

M E M O R A N D U M

APRIL 17, 2003

TO: DIVISION OF THE COMMISSION CLERK AND ADMINISTRATIVE SERVICES

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

RE: UNDOCKETED - UNE COSTING WORKSHOP

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

BellSouth Telecommunications, Inc.

Sprint-Florida, Inc.

AT&T Communications of the Southern States, LLC and WorldCom, Inc.

Verizon Florida, Inc.

PAC/js
Attachment

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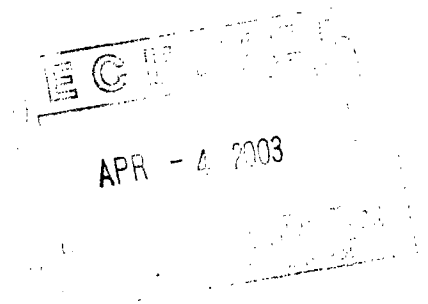
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April 4, 2003



BY HAND DELIVERY

Patty Christensen, Esq.
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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 and WorldCom, Inc.'s Reply Comments in the above referenced undocketed matter.

Thank you for your assistance with this filing.

Sincerely yours,

A handwritten signature in black ink that reads 'AT Hatch for'. The signature is written in a cursive, flowing style.

Tracy W. Hatch

TWH/amb
Enclosure

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

UNBUNDLED NETWORK ELEMENT COST STANDARDIZATION |

Reply Comments Of

AT&T Communications of the Southern States, LLC and WorldCom, Inc.

April 4, 2003

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I. INTRODUCTION

As AT&T and WorldCom predicted in their opening comments, the ILECs have argued that cost model standardization would be cost-prohibitive and ultimately generate results that would not be "ILEC-specific." The ILECs also imply that they will take whatever steps are necessary to defend the strategic advantage they currently enjoy in the UNE ratemaking proceedings in Florida, such as threatening litigation. When stripped of all of the rhetoric, however, the ILECs' Comments in this workshop clearly illustrate the flaws in the current process, why unreasonable UNE rate discrimination exists in Florida today, and why this Commission must stay the course and move forward with its cost modeling standardization initiative.

As AT&T and WorldCom explained in their opening comments, the reason for adopting a standardized cost model and standardizing the input and output process is basic. No matter how tightly crafted a set of standards is, the individual ILECs will take advantage of the "wiggle room" such standards would provide by designing their models behind closed doors, dragging out the model discovery process, and making strategic changes in the models from time to time as the Commission and the ALECs begin to zero in on their key assumptions. Apart from making it less likely that ILECs will be able to continue to take strategic advantage of the current procedures, of course, AT&T and WorldCom's opening comments identified a multitude of positive reasons for adopting a single standardized cost model, and at least some of the parties agree that benefits would be realized by:

- primarily focusing on getting the inputs and assumptions accurate, instead of arguing about modeling assumptions;¹
- rendering cross-ILEC comparisons of individual inputs and/or outputs easy and meaningful;²
- better understanding of how UNE costs are generated and provisioned;³
- ensuring that all parties define certain inputs (and outputs) in the same way;⁴ and
- eliminating the need for the Commission, ALECs and ILECs to become familiar with and use multiple TELRIC models.⁵

Unfortunately, some of the parties in this proceeding seem to be posturing rather than creating an open dialogue in which the Commission, Staff and all parties can have a meaningful and productive conversation about the advantages and disadvantages of model standardization. AT&T and WorldCom note, for example, that Sprint has failed to identify a single benefit that would result from model standardization. While Sprint may believe that such an approach is not appropriate, productive, or possible, the notion that no benefits would be realized by any party is wholly unfathomable.⁶

Further, many of the assertions raised by the ILECs in their Opening Comments assert as fact opinions that are not even logical, much less supportable. AT&T and WorldCom suggest that, as the Commission continues the process of evaluating a standardized process for setting UNE rates in Florida, the Commission establish a more formal process in which to continue –

¹ BellSouth Opening comments at 2.

² BellSouth Opening comments at 2.

³ Verizon Opening comments at 2.

⁴ BellSouth Opening comments at 2.

⁵ BellSouth Opening comments at 3. Verizon Opening comments at 2.

⁶ Notably, in Section II.A.1, titled “Potential benefits of a single model,” Sprint has two pages of text – all of which identify problems with the use of a single model and absolutely no potential benefits.

including the designation of witnesses. Such a process would help ensure that the only positions entered before the Commission and Staff reflect positions backed up by witnesses under oath.

One fact that should not be lost is that both Verizon and Sprint have tacitly agreed that the loop models that were used to establish the current UNE rates in their territories in Florida are inferior to both BellSouth's loop model and the AT&T/WorldCom HAI model, and their models are inferior in terms of their ability to accurately determine costs. In the first open standardization workshop Verizon and Sprint notified the Commission that they are in the process of upgrading their loop models so that geocoding will be used to more accurately determine customer locations. Meaning, Verizon and Sprint are separately undertaking similar projects to upgrade their loop cost models to be more like BellSouth's BSTLM and AT&T/WorldCom's HAI model. The fact that they are doing the same thing on different cost models illustrates the inefficiency problem caused by lack of standardization. It would be much more efficient for these carriers to be working together and with parties that already have loop models that use geocoding.

