development Processes

All cost models rely extensively on user-adjustable inputs. These inputs reflect a wide range of data, covering equipment costs, installation costs, engineering or technical criteria, expense data, economic lives and cost of capital. Moreover, these data can be represented in a variety of ways. This Commission is well aware of the familiar debate over the use of “linear loading factors” and “bottoms-up” inputs. AT&T and WorldCom believe that standardization of inputs is crucial to developing costs that are comparable across study areas in Florida. The benefits and costs associated with standardizing

inputs are dependent on three critical determinations.

First, the Commission must determine whether it chooses to select a standardized cost model or to standardize model criteria and methodologies. Under either approach, it is crucial to standardize the input process to create comparability between the parties and consistency in UNE rates. However, the benefits, costs and likely success of such an endeavor will hinge on the ability of the Commission to ensure consistency in the application of the standardized inputs.

Second, the Commission and staff must determine the appropriate format for inputs into a standardized costing process. For example, the Commission must determine whether “linear loading factors” or “bottom-up” inputs best achieve the objectives of the Act and of the Commission. AT&T and WorldCom clearly believe that the Commission must start with “bottom-up” inputs that allow for review and evaluation as the starting point for standardized inputs.

Third, the Commission and staff must determine either to standardize the inputs across all companies or to standardize the input processes. For example, the Commission could determine that the cost of a given size and gauge of copper cable should be a given dollar amount. Alternatively, the Commission could determine that the cost of copper cable must be determined by reviewing the ILECs largest ten copper cable purchases over the past two years.

(1) Identification of Potential Benefits

There are a number of clear benefits associated with standardizing cost model inputs for all users of a standardized costing approach. First, it enables comparisons of input values proposed by and used for each ILEC. This, in turn, has real meaning and would help the Commission to quickly evaluate whether apparent cost differences for particular customers or services are real or illusory.

Thus, Commission can easily ascertain the reasons for a change in UNE rates by reviewing any deviation from a previously adopted value(s) for a given input.

Second, standardizing inputs helps ensure consistency in the future regulatory structure. This helps minimize the ILECs strategy of creating complex litigation and will make trend analyses, cross-ILEC comparisons, and geographic comparisons useful and meaningful regulatory tools for the Commission. Thus, standardization of inputs is administratively efficient, and will improve the administrative oversight of UNE rates. Incorporating a standard set of inputs into a standardized costing methodology also ensures consistency in the way those inputs are treated by the model. Standardizing inputs does very little good if those inputs are manipulated differently within multiple costing approaches.

AT&T and WorldCom recommend that the Commission develop a standard set of inputs for all companies. There are two direct benefits that will result from this approach. First, the Commission will be able to readily determine the extent to which any variances in UNE rates is a result of the underlying characteristics of the service territory, rather than from using disparate inputs. Second, the Commission has a vehicle to use in determining the extent to which a particular parties advocacy deviates from the Commission's expectations. Simply put, any input that substantially deviates from the Commission's determined input value should be given significant scrutiny and require specific support from the party advocating the dramatic change.

Finally, with standardized inputs, the Commission can also ensure that the ILEC input development process conforms to the Commission's and the FCC's view of TELRIC. As a practical matter, it is impossible for the Commission to independently investigate and evaluate the wide range of data used to develop a disparate set of inputs for each ILEC. Standardizing inputs and the

process used to develop those inputs creates a process that leads to more efficient investigation and analysis of consistent data for all ILECs. Further, the Commission can streamline the UNE proceedings by requiring a standard process for developing inputs. Requiring the ILECs to file consistent backup data supporting the standardized inputs removes the majority of discovery disputes that have become commonplace in UNE proceedings around the country.

Standardizing the inputs and input development processes have all of the key advantages of using a single, standardized costing approach, including: (1) keeping a level playing field by helping to ensure that ALECs and ILECs operate on a more equal regulatory footing; (2) improving the accuracy of the UNE cost estimates by focusing all parties toward the same goal rather than cross-purposes; (3) eliminating the discrimination that results from drastic variances in UNE rates for areas with similar characteristics; (4) decreasing litigation expenses by eliminating much of the disputed areas; and (5) encouraging ALECs and ILECs to negotiate, rather than litigate, interconnection rates by making it easier to predict future rate changes.

(2) Identification of Potential Costs

The costs of standardizing model inputs are directly tied to the costs of developing a standardized costing approach. In other words, a standardized model necessarily ensures that all parties must use the same set of inputs. Standardizing the input development process involves some short-run costs. These costs include participation in workshops to develop the guidelines for input development and the time necessary to develop inputs consistent with the Commission's standardized process.