The different tacks each ILEC has taken in its efforts to dissuade the Commission from adopting a standardized cost model were predictable, reflecting each carrier's own self-interest.⁷ The different policy positions taken by the ILECs is also another illustration of why cost model standardization is imperative in Florida. The fact is that the laws that govern how UNE rates

⁷ Sprint is both an ILEC and a CLEC and as such its leading stated position that UNE rates should reflect geographic cost differences most closely adheres to the current FCC rules. BellSouth's UNE cost cases, by virtue of being the largest ILEC in Florida, received the most attention by the industry and therefore, its public policy position has been tempered both by the more than six years of scrutiny by the Commission and the ALEC industry and by its desire to obtain interLATA authority. (It is worthwhile to recall, that this BellSouth posturing has evolved over time from the embedded cost/residual recovery requirement position it took in the initial UNE rate proceedings, to what it presented in its Comments in this Workshop.) Verizon, not being a CLEC, never having to feel the full force of public scrutiny in a Florida UNE rate proceeding, and not requiring an interLATA authority agenda in Florida, can afford to adhere firmly to its uneconomic, and U.S. Supreme Court rejected, embedded cost based pricing principles.

should be developed for these three carriers are the same, yet this fact has not dissuaded the ILECs from unilaterally designing UNE cost models designed to promote their own individual agendas at the expense of competitors, Commission and consumers. Without standardized loop and switching models for use in all Florida UNE rate proceedings, certain Florida consumers will continue to receive unequal treatment under the law through discriminatory UNE rates and the varying levels of competition these discriminatory rates permit.

I. MISCONCEPTIONS AND/OR RED HERRINGS

As a threshold matter, there either seems to be some misconceptions by the ILECs or they are simply raising red herrings in an attempt to dissuade the Commission from proceeding down the pro-consumer path towards the standardization of cost modeling. Before addressing some of the specifics raised in the ILEC's opening comments, AT&T and WorldCom wish to clear up some of these issues.

A. A Standard Cost Model Does Not Infringe On The ILECs' Rights

The ILECs seem to consistently argue that a standardized cost model will infringe on their rights. This is simply not the case. The Florida Commission, like many other state Commissions around the country, is free to require a compliance filing along with each ILECs proffered methodologies. Notably, while all three companies assert a violation of their rights, both BellSouth and Verizon then proceed to explain that such an approach does not limit their legal advocacy.⁸ Thus, there should be no disagreement that such a requirement is well within the Commissions prerogative.

⁸ "BellSouth ... has the legal right to present and defend models, inputs, and methodologies it supports and challenge any default standards set by this Commission" (BellSouth Opening Comments at 9). "[G]iven 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 (Verizon Opening Comments at 10).

B. The Commission Should Not Be Dissuaded By Legal Threats

The threat of legal action by the ILECs against the Commission has been prevalent during the discussions regarding cost model standardization, both during the December 18, 2002 workshops and in the ILEC Opening Comments. However, as described above, the ILECs agree that their legal rights are not compromised by this Commission requiring a compliance filing along with a party's proffered evidence. So, it is unclear what the ILECs may expect to gain by threatening a lawsuit that they admit would have no merit.

Moreover, Sprint references a UNE costing proceeding that the Nevada Commission undertook in Docket No. 96-9035, which included a district court challenge of the Nevada Commission's order.⁹ Sprint argues that the adoption of a single cost model would not result in regulatory efficiencies, citing its experience in Nevada. In that proceeding, Sprint was ordered to use the Hatfield model to develop the price for a 2-wire loop, but had to use its own cost models for other elements because the version of the Hatfield model in use at that time could not cost all the required UNEs. However, the lesson to be learned from the "problem" outlined by Sprint is that it took three years to complete a UNE proceeding when there was *no standardized UNE costing model*. It has been the experience of AT&T and WorldCom that the initial UNE proceedings in many states lasted as long as three years precisely *because* there was no standardized costing model in place for these first UNE cost proceedings.¹⁰

⁹ Sprint Opening Comments at 7.

¹⁰ For example, Docket No. 990649 began on June 4, 1999. It was not concluded until three years later in late 2002. The Sprint and Verizon portions of the docket (Docket No. 990649B) are not yet completed. Additionally in North Carolina, where they must deal with the instate discrimination issues caused by multiple cost models, started its Sprint/BellSouth/Verizon UNE cost case on September 27, 1997 and did not complete it until January 10, 2002.

The substantial improvement in administrative efficiency that would result from adoption of a standardized modeling process was one of the two primary focuses of AT&T/WorldCom's Opening Comments in this proceeding (the other being the need to avoid the inconsistent, and therefore discriminatory UNE prices that resulted from applying the three different ILEC costing models to customers in similar circumstances). In the end, the Commission can take heart in the fact that the ILECs own admissions and case precedent support any form of standardized compliance filing the Commission deems appropriate.

C. The Definition Of TELRIC Is Clear

A final issue that needs to be clarified is the substantial discussion regarding the definition of TELRIC. This issue has been much debated in the past, but has recently been clarified by the Supreme Court. From this, it is clear that the FCC's definition of the hypothetical network configuration is an important TELRIC concept. There can also be no disputing the fact that TELRIC is not dependent on embedded network configurations. If one puts the issue of model inputs aside, there is only one network configuration that is TELRIC-compliant, and it is the least cost, most-efficient network that provides quality services using currently available technologies. Thus, the only point in which a carrier's actual costs might be relevant relate to the cost inputs that would apply to those technologies.

In short, none of the arguments raised in rebuking the notion of standardized cost model relate to the model methodologies, network configuration, or technology choices – all of which are clearly required to be based on TELRIC principles and have no relation to the parent company providing the services. This notion is fully supported by the fact that these companies use the same loop models in many different states with widely varied densities (a fact supported

by Sprint's Opening Comments). It is the point and nature of loop cost models to appropriately recognize customer locations, geography, geology, and topography, thus allowing these companies to support standardized models in a wide variety of states with a wide variety of densities and terrain types.

In the end, the consistent theme that seems to run through the ILEC opening comments, *i.e.*, that a standardized cost model cannot work because it cannot reflect the "actual costs" incurred by each of the ILECs to provide UNEs, is beside the point because that is not what TELRIC envisions. Verizon argues repeatedly that standardization of cost modeling would not be proper because UNE rates must be set to reflect "carrier" or "company" specific costs. The term "carrier" specific is, of course, a euphemism for embedded costs. BellSouth tries to argue both sides, stating upfront the embedded cost based pricing mantra on page 1 of its comments, but then on page 5 stating "[w]hat 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." Sprint avoids directly using the standard euphemisms for embedded costs, and states that UNE rates "must be accurately calculated," must "properly reflect true geographic specific costs." These statements by Sprint support standardization and why all parties should work together to develop and use the loop cost model that is capable of most accurately calculating geographic specific costs. However, Sprint further states that "[n]o one model can accurately and efficiently calculate the costs . . . due to differences in individual ILEC's network technologies, rate structures, provisioning systems and billing systems." This statement is not relevant and is misleading at best. No party has ever suggested that loops, switching, transport, collocation, OSS, ancillary services, etc., should be costed in the same physical cost model. It is also important to recognize that there is a strong precedent for

standardization already in existence – the FCC’s Synthesis Model. The lessons learned in that process (all of the major ILEC and ALEC participants in this proceeding also participated extensively in the development of the Synthesis Model) should assist this Commission in designing a more efficient standardization process in Florida. Although the ILECs raised many of the same arguments in the FCC proceeding, endeavoring to suggest that no TELRIC model could adequately reflect all the nuances of individual company operations in individual states, these same ILECs routinely rely upon the Synthesis Model to make cross-company and cross-state comparisons in their efforts to obtain Section 271 authority. This strongly suggests that a standardized cost model could be used to measure the relative effect on TELRIC of the many categories of differences cited by the ILECs, as AT&T and WorldCom suggested in their Opening Comments.¹¹

Verizon argues that the development a standardization of cost models would violate the FCC rules, and both Verizon and BellSouth cite the FCC’s *Local Competition Order* ¶ 685 as apparent support for the proposition that TELRIC must reflect the “actual” costs of the individual ILEC, including its configuration and network architecture. This misstates the FCC’s views on this matter.

In the first place, this view is inconsistent with the recent findings of the United States Supreme Court, which concluded that basing UNE prices on embedded costs would defeat the

¹¹ Importantly, AT&T and WorldCom believe that Verizon’s comments (at page 8) grossly misstate the FCC’s process in deriving the Synthesis Model. Not only is the FCC’s model not outdated, inaccurate or unreliable, but the FCC’s model is still being used and has withstood the court challenges Verizon mentions. Finally, the FCC never implemented the hold-harmless provision because of any limitation, but did so to avoid sending shock waves through the telecommunications industry.

competitive market standard that was the linchpin of the FCC's TELRIC standard.¹² Moreover, in its *Local Competition Order*, the FCC concluded that basing forward-looking economic costs “on incumbent LECs’ existing network infrastructures, taking into account changes in depreciation and inflation,” *i.e.*, reflecting “existing network design and technology that are currently in operation” would be “essentially an embedded cost methodology,” which it rejected.¹³ Consistent with this view, the FCC has also concluded that TELRIC calculations cannot be “validated” by comparison to a carrier’s embedded cost.¹⁴

Perhaps the clearest statement by the FCC concerning the view expressed in the Verizon and BellSouth Opening Comments occurs in the *Reply Brief for Petitioners Federal Communications Commission and the United States, Verizon Communications, Inc. v. FCC* (“FCC Reply Brief”):

The incumbents argue that any reasonable forward-looking methodology would have to be tied to their “actual” forward-looking costs, as opposed to the forward-looking costs of a “hypothetical” carrier. See BellSouth Resp. Br. 11-12, 14. But they do not explain what they mean by “actual” forward-looking costs. By definition, forward-looking costs, in contrast to historical costs recorded in regulatory books of account, do not replicate actual past outlays. They are instead “costs that a carrier would incur in the future.” *Local Competition Order* (para. 683), J.A. 382-383.¹ 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

¹² The Supreme Court decision upholding the FCC’s TELRIC rules found in part that an important problem with embedded cost methodologies is that they “pass on to lessees the difference between most-efficient cost and embedded cost,” citing the *Local Competition Order*, ¶ 705. The Court goes on to note that “any such difference is an inefficiency,” and that “[i]f leased cost were priced according to embedded costs, the incumbent could ... defeat the competitive purpose of forcing efficient choices on all carriers whether incumbents or entrants.” *Verizon Communications Inc., et al. v. Federal Communications Commission, et al.*, 122 S.Ct. at 40-42 (2002) (hereinafter “*Verizon*”).

¹³ *Local Competition Order*, ¶¶ 683-685.

¹⁴ See, *Local Competition Order* at ¶¶ 705-706; *In the Matter of Federal-State Joint Board on Universal Service*, (CC Docket No. 96-45) *Forward-Looking Mechanism for High Cost Support for Non-Rural LECs* (CC Docket No. 97-160, at ¶ 66.

to upgrade and expand their networks. See, e.g., *AT&T v. FCC*, 220 F.3d 607, 617 (D.C. Cir. 2000) (state commission, in setting TELRIC price for switching element, looked to prices of switches recently purchased by incumbent).