(3) Factors Affecting Successful Implementation

Standardization of a set of inputs to be used in the costing process is a necessary step in the development of a standardized costing approach. The use of standardized inputs largely hinges on the use of a standardized costing approach that has the ability to 1) accept the same inputs for all companies, and 2) consistently treat those inputs in the cost model. Without using a standardized cost model, the costs and likely success of standardizing the inputs becomes burdensome.

The Commission would face considerable obstacles in attempting to enforce a standard set of inputs in three different cost models developed by three different ILECs. The only chance of success, if the Commission does not select a standardized costing approach, is to ensure that the modeling criteria include very specific instructions regarding the type of inputs that must be used for each piece of equipment and how that input will be treated in the cost model. Once the criteria go down this path, it is effectively the same thing as creating a standardized model for use by all parties.

As is the case with adoption of a single, standardized cost model, the primary factor that will affect the successful development of a standard set of model inputs or processes is a Commission order requiring that it be developed. For all of the reasons articulated earlier, it is clear that the ILECs will not voluntarily take steps that will reduce the costs of competitive entry in Florida, or make it easier for the Commission and the ALECs to participate in UNE ratemaking proceedings. Absent a Commission order specifically requiring a standard set of model inputs, there is little hope that standardization can effectively be accomplished.

AT&T and WorldCom further believe that the Commission and intervenors will benefit from establishing a standard set of input values for all companies. This process was used by the Commission in establishing USF costs, and has the benefit of forming a baseline from which a party's recommended

inputs can be evaluated.⁷ Further, the Commission’s objectives are best met by also standardizing the sources used for input development and standardizing the backup material that must be filed in support of the ILEC’s inputs. Between using a standard input value and requiring consistent supporting documentation for any purported changes, the Commission can significantly improve the chances for successful implementation of standardized inputs in the costing methodology.

D. Development Of A Set Of Standard Output Reports

The initial workshop on Standardization of UNE Costing made it evident that the various ALECs in Florida have significant difficulty understanding what charges they will incur for purchasing various UNEs. In fact, it became clear that the Commission staff also experienced difficulty in determining what different ILECs are charging for the same UNEs. The inconsistency in both the development of UNE rates, the definition of UNE terms and applicability of various charges to particular UNEs creates a high level of uncertainty in ALEC business plans – resulting in greater than necessary risk to ALEC investors.

AT&T and WorldCom believe that the Commission must standardize many of the UNEs across the state of Florida and the charges associated with those UNEs by creating “standardized output report” that both creates a consistent rate structure and formalizes the way the rate structure is reported (e.g., where each rate appears on a given output spreadsheet).

⁷ This, in no way, limits the ability of any party from using the standardized costing approach with its own inputs. It merely requires a baseline compliance filing that allows for critical review of key inputs that vary from the Commission’s expectations.

(1) Identification of Potential Benefits

Developing a standard set of output reports will result in benefits that provide for greater certainty in the regulatory process and allow ALECs to more accurately predict costs. From a business perspective, this single benefit allows for the development of much more precise business plans that can be confirmed by an ALEC's investors.

In addition, standardizing the output reports also produces significant administrative benefits. For example, variance analyses could be automated, because the rates for each ILEC would be in the same location, and as a result programs could be written that would automatically produce such analyses. Post model run clerical time formatting the output for production in Commission orders would be reduced. ALECs could build programs that automatically perform bill audit and other accounting functions. Standardization of output formats has been demonstrated, over and over again, to generate significant efficiencies for both providers and consumers of information – and there is no reason to ignore potentially significant efficiencies that such standardization would create.

ALECs Will Experience Savings in Bill Audit And Ordering Functions

Standardized UNE costs help ALECs confirm that the ILECs have calculated costs appropriately, resulting in fewer misunderstandings about which recurring and non-recurring charges (“NRCs”) should be incurred by an ALEC to provide particular UNE-based services. Further, because ALECs will be able to use a standard process for all ILECs in the state, ALECs will have more incentive to offer telecommunications services across the state rather than only serving the territory of one ILEC. These characteristics will clearly reduce ALEC costs for bill audits and for ordering, which will increase the funds ALECs will have to spend on expanding their competitive footprint and on developing

alternative service offerings to attract customers.

Standardization Of UNE Rate Structure Will Decrease Uncertainty

As noted above, standardization decreases uncertainty by improving the predictability of UNE rates over time and by reducing the transaction costs associated with ordering UNEs and auditing UNE prices. In addition, it will enable ALECs to more efficiently enter more markets and provide competitive service offerings in logical geographic areas that may be served, today, by more than one ILEC. This capability increases economies of scale and reduces the risk of market entry. When competition becomes less risky, it becomes a more attractive investment, and raising capital for expansion and/or facilities-based competition becomes more feasible.