The incumbents appear to be proposing a methodology based on the “actual” cost, in today’s market, of duplicating “actual” existing networks in all physical particulars -- or, stated differently, the “application of up-to-date prices to out-of-date properties.” James C. Bonbright et al., *Principles of Public Utility Rates* 294 (1988). Economists, including those upon whom the incumbents rely, uniformly agree that such a measurement is “economically meaningless.” *Ibid*; accord 1 Alfred E. Kahn, *The Economies of Regulation: Principles & Institutions* 112 (1988); see also *Missouri ex rel. S.W. Bell Tel. Co. v. Public Serv. Comm’n*, 262 U.S. 276, 312 (1923) (Brandeis, J., dissenting) (disparaging, as the *least* appropriate cost methodology, an inquiry into “what it would cost to reproduce the identical property”). The FCC considered, but rejected, such an approach as “essentially an embedded [*i.e.*, historical] cost methodology,” which would produce “prices for interconnection and unbundled elements that reflect inefficient or obsolete network design and technology.” *Local Competition Order* (para. 684), J.A. 383. Such prices would distort a competing carrier’s analysis of whether, or how, to enter a local telecommunications market, by encouraging, for example, the carrier to construct inefficient, duplicative facilities. See *Local Competition Order* (paras. 620, 630, 679), J.A. 327-328, 333-334, 379-380.²

¹ Any forward-looking cost methodology is necessarily predictive, and thus “hypothetical,” to the extent that it must, for example, establish appropriate depreciation rates and costs of capital. See pp. 10-12, *infra*. But the fact that a rate methodology involves predictive judgments does not render it economically untenable. Many aspects of traditional historical cost ratemaking also require such judgments. See U.S. Pet. Br. 30-31; U.S. Resp. Br. 48; see also Public Serv. Comm’n of N.Y. Br. 10-11 (explaining that “ratemaking is essentially a prospective, forward-looking, exercise,” whatever the particular methodology applied) (emphasis omitted).

² Another possible measure of “actual” forward-looking costs would take into account only incumbents’ short-run incremental costs. Such a measure finds some support in the Eighth Circuit’s decision. See U.S. Pet. App. 9a-10a (“In our view it is the cost to the ILEC of carrying the *extra burden* of the competitor’s traffic that Congress entitled the ILEC to recover.”) (emphasis added). But that approach would yield rates *lower* than TELRIC in the usual case in which no additional capital investment beyond that which has already been made is needed to provide network elements to a new entrant. It is thus unlikely that the incumbents would support such an alternative.

In short, there is no support for the claim that the FCC believes that TELRIC must be tied to the way in which an ILEC currently operates, the particular network

architecture it employs, or the costs it actually incurs. To the contrary, the FCC has concluded that TELRIC can ignore such characteristics of the ILECs' embedded networks, and the Supreme Court has agreed. Thus, there is no basis for the ILECs' claim that a standardized cost model would be inconsistent with prior FCC rulings.

D. The Parties Do Not Need To Agree

The Opening Comments for the ILECs seem to create the impression that standardization of almost any sort cannot be achieved because agreement will never be achieved amongst the parties. Not once has the Commission, Staff or AT&T and WorldCom suggested that agreement would need to exist. In fact, AT&T and WorldCom acknowledged multiple times in its Opening Comments that such standardization will only occur subsequent to a Commission order on those issues.

Again, AT&T and WorldCom believe that the only way to ensure equal competitive benefits for all customers in Florida is for the Commission to issue an order requiring all parties to submit a standardized a cost model as a compliance filing in future proceedings. Further, AT&T and WorldCom believe that the Commission should issue an order requiring that a standardized approach be used to develop the model inputs. If a party wants to deviate from the ordered approach, the party may file a supplemental filing in addition to the compliance filing ordered by the Commission. In the end however, the desired results can be achieved, with or without agreement among the parties.

In fact, mandatory consensus may not be desirable from a public interest perspective because (at worst) it effectively provides any one party with effective veto power, and, under any circumstances, will delay the process and could lead to a "lowest common denominator" result –

which would be unfair to Florida consumers. Undoubtedly the parties will never reach full agreement on standardized costing models.¹⁵ However, this should not dissuade the Commission from seeking to protect and promote the public interest by pursuing what is clearly the most logical alternative of standardizing cost modeling for UNEs. After a careful evaluation of the arguments that will be made by all parties, the Commission should do what is in the public interest. As discussed at length in their Opening Comments, AT&T and WorldCom believe that the discriminatory rates that resulted from the lack of a standardized cost model in the last round of UNE cases were clearly *not* in the interests of Florida consumers, and they believe that nothing short of adopting a standardized loop and switching models can be successful in remedying this situation. Adoption of standardized UNE loop and switching costing models may not be in the short-run best interest of any party to this workshop, but it *is* in both the short run and long run best interests of the public.

E. All UNEs Need Not Be Developed In One Model

The ILECs seem to unanimously assume that the intent of the Commission is to create a single cost model that will standardize the recurring and nonrecurring cost development for all UNEs in one cost model. Clearly, the only reason to discuss such an approach is to make the task of creating a standardized cost model appear impossible. None of the parties in this

¹⁵ Verizon states, “there is no incentive for [it] to participate in, or agree to, any standardization in UNE costing”, p. 10. In addition, as threatened by Verizon in its comments, because “the adoption of a single model would be the most **contested** option and thus any benefits to be realized would be **difficult to attain**”, p. 2. {emphasis added} While Verizon is particularly confrontational, the sentiment underlying such veiled threats by the ILECs should not be surprising, because the adoption of a single loop cost model will benefit the Commission, ALECs and consumers at the expense of the considerable strategic advantage that the current process bestows on the ILECs (*see* AT&T/WorldCom Opening Comments). These comments suggest that any action by the Commission to adopt a standardized cost modeling approach for the UNE loop may well invite at least one lawsuit from the ILECs, and the Commission should be prepared for this.

workshop suggested such an approach, not the Commission, not the staff, and certainly not AT&T and WorldCom.

Thus, there is an area of consensus between the parties from the various opening Comments in this workshop process, *i.e.*, that all parties appear agree that standardization of a complete range of UNE costing models simultaneously would be extremely complicated. As such, AT&T and WorldCom reiterate their suggestion that the Commission be pragmatic by concentrating its initial efforts on the unbundled network elements (UNE) that would affect the largest number of customers in the most significant way, *i.e.*, it should concentrate its initial standardization efforts on the costing of the UNE loop and switching.