(2) Identification of Potential Costs

There is no significant incremental cost associated with the development of a standard set of outputs, or a standard set of output reports. Generally speaking, cost models create investments and expenses that are specific to particular facilities in the network. Particular UNE offerings are simply a combination of these individual elements and expenses to form a particular product.

The identification of a standard set of UNEs in no way limits the ability of ILECs to offer additional UNEs to its ALEC customers. For example, one ILEC may not provide the same, or as many, unbundled elements as other ILECs (for example, Sprint might not sell an OC-192 as a UNE while BellSouth might). In no way does this argue against standardizing outputs and output formats because this issue can easily be addressed in the standardized output report by using “N/A” to indicate that a UNE is not available from a particular ILEC.

(3) Factors Affecting Successful Implementation

There are three steps necessary to develop a full and consistent set of output reports for use in Florida. First, the ILECs should identify the number of UNEs sold in Florida for each UNE it offers. From this list, the Commission, staff, and intervenors will be able to identify those UNEs that are the most critical to ALEC business plans and create a standard set of definitions and formats for those UNEs.

Second, ALECs should have the opportunity to identify any concerns or issues surrounding the various UNEs identified by the ILECs and offer suggestions on how to improve the reporting process. This second step involves a collaborative effort on behalf of all ALECs in Florida to identify those UNEs (or UNE combinations) that are most critical to business plans and to propose a format for reporting the costs associated with each particular offering.

Third, the workshop process can be used to refine the results of the first two steps and identify a minimum set of UNEs that must be reported and the standardized format for those UNEs. The ILECs can then add any additional UNEs it chooses, in a logical order approved by the staff, to the standard output report. In this way, the Commission can ensure that, at the very least, there will be comparability between parties for the standard set of UNEs ALECs actually purchase in Florida and also ensures that the ILECs can continue to offer the full scope of UNEs it currently offers in Florida.

Again, the necessary predicate for the successful development and adoption of a standard set of outputs and standard output reports is a Commission order requiring compliance.

III OUTCOMES UNRELATED TO MODELING ISSUES, INPUTS OR OUTPUTS

The standardization of UNE costing will result in a more collaborative, less litigious process for setting UNE rates and fostering competition in Florida. Use of a standardized procedure for developing the cost of UNEs will improve the ability of all parties – and the Commission – to predict changes in UNE prices for two reasons. First, use of a single model, standard inputs and standard outputs makes it easier for all parties to predict how changes in certain characteristics of the Florida local services market, e.g. inflation, productivity, line density, growth of high capacity services, will affect future UNE cost calculations.

Second, all cost models evolve as the state of the cost modeling art improves and as the availability of data (e.g. the availability of geo-coded customer locations) evolves. Adoption of a single costing process allows the Commission to exercise significant control over how the model changes over time.⁸ By exercising this control, the Commission will ensure that the process is not only standardized initially, but will continue to evolve using a single, consistent framework. This will continue to promote predictability over time.

Predictability encourages competition for several reasons. First, predictability of prices that ALECs will pay for important resources allows them to plan more effectively. This, in turn, improves investor confidence in ALEC business plans allowing more money to flow into competitive telecommunication services in the state of Florida. Second, predictability facilitates more active negotiations. Simply put, parties tend to be more willing to negotiate as the range of possible outcomes

⁸ The Commission may be faced with having to evaluate a particular “enhancement” in the context of an individual case, or may from time to time solicit input from the ILECs, ALECs and other interested parties about changes that it is considering of its own volition.

decreases. A single model based on a consistent set of standards will narrow the gap between the parties, encouraging them to arrive at a compromise, resulting in additional creative service offerings that clearly improve customer choice.

AT&T and WorldCom believe that this collaborative effort will also allows parties to informally suggest modifications to the standards identified and ordered by the Commission – and that the Commission should institute such an approach. To the extent that most issues involving modifications to the standardized model, inputs, or outputs determined by this Commission can be implemented by agreement between the parties, the Commission should let the parties work together on those issues. For example, calculation errors may become evident that should be corrected. Under most situations, the parties should agree that such corrections are appropriate. Also, there no need to institute a proceeding to add additional UNEs to the standardized output reports – especially if such an addition has the consent of all parties.

Thus, standardizing the UNE costing process will better simulate the competitive environment originally envisioned by the act – an environment where competitors must deal directly with each other and compete directly with each other to bring a wider range of service offerings to the consumers in Florida.

IV OTHER MEANS OF ACHIEVING THE WORKSHOP'S OBJECTIVES

AT&T and WorldCom do not believe that there is any effective alternative to achieve the Commission's objectives other than the Commission issuing an order requiring the adoption of a single standardized model, input development process and output reports for UNE costing. Failure to issue such an order, and to enforce it rigorously, will cause this effort to die on the vine. This would deprive

the Commission and potential competitors of the substantial cost-reducing benefits of standardization, increase potential competitors' costs in numerous other ways, and ultimately deprive Florida consumers of a UNE rate-setting process that is non-discriminatory. Thus, AT&T and WorldCom see no alternative to the Commission's holding a series of workshops and then ordering the parties to adopt a single, standardized cost model, inputs and output reports. As noted above, this process should start with the standardization of the UNE loop costing methodology and then, based on the lessons learned in that effort, focus on the remaining UNEs.

V CRITICAL ISSUES AND SUGGESTED DIRECTION FOR FUTURE WORKSHOP EFFORTS

AT&T and WorldCom believe that it is critical, at the outset, to establish a set of criteria that can be used as the basis for selecting a single model from the collection of models before the Commission. That list of model evaluation criteria should include the following:

- The ability to use geo-coded customer location data;
- A reasonable methodology for establishing surrogate customer locations when geo-coded is unavailable for certain customers;
- Mechanisms for establishing efficient distribution areas and for designing efficient feeder and distribution networks;
- The ability to make cost-effective choices between copper and fiber feeder;
- The ability to model all services – including high-capacity services – in a single, coherent cost model;
- The ability to audit the analytical flow of the cost model;
- The ability to accept appropriate inputs into the costing process;
- The ability to produce a wide range of UNE costs that could be developed for any ILEC.

Workshops would then be conducted on these (and other key topics) in order to assist the

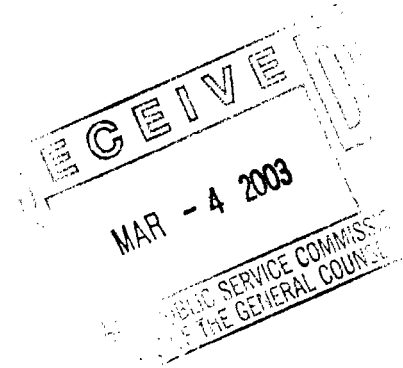
Commission in evaluating each model against these key criteria. The Commission and staff will be able to find an existing cost model that can be used to set a solid foundation for a standardized costing approach. While AT&T and WorldCom believe that the HAI Model 5.3, the FCC's Synthesis Model, or BellSouth's BSTLM can be used as the basis for such a process, we recognize that the Commission's familiarity with BellSouth's BSTLM may be the best starting point in Florida. From this base, the Commission could quickly address the few, necessary modeling enhancements that will result in a solid foundation for standardizing the UNE costing approach in Florida.

LAW OFFICES
Messer, Caparelo & Self
A Professional Association

Post Office Box 1876
Tallahassee, Florida 32302-1876
Internet: www.lawfla.com

Reply to: P.O. Box 1876
Tallahassee, FL 32302-1876

March 4, 2003



BY HAND DELIVERY

Patty Christensen, Esq.
Office of General Counsel
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Undocketed: Commission's Examination of Standardization in UNE Costing

Dear Patty:

Enclosed on behalf of AT&T Communications of the Southern States, LLC, TCG South Florida, Inc., MCI WorldCom Communications, Inc., MCI WorldCom Network Services, Inc. and MCImetro Access Transmission Services, LLC is Attachment 1 to be attached to the Comments sent to you on February 28, 2003 in the above referenced undocketed matter. This attachment was inadvertently omitted. I apologize for any inconvenience this may have caused.

Please call me if you have any questions.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Tracy W. Hatch".

Tracy W. Hatch

TWH/amb
Enclosure

ATTACHMENT 1

DISCRIMINATION IN FLORIDA CAUSED BY COST MODELS

LOCATION	ILEC	CENTRAL OFFICE	LOOP RATE	SWITCHING COST ¹	ESTIMATED RECURRING UNE-P COST
US 301 Rerdell, Florida	SPRINT	Busnell	\$ 39.66	\$ 8.70	\$ 48.36
US 301 Ridge Manor, Florida	BellSouth ²	Brookville	\$ 24.63	\$ 6.31	\$ 30.94
US 301 Dade City, Florida	Verizon	Zephy Hills	\$ 26.15	\$ 10.61	\$ 36.76

Assumptions

1. 1500 originating and terminating end office switching minutes per month and switch features.
2. BellSouth switching cost includes 40 ADUF and 250 ODUF message per month. Not necessary for SPRINT and Verizon because billing information costs are included in the switching rate.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Undocketed
Standardization of Unbundled
Network Element Costing

Submitted: February 28, 2003

COMMENTS OF VERIZON FLORIDA INC.