Sprint, for example, argues that it would not be practical to attempt to model all UNE costs within a single standardized cost model.¹⁶ The obvious solution then appears straightforward – to address the cost of loops, switching, transport and items such as collocation, advanced intelligent network solutions and operational support systems in separate standardization efforts, rather than seeking to cover them all with a single cost model. While AT&T and WorldCom cannot speak for the Commission on this matter, AT&T and WorldCom never envisioned that the costing of all UNEs (*e.g.*, loops, switching, transport and collocation) could or should be standardized into one cost model. It makes perfect sense to AT&T and WorldCom that cost modeling be standardized by UNE “type.”¹⁷ Furthermore, as WorldCom and AT&T noted in their Opening Comments, there are administrative advantages to implementing standardization more narrowly, by focusing on the loop UNEs to begin with, so that the lessons learned in that process can be applied to more efficient processes for other UNEs

¹⁶ Sprint, p. 2. BellSouth, “no single model can accurately reflect the recurring and nonrecurring cost associated with every aspect of the unbundled network on an integrated basis”, p. 2.

¹⁷ Or, as BellSouth stated, by UNE “set,” p. 2.

such as switching, transport and collocation. AT&T/WorldCom Opening Comments at 3. Proceeding sequentially in this fashion will also minimize the risk that the costs of certain network components are either included twice or left out altogether, and it will also ensure that assumptions that affect more than one UNE (DLC concentration ratios, for example) are applied consistently.

F. Supporting Multiple Models Is Problematic

The ILECs seem to be worried about the prospect of having to support multiple models, as if the idea would bankrupt them. It is certainly notable that companies like BellSouth and Verizon complain about the notion of having to support multiple models but have no hesitation about AT&T, WorldCom, or the Commission and Staff having to deal with multiple models in one state. AT&T and WorldCom propose that the purpose of standardization is not about making things more difficult on the ILECs, it is not about making things easier on AT&T and WorldCom, and it is not about making this easier for the Commission and Staff (although the latter is certainly a benefit that should have been acknowledged by all parties, but was not). The purpose of standardization is about providing benefits to the consumers in Florida, across the entire state of Florida.

Sprint and BellSouth both argue that standardization of costing models in Florida would strain their resources because they would have to maintain cost models in Florida that would be different from the cost models they would intend to employ in the other states in which they operate.¹⁸ This argument is misleading, of course, but it is also emblematic of how self-centered the ILECs are about these issues. The argument is misleading because (1) each ILEC must not only present its own model, but it must analyze cost models submitted by ALECs (such as the

¹⁸ Sprint Comments at p. 5. BellSouth Comments at p. 3.

HAI Model and/or the FCC's Synthesis Model), (2) it must be prepared to assist the individual state commissions in reconciling glaring differences in the UNE prices resulting from the application of multiple ILEC cost models when more than one ILEC operates in a given state, and (3) it often has to adjust the way in which its model is applied to take into account agreements reached in different states as the result of merger conditions and/or settlements of prior rate proceedings. What cost model standardization in Florida would mean is that ILECs would be able to focus on a much *narrower* range of issues than they have to in other states that do not adopt a standardized cost model.

The argument is self-centered because, if true, it would permit the ILECs to enjoy the benefits of employing a standardized costing process across their entire region while forcing the Commission and other interested parties to have to become familiar with several models under tight time frames with (what has been true historically) incomplete documentation and limited discovery about how the models operate and how inputs are developed. As AT&T and WorldCom noted in their Opening Comments, not only is this inefficient for the Commission and the other parties, it creates a tremendous strategic advantage for the ILECs in these rate proceedings, and leads to the sorts of results for Florida (and other) consumers that are economically irrational and discriminatory.

Moreover, the arguments raised by the ILECs are simply wrong. BellSouth, Verizon and Sprint all use multiple loop cost models. Even after BellSouth's new cost model was developed and used in Florida, BellSouth sponsored and supported the FCC's Synthesis Model in the Georgia UAF proceeding. Verizon and Sprint have also sponsored, rebutted and worked with multiple models over the past several years and have multiple versions of models accepted in

many different states. Moreover, many states around the country have adopted models other than those sponsored by the ILECs. Further, many, many states have required parties to perform cross-model sensitivities in which each party is required to run its cost models with inputs from another model. These sorts of comparisons are not rare. In short, any assertion that having to understand and work with multiple models creates a burden that the ILECs cannot accommodate is nonsense. Finally, adopting a standard cost model in the state will put all of the parties on equal footing – a level playing field in which each party is as familiar with the cost model and methodologies as any other party.

G. The Same Inputs Must Be Used For Each ILEC

Without exception, each of the ILECs has taken the extreme position that standardizing inputs cannot be done. The reason for the obstinate position is that they seem to again be asserting that agreement would need to be reached for any progress to be realized. As discussed above, this is simply incorrect. Further, the ILECs have completely ignored that the workshop framework contemplated two possibilities – the standardization of inputs and the standardization of the input process. Thus, the ILECs are again considering only the most extreme outcomes as the basis for their comments in an effort to make the standardization process appear more difficult than it is in reality.

AT&T and WorldCom identified, in the Opening Comments, the substantial benefits associated with developing a set of standard inputs. The parties are then free to file the inputs that they believe are appropriate for used in setting the applicable rates. The significant advantage is achieved when each party needs to justify, and fully support, the divergence from the standardized input. In this way, greater insight will be achieved because all parties are left

with the burden of proving their inputs are appropriate.