Verizon Florida Inc. (“Verizon”) respectfully submits these comments on the issues identified during the Commission workshop on December 18, 2002, relating to the standardization of unbundled network element (“UNE”) costing.

I. VERIZON DOES NOT SUPPORT THE STANDARDIZATION OF UNE COSTING

Any attempt to standardize the methods by which UNE cost estimates are developed for the three large incumbent local exchange carriers (“ILECs”) in Florida must be approached with great caution. Standardization threatens to undermine the key objective of any UNE cost proceeding: the development of accurate, company- and state-specific UNE cost estimates. The Federal Communications Commission (“FCC”) has made clear that UNE cost proceedings are intended to produce “costs that incumbents actually expect to incur in making elements available to new entrants.”¹ It is only when UNE prices accurately reflect each carrier’s specific costs that the appropriate signals are given regarding competitive entry into the local exchange market. None of the proposed outcomes identified in the framework for these comments—whether it be a standardized cost model, common criteria, inputs, or outputs—will necessarily produce the kind of accurate, company- and state-specific cost estimates required in UNE proceedings.

¹ In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98, *First Report and Order*, FCC 96-325 (rel. Aug. 8, 1996) at ¶ 685 (“First Report and Order”).

Standardization of UNE costing ignores the very real differences among carriers. Just as Ford does not build a car exactly like Toyota, Verizon does not build or operate its network in precisely the same manner as BellSouth or Sprint. UNE cost estimates, by definition, are designed to capture these company-specific cost variations. While there are theoretical benefits to the standardization of UNE costing, the costs and disadvantages associated with such an endeavor far outweigh any perceived gains. For the reasons discussed herein, Verizon does not support the adoption of standardized UNE costing.

II. THE BENEFITS OF STANDARDIZED UNE COSTING ARE PURELY THEORETICAL

The benefits of standardized UNE costing are theoretical and unproven.

Assuming that the Commission and Florida's three large incumbents could agree on a standardized approach—a highly unlikely proposition—there are few potential benefits that may result from such an endeavor. The standardization of UNE costing may lead to an increased understanding of the manner in which UNEs are provisioned, and how the costs associated therewith are estimated.

Standardization may also benefit the Commission and Staff. For example, if a single model were adopted, the Commission and Staff may be able to leverage the time spent, and resources expended, learning and studying the standardized model, as opposed to several different, competing models. This may lead to a more thorough understanding of the model's platform and underlying assumptions.

The likelihood of these benefits being realized will vary depending on the approach adopted by the Commission. The adoption of a single model would be the most contested option, and thus any benefits to be realized would be difficult to attain. It may

be easier to obtain agreement on general costing methodologies or parameters, such as technology assumptions or standardized output reports, which give the individual carriers some flexibility in terms of implementation.

III. STANDARDIZATION OF UNE COSTING WILL NOT NECESSARILY PROMOTE FACILITIES-BASED COMPETITION IN FLORIDA

Standardization of UNE costing will not necessarily promote facilities-based competition in Florida. The notion that a standardized UNE costing approach will promote facilities-based competition seems to be based on the erroneous belief that forward-looking cost estimates resulting from standardization will necessarily result in lower UNE rates. This belief is ill-founded. The goal of any modeling approach should be to produce accurate estimates of a company's costs based on realistic assumptions and inputs. Standardization of UNE costing, in and of itself, does not guarantee this result. Competition cannot be said to occur unless rates move toward costs. In an environment where rates are set by fiat rather than the market, this can only be achieved if accurate cost information is obtained.

Moreover, when an ILEC must share its facilities with competitors, competition cannot be said to have occurred simply because multiple carriers serve a given market. When carriers are purchasing UNEs from Verizon, in lieu of investing in their own networks, any perceived increase in competition will be purely illusory.² As Justice Breyer stated:

[F]irms that share existing facilities do not compete in respect to the facilities that they share, any more than several grain producers who

² *United States Telecom Ass'n v. Fed. Communications Comm'n*, 290 F.3d 415, 424 (D.C. Cir. 2002). (noting that such "synthetic competition" would not promote investment and facilities-based competition).

auction their grain at a single jointly owned market compete in respect to *auction services*.³

When the carriers' interests are not cooperatively aligned, as are the interests of the grain producers in Justice Breyer's example, particular attention must be paid to identifying the true economic costs of the shared facilities.