H. Standardization Does Not Limit The Range Of Rate Elements Offered

For some inexplicable reason, the ILECs assert that the creation of a standard model will necessarily limit the range of elements that can be offered. Notably, no party has provided a single explanation of why this would be the case. AT&T and WorldCom fail to understand why a standardized cost model would not be able to produce the full range of UNEs offered by all three of the major ILECs in Florida. Here, the assertions made by the ILECs lack any foundation and their Opening Comments do not even attempt to support such a position. The Commission should simply ignore empty assertions that lack any validity or support.

I. Changes To Internal Systems Will Not Be Required

The above discussions identified that none of the parties propose jumping into a process of standardizing all of the UNEs at one time. Indeed, the vast majority of comments discuss the problems with standardizing all UNEs in a single model and standardizing all inputs at once. At this stage, none of the parties in this proceeding have provided a list of rate elements to standardize, or addressed, in any detail, the feasibility of standardizing all elements. However, AT&T and WorldCom did identify that the first two likely elements would include the loop elements and the switching elements. The ILECs have provided no rationale why those elements cannot be standardized while postponing other elements for the time being.

Interestingly, the ILECs have failed to mention a single instance in which their internal systems would need to be modified by standardizing these elements (much less any other elements) that may result from these workshops. Merely asserting that changes would need to be made is insufficient. Not one ILEC has identified any specific issue that would require any

modifications to its internal provisioning and OSS systems. In fact, AT&T and WorldCom cannot foresee any situation that would require such drastic changes. Sprint argues that standardization of UNE costing would require it to modify its actual product guides and procedure manuals.¹⁹ This is ridiculous – and is really another version of the argument that TELRIC costs must reflect actual carrier operations. The costing standard that this Commission operates under, TELRIC, relies upon a *hypothetical* network design and corporate operations. Because TELRIC cost calculations are based on efficient operations that *could be* feasibly achieved today, it is logical to think that Sprint (and the other ILECs) might gradually begin to provide service in a manner similar to the one modeled for TELRIC, particularly as they begin to experience effective competition in their markets. But there is certainly no reason to think that Sprint would need to modify its product guides and procedures manuals *merely* because of the nature of the hypothetical network configuration, architecture and operations assumed in a cost model. If Sprint chooses to continue providing its services in a manner that is different than the one modeled – it would be able to do so.

II. RESPONSES TO SPECIFIC ARGUMENTS

A. Some Lead Time Is Appropriate For Input Development

Sprint also suggests that significant disruption would be created if the Commission's standardized UNE cost models were imposed on them unilaterally and without sufficient lead time to make modifications to the systems that provide the input data that may be needed by the standardized models.²⁰ These are reasonable concerns. The parties have developed work flows necessary to provide the inputs to those models. Given the nature of these cost models, the

¹⁹ Sprint Comments, p. 6.

²⁰ Sprint Comments, p. 2.

inputs must be in a specific format, and the manner in which the various inputs are used in each cost model also affects how the data should be gathered and presented.²¹ Furthermore, each model proponent makes continuous refinements in processes for input gathering and processing – which can be, but are not always, driven by changes in accounting and operational data required by new services or new regulatory requirements. As such, it would not be prudent to flash cut to a standardized cost model without taking into consideration the time necessary for each ILEC to establish processes necessary to gather and properly present the inputs.

That being said, AT&T and WorldCom believe that the vast majority of inputs are similar in the majority of cost models. For example, BellSouth, Sprint and Verizon all populated the BCPM with standardized inputs as part of the USF proceedings in Florida. The inputs used in the BCPM are bottoms-up inputs – exactly the sort of inputs that AT&T and WorldCom believe are appropriate for use in a standardized cost modeling tool. Given that all three of these parties were able to develop, in a fairly short period of time, company-specific inputs for use in this model – AT&T and WorldCom believe that such a task is eminently doable.

Thus, some amount of new work is no argument for abandoning standardization, especially when the ILECs have voluntarily performed such tasks previously. Further, the input gathering and formatting processes at each ILEC are ongoing and constantly being refined. As a result, all of the parties to this proceeding are currently incurring, and will continue to incur, costs for these sorts of modifications. The cost currently incurred to maintain and upgrade existing input gathering will simply be replaced with the cost incurred to maintain future input gathering. Any increased effort that may result in the short run due to a need that may result to

²¹ ALECs routinely propound data requests designed to determine whether inputs are developed in a manner that is consistent with the way in which they are applied in the ILEC cost models.

manage and maintain two processes (one to support the historical model and one to support the standardized model), however, will pay dividends over the long run for the Commission, for ALECs, and for the ILECs themselves as use of a standardized cost modeling process will make UNE rate proceedings more routine (which, as AT&T and WorldCom noted in their Opening Comments, should encourage parties to negotiate mutually acceptable interconnection terms and conditions, thereby reducing the need for rate proceedings). The big winners will be Florida consumers, who will no longer be subjected to nonsensical rate discrimination. Nevertheless, this issue is a legitimate one, and it suggests a need for the Commission to act deliberately in this matter by systematically undertaking its standardization efforts one step at a time, starting with the loop UNEs.

B. Specific Exceptions May Be Appropriate

Both BellSouth and Sprint argue that “the provisioning process and supporting systems are not identical,” and therefore that it may not be possible to develop a standardized model for certain UNEs. The mere fact that the three ILECs may have different legacy (*i.e.*, “embedded”) OSS systems is not a relevant consideration, because embedded costs cannot form the basis for valid TELRIC analyses. However, AT&T and WorldCom recognize that it is possible that standardization in the area of OSS *might* be complicated by the different ways in which each of the carriers is forced to maximize economies of scale and scope, even on an efficient, forward-looking basis.²² That is, the least cost most efficient way to provide OSS *may* be different for a company as geographically spread out and high volume as BellSouth, than for a company that is

²² Sprint argues that certain “performance measurements” will have to be revisited. Frankly, this argument is not specific enough to permit a meaningful response. In particular, to the extent these performance measurements relate to how quickly and accurately Sprint provides the OSS functions of pre-ordering, ordering, provisioning, billing and maintenance to its wholesale ALEC customers, AT&T and WorldCom do not understand the linkage to UNE cost modeling that Sprint seems to be trying to draw – these would seem to be unrelated matters.

as geographically concentrated and as high volume as Verizon Florida or as geographically spread out and low volume as Sprint Florida. We use the terms “might” and “may” in this discussion, because we also are aware that there are efforts at centralization and standardization of OSS functions and procedures underway at most ILECs, which suggests that a single, standardized model *could be* developed.