Standardization of UNE costing will only promote facilities-based competition if it produces company-specific UNE rates that: (1) discourage new entrants from using an incumbent's facilities when it is less expensive, economically speaking, for the new entrant to build its own facilities or buy them elsewhere, and (2) encourage new entrants to use an incumbent's facilities when it is less expensive, economically speaking, for the new entrant to do so.⁴ Only UNE prices that accurately approximate realistic estimates of an ILEC's own forward-looking costs of providing the UNEs demanded will come close to achieving both of these results. This should be the goal of any standardized approach adopted by the Commission.

A standardized UNE costing approach that prices UNEs below the true economic costs of the shared facilities will not promote efficient competition. New entrants would never build their own facilities—indeed, it would make no sense for them to do so when UNE rates are set at a level that rarely exceeds the price of building their own facilities or buying them elsewhere. At a minimum, such a result is inconsistent with the FCC's stated objective that its UNE pricing rules will “serve as a transitional arrangement until

³ *Verizon Communications v. Fed. Communications Comm'n*, 122 S. Ct. 1646, 1693, 1672 n.27 (2002) (“*Verizon*”) (“...entrants may need to share some facilities that are very expensive to duplicate (say loop elements) in order to be able to compete in other, more sensibly duplicable elements (say, digital switching or signal-multiplexing technology).”).

⁴ *Verizon*, 122 S. Ct. at 1692.

fledgling competitors could develop a customer base and complete the construction of their own networks.”⁵

IV. THE COSTS ASSOCIATED WITH THE STANDARDIZATION OF UNE COSTING FAR OUTWEIGH THE THEORETICAL BENEFITS

A. A Standardized UNE Cost Model Would Produce Less Accurate Estimates of Each Company’s Costs

Any uniformity that may be achieved through the adoption of a standardized UNE cost model is likely to come at the expense of accuracy and company-specificity—two essential components of any UNE costing endeavor. The cost models developed and used by the incumbents are designed to account for each carrier’s specific network design, equipment and facilities deployed in the network, terrain, density, customer locations, labor costs, cost of money, tariff structure, accounting system, and cost-recovery strategies. The cost estimates produced by company-specific models necessarily reflect the operational realities and assumptions pursuant to which each carrier provides service.

UNE prices are intended to identify each incumbent carrier’s forward-looking costs.⁶ In its last brief to the Supreme Court in the case that upheld the FCC’s UNE pricing rules, the FCC explained in definitive terms that the costs of the ILEC itself were the focus of a UNE proceeding:

The costs measured by TELRIC are nonetheless those of *the incumbent itself*. Those costs are based, moreover, on actual prices of equipment that is commercially available today—equipment that carriers are already using to upgrade and expand their networks.⁷

⁵ In re: Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, 15 FCC Rcd 3696 (1999) at ¶ 6 (“Third Report and Order”).

⁶ First Report and Order at ¶ 685.

⁷ Reply Brief for Petitioners Federal Communications Commission and the United States, *Verizon Communications, Inc. v. FCC* (“FCC Reply Brief”) at p. 6 (emphasis added). The FCC gave as an

The incumbents' company-specific cost models are designed with these UNE pricing principles in mind; the models estimate the company-specific costs of providing UNEs, based not only upon the company-specific prices the carriers actually pay, but also upon the information produced by their own accounting and engineering information systems, their own network characteristics, and their own tariff structures. Only by looking at the costs that individual "incumbents actually expect to incur," can the Commission develop a cost model consistent with the FCC's UNE pricing standards.

A standardized cost model would forego this level of granularity and company specificity. Use of a one-size-fits-all cost model would never produce realistic and accurate company-specific UNE cost estimates—the hallmarks of UNE costing.

B. The Financial Costs that Would Be Incurred in Developing and Maintaining a Standardized UNE Cost Model Are Substantial

The costs of developing a standardized UNE cost model that is sophisticated enough to account for even a few of the differences among the carriers (as unlikely a proposition as it may be) cannot be readily identified without first knowing what the model will look like. However, it is reasonable to expect that the costs would be substantial, and would increase exponentially with the level of detail and the amount of agreement required among the parties. For example, there are a variety of different approaches to platform design and cost model development, each with different benefits. Similarly, there are hundreds (sometimes thousands) of inputs to a cost model. There will be considerable costs associated with attempting to standardize these platform assumptions and input parameters such that each carrier's data can be used. Considerable

example the fact that "a state commission, in setting TELRIC prices for switching elements, looked to prices of switches recently purchased by incumbent."

time and expense would need to be devoted to developing and correctly implementing the specifications for the agreed-upon platform, inputs categories, and input parameters.

In addition, the costs associated with maintaining and updating a standardized model would be significant. Telecommunications is a dynamic industry. The technologies underlying telecommunications networks are continually evolving to provide new services and achieve more efficient results. A cost model's development must mirror that of the network being modeled; and a model's ability to accurately estimate costs depends largely upon its ability to reflect these developments and precisely determine the cost effects of their implementation. As such, a cost model must constantly be updated to reflect the latest, state-of-art technologies and deployment strategies.

Moreover, the three large ILECs may implement different technologies, and deploy these chosen technologies differently and at different points in time. Such complications would only increase the complexity associated with updating a standardized UNE cost model.

Setting the need to reflect real-world network and technological changes aside, there is the additional issue of changes in the regulatory framework: to the extent that unbundling requirements change, or the TELRIC standard is further refined or clarified, a standardized model would need to be modified accordingly. The costs of such an ongoing exercise are not minimal, and the likelihood of success, in any event, is not great because any changes or updates to the model would warrant an additional proceeding and call for further commenting by interested parties.

C. A Standardized UNE Cost Model Could Not Be Readily Altered

In a dynamic industry such as telecommunications, the need to account for the constant change taking place with respect to network design, new technologies and

regulatory mandates is essential if UNEs costs are to be estimated accurately. The adoption of a standardized UNE cost model would necessarily limit the ability of the carriers and the Commission to respond to, and take advantage of, technological or regulatory developments. Similarly, advances in cost modeling, such as the migration from a PC-based platform to a web-based platform, would be extremely difficult, if not impossible, to incorporate into any common model adopted by the Commission. Moving forward with any required changes would create both additional financial costs and further regulatory delay. However, not moving forward would result in a common model that is static, outdated, and incapable of producing accurate and reliable cost estimates.

In this regard, the FCC's experience developing its universal service Synthesis Model is instructive. The FCC undertook to develop a model based upon the best options submitted by the parties. This endeavor took years. All the while, telecommunications technology was advancing and the industry's understanding of how to model telecommunications costs was evolving. Carriers were able to adjust to these changing conditions by refining and modifying their own universal service and UNE cost models. However, these advancements could not be incorporated into the FCC's model quickly enough. In the end, the FCC adopted a model that was far from state-of-the-art, and produced only broad-gauge estimates of costs that were inaccurate and unreliable for directly establishing UNE prices. The FCC's expensive undertaking was met with court challenges and petitions for reconsideration upon the model's release. In the end, recognizing the model's limited capabilities, the FCC only used the model to apportion

the federal fund among the states; it was never used to actually size the federal universal service fund.⁸

D. Use of a Standardized UNE Cost Model Would Have Detrimental Downstream Effects on Ordering Systems and Provisioning Processes

Non-recurring cost studies are designed to replicate a company's wholesale ordering systems and provisioning processes, taking into consideration achievable efficiency gains. Incumbent wholesale ordering systems and provisioning processes vary, often in significant ways, from carrier to carrier and, in the case of the three largest Florida incumbents, are used to provision UNE orders across multiple states. Use of a standardized non-recurring cost model cannot capture the variations in systems and processes used among companies. Consequently, the cost estimates produced by a standardized non-recurring cost model would not accurately estimate the costs incurred by each carrier. To the extent an incumbent must modify its systems and processes to better reflect the assumptions underlying the standardized cost model, the non-recurring costs borne by alternative carriers in Florida would only increase.

V. STANDARDIZATION OF UNE COSTING WILL BE DIFFICULT

A number of factors may impede the successful adoption of any standardized approach to UNE costing. Aside from threshold issue that no single model can accurately estimate the UNE costs of all three large ILECs operating in Florida, the adversarial nature of UNE proceedings is likely to impede, if not forestall completely, any effort to develop and implement a standardized approach. Because the benefits associated with standardization in UNE costing are so few, and the costs and risks so

⁸ The FCC adopted a hold harmless provision, which maintained funding at current levels.

great, there is no incentive for carriers to participate in, or agree to, any standardization in UNE costing.

For example, the development of uniform inputs, or input parameters, would certainly be a difficult task. There are potentially over a thousand user-adjustable input values in any given cost model. The mere development of a menu of cost model inputs for the parties to consider would be expensive and consume considerable amounts of time. Moreover, assuming agreement could be reached on the *possible* input choices (a highly speculative assumption), getting the parties to agree on the details of the inputs' application (*i.e.*, how the data will be used within the model) would be a massive undertaking.