Nevertheless, AT&T and WorldCom recognize that it is appropriate for the Commission to consider whether standardization can be brought to all possible UNEs, including OSS, assuming a separate rate element for OSS is necessary.²³ WorldCom and AT&T *strongly dispute* any potential implication that difficulties that might be created for standardization by disparities in the economies of scope and scale that *might* be inherent in each ILEC’s respective back office functions could be extrapolated to network systems or outside plant. As most of the ILEC cost models themselves recognize, economies of scale and scope in these areas are created at much more discrete levels, such as a wire center or even a distribution area. Thus, BellSouth has rural areas and low volume wire centers similar to those served by Sprint, and all of the cost models are designed to specifically reflect these differences. As such, the most accurate loop, switching and collocation models for BellSouth will function equally well and perform equally effectively for Sprint or Verizon, and will therefore be suitable “standard” models.

C. Significant Potential Costs Of Implementing a Single Model Exist

On page 4 of its Opening Comments, BellSouth lays out 10 potential costs associated with implementing a single standardized cost model for UNEs. AT&T and WorldCom agree with BellSouth that the ten items it outlined are legitimate costs. However, costs would be

²³ AT&T and WorldCom contend that the general premise that OSS should be a separate, and chargeable UNE is flawed and that the Florida Commission erred when it permitted BellSouth to establish a separate rate element for what they argue should be included in shared or common cost (which would moot any concern that a standardized cost model could not be developed).

incurred in all ten of these cost categories whether one standardized loop cost model is used by all parties, or the status quo remains, and 4 different loop cost models are used by the parties. In other words, each and every one of BellSouth's ten cost categories comprises costs that BellSouth, Verizon, Sprint and AT&T/WorldCom already incur by managing and producing their individual cost models. As AT&T/WorldCom suggested in their Opening Comments, use of a single standardized cost model would permit the parties to focus their developmental and ongoing model maintenance efforts on a single model, which would have to be more efficient than each of them doing the same sets of tasks four times. In addition, as our Opening Comments noted, this collaborative effort will almost certainly lead to a better model, and will *definitely* lead to more efficient rate proceedings. Therefore, BellSouth's argument against standardization is actually a very strong argument for pursuing it.

IV. CONCLUSION

Predictably, each of the ILECs seeks to dissuade the Commission from pursuing the adoption of a single standardized costing process for each of the UNEs at issue. Tellingly, none of the ILECs has anything to say about the clearly inconsistent results that were obtained in the most recent round of UNE cases as a result of using three different ILEC models – ignoring the logical presumption that at least two of the ILEC models must be flawed, and brushing aside this Commission's proper concern about the way in which these results discriminate against large groups of Florida consumers. Instead, the ILECs are intent on raising as many objections as possible in a transparent effort to maintain the strategic advantages that the current process and procedures create for them at the expense of the ALECs and the Commission staff. As we demonstrate above, some of those concerns have merit – but the vast majority of the ILECs'

complaints are either irrelevant or misleading in the extreme.

It is important to note that Sprint concedes that by standardizing its cost modeling across the 18 states in which it operates, *it* has achieved significant efficiencies. This admission by Sprint clearly demonstrates that ILEC arguments to the effect that a standardized cost model cannot properly reflect differences in geography, topography, mix of technologies, differences in the degree of UNE de-averaging, and differences in the types of UNE rate elements that must be analyzed (*see* [insert cites]) are mere puffery. Clearly, the 18 states in which Sprint operates exhibit differences in each of these areas, yet Sprint claims vociferously that its use of a standardized cost model across these 18 states “has enabled Sprint to develop cost studies and UNE price lists for each of its 18 states in the most efficient manner possible.” Sprint Opening Comments at 4. There is no reason to deny these same efficiencies to participants in the Florida telecommunications market. Sprint also notes that it is required to present cost studies supporting non-UNE proceedings such as switched access, reciprocal compensation, wholesale discounts, retail services and Universal Service Fund studies. Sprint Opening Comments at 2. Obviously, this Commission must conduct such studies for all three ILECs. In these proceedings, concerns often arise about the possible recovery of the same cost elements in more than one context. One of the key benefits to the Commission of standardized TELRIC models for UNEs is that this would make it much easier for the Commission and other affected parties to understand what costs are associated with which portions of the ILECs’ networks and, thereby, to minimize the potential for over-recovery of the costs of certain portions of the networks as part of different wholesale/retail rates.

The Commission must keep its eye on the problem that brought them here. Use of three

different ILEC models has led to UNE prices that are wildly inconsistent – even in similar customer locations – effectively un-auditable, and not easily compared. The ILECs’ comments all acknowledge the problem, but offer no hope for resolution – instead they attempt to finesse the problem by suggesting it is not a problem at all but merely the result of all sorts of differences in the way in which each of them “actually” operates. Never mind that how the ILECs “actually” operate should not – as both the FCC and the Supreme Court have concluded – have much to do with TELRIC calculations in the first place.

As our Opening Comments made clear, anything short of the adoption of a single, standardized cost model for a given UNE – such as the loop – will perpetuate the status quo. Most importantly, this means that the sort of inconsistent, incomparable, and discriminatory results now facing Florida consumers will continue. In addition, it means that the strategic advantages now enjoyed by the ILECs in UNE rate proceedings will continue, and it means that the full benefits of real competition will be delayed for all Florida consumers, and completely denied to some.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In RE: Undocketed
Standardization of Unbundled
Network Element Costing

Filed: April 4, 2003

REPLY COMMENTS OF SPRINT-FLORIDA, INCORPORATED

Sprint-Florida, Incorporated (Sprint) respectfully submits the following reply comments in response to comments filed by AT&T and WorldCom on February 28, 2003, relating to the standardization of unbundled network element (UNE) costing.

I. INTRODUCTION

The foundation for AT&T and WorldCom's comments in this proceeding is an unsubstantiated and factually flawed assertion that use of separate cost models by the ILECs resulted in "inaccurate" UNE prices. AT&T and WorldCom use this conclusion to support their position that a single cost model will result in "comparable and consistent UNE prices." In its reply comments, Sprint will demonstrate that the ILECs' use of their individual cost model is not the cause for differences in UNE prices. Rather, legitimate cost differences, driven by the territories served by the three companies, economies of scale and other factors, cause the differences in input values to the cost models. It is these real-world differences in input values and rate structures that drive the differences in UNE prices. Because these differences are a true reflection of differences in the cost of constructing and maintaining the underlying network, they are entirely consistent with TELRIC and should not be the basis for any claim that a standard cost model for all ILECs is required. Sprint's analysis, which includes information produced by the same

cost models advocated by AT&T and WorldCom, refutes the claim that cost models alone drive differences in costs.

AT&T and WorldCom further assert that the implementation of a single cost model will provide a number of benefits. AT&T and WorldCom's suggested benefits, however, ignore many real-world impacts and resulting costs to ILECs, and blindly assume that litigation costs will dramatically decrease. Their perceived benefits reflect a naïve, one-sided view of the world from AT&T and WorldCom's perspective, and do not consider the real-world impact of requiring that all ILECs use a single cost model. The suggested benefits will either not materialize, or will be more than offset by inefficiencies created by the use of a single cost model.

As recommended in its Initial Comments, Sprint does not support the development of one standard cost model, or the development of a single set of standard inputs. Sprint is, however, supportive of the adoption of a single cost methodology, and of the creation of a tool to accumulate the total charges for a few key ordering scenarios. AT&T comments that the development of a single cost methodology will require significant up-front costs by requiring numerous extensive workshops to develop appropriate standards. While Sprint agrees that there will be work involved in the development of a single cost methodology, it is incredible to suggest that this effort will compare to the huge undertaking and expense that will be involved in developing and implementing a standard cost model, as detailed in Sprint's Initial Comments. Further, it should again be pointed

out that the Commission now has much bigger and immediate issues to pursue in meeting the requirements of the FCC's order in its Triennial Review.

II. DIFFERENCES IN INPUTS, NOT DIFFERENCES IN COST MODELS, DRIVE DIFFERENCES IN COST STUDY RESULTS

AT&T and WorldCom contend that the primary cause of the different results obtained in the Florida UNE proceedings of Sprint, BellSouth and Verizon, is that three different costing methodologies or models were used. They further suggest that the costs and resulting UNE rates should be consistent and comparable if they are based on the same interpretation of TELRIC. These assertions are factually unsupported by AT&T and WorldCom, and, more importantly, ignore the fact that differences in company-specific inputs drive the differences in cost model results.

There has been a great deal of discussion before almost every state utility commission and the FCC in Universal Service Fund proceedings and proceedings for pricing unbundled network elements as to why and how loop costs differ at a wire center level and between companies. In each of those proceedings, the parties recommended the use of various cost models. In USF proceedings, and Florida's is a prime example, the parties recommended different models and inputs, and the commission ordered one model and one set of inputs. The same thing occurred before the FCC, in which HCPM and the default inputs were selected by the FCC. In each of those proceedings, there was one constant that pervaded: rural wire centers are typically more expensive to serve than urban wire centers. In fact, the difference in costs between wire centers is the basis for

the FCC's order that ILECs deaverage UNE loop prices into at least three rate zones—because costs differ substantially from rural to urban wire centers.

As Sprint discussed in its previously filed comments, the three Florida ILECs have legitimate differences in their territories in terms of geography, customer density, and local market conditions. There are also significant differences in size, economies of scale and purchasing power among the three companies. These input differences appropriately should, and do, drive differences in UNE prices. Following TELRIC standards, the UNE rates of Sprint, BellSouth and Verizon are not, could not, and should not be the same.

On pages 10 and 11 of AT&T and WorldCom's comments, they present UNE rates for three wire centers (Bushnell for Sprint, Brooksville for BellSouth and Zephyrhills for Verizon) located along a fifteen mile stretch of US 301 north of Tampa and make the audacious claim that the costs for these wire centers should be comparable. Because the UNE prices for these three wire centers are different, AT&T and WorldCom amazingly reached the self-serving conclusion that it is the use of different cost models that caused this result. They further make the outrageous claim that these differences cause "unreasonable discriminatory conditions to exist in Florida." Sprint's analysis of the cost differences for these three wire centers reveals that it is not the cost models that drive the cost differences, but the unique operating characteristics of these wire centers. As such, the differences in UNE prices are appropriately based on costs, not cost study models, and in no way can they be considered discriminatory.

Sprint's analysis included two components. First, a comparison of the demographic and geographic characteristics clearly demonstrates that cost differences between the three wire centers are entirely consistent with the differences in the areas being served.

Second, analysis of the results from cost models supported by AT&T and WorldCom (HCPM and HAI5.0a) reveals similar cost differences for the three wire centers to those resulting from the use of each ILEC's cost model.

Wire Center Demographics and Geography

AT