Even assuming that standardization in UNE costing was achievable, there is no guarantee that competing models, methodologies, or inputs would not be introduced by another party. Likewise, there is no guarantee that changes to the standardized approach would not be proposed. In fact, given a party's due process right to put forth its case and counter any evidence presented, there is every reason to believe that parties will avail themselves of these options. Any standardization the Commission hoped to achieve may be purely illusory.

Second, it is unclear who would bear the cost of developing and implementing a standardized cost model, and who would be responsible for demonstrating, to the satisfaction of all parties, that the model is accurate and properly reflects each incumbent's specific operating realities. Regardless, such an exercise will not be accomplished quickly or inexpensively.

Third, parties may be reluctant to accept a standardized UNE cost model in Florida when those decisions can be used against them in UNE proceedings in other states. Standardization in UNE costing, to the extent achievable, would involve a great deal of compromise. Parties may be willing “give” with respect to one issue if they are able to “take” with respect to another. The platform assumptions or input values adopted, *when taken as a whole*, would reflect these negotiations; but the assumptions or inputs viewed in isolation would not. However, it is precisely these individual assumptions and inputs against which the assumptions and inputs proposed in other states will be benchmarked. Parties would be hesitant to compromise on a certain matter in Florida if that decision, taken out context, will be used against them in other states.

Fourth, regulatory developments at both the state and the federal level would complicate any attempt to achieve standardization in UNE costing. As the recent Triennial Review decision expected from the FCC makes clear, the ILEC’s unbundling requirements are evolutionary in nature.⁹ As the FCC’s decision demonstrates, telecommunications is a dynamic industry, and its regulation must be also. Competitive and technological advancements will continue to alter the UNE landscape—network elements that need to be unbundled today, may not need to be tomorrow. Use of a static, standardized approach in such a fluid environment would be of limited utility.

Fifth, standardization in UNE costing would be hindered by disagreement on how it should, or whether it does, adhere to the FCC’s UNE pricing principles. Questions about the role of existing network characteristics continue to be litigated in Florida and other states. Likewise, different views concerning the design of the modeled network

remain unresolved. Even issues that have been resolved in Florida (*e.g.*, multi-carrier hosting) are likely be raised again since parties may make claims of changes in technical capabilities. All of these uncertainties are likely to diminish a party's willingness to endorse standardization in UNE costing.

Finally, the Commission would need to determine who has ownership of, or property rights in, any intellectual property resulting from the development of a standardized cost model, methodologies, inputs or outputs. Interested parties are unlikely to contribute to the model's development (*e.g.*, write code or design input parameters) absent an assurance that any intellectual property supplied or developed will not be forfeited. Disputes over the rights to intellectual property may forestall attempts to attain standardization in UNE costing. In addition, failure to agree on the assignment of intellectual property rights may foreclose certain options that would otherwise be available.

VI. STANDARDIZATION OF UNE COSTING WILL NOT RESOLVE ALL UNE COSTING ISSUES

The possible outcomes identified in the framework for these comments could never address, let alone solve, all of the potential issues raised in UNE cost proceedings. For example, at the initial workshop meeting in Tallahassee, Florida on December 18, 2002, it became apparent that some of the alternative local exchange carriers would like to better understand the terms and conditions underlying what appear to be the same UNEs provisioned by BellSouth and Verizon. An increased understanding of each

⁹ The FCC's decision is expected to: (1) give states extensive power in determining the fate of switching as a UNE—a decision that renders uncertain the future of UNE-P; (2) eliminate the need for line sharing, albeit with a three-year transition; and (3) lift the broadband unbundling requirements.

carrier's terms and conditions is not contemplated by any of the proposals included in the framework for these comments.

VII. REDUCING THE FREQUENCY WITH WHICH UNE COST PROCEEDINGS ARE CONSIDERED BY THE COMMISSION MAY ACHIEVE SOME OF THE OBJECTIVES IDENTIFIED HEREIN

The potential outcomes identified in the framework for these comments seem to share a common objective: to ease the burden on Staff and the Commission in dealing simultaneously with complex UNE proceedings for the three large ILECs in Florida. This objective may be achieved, perhaps with greater ease and less cost than any of the suggested outcomes, if the Commission considered UNE rate-setting proceedings on a staggered basis and less frequently (perhaps every three years for a given ILEC).

VIII. CONCLUSION

The standardization of UNE costing, whether by adoption of a single model to be used by all carriers, or the more modest objective of standardized cost modeling criteria, is an expensive proposition that will yield few, if any, benefits. The Commission may find that, in its desire to obtain standardization in UNE costing, it has sacrificed the accuracy and company-specificity by which any UNE costing endeavor must be measured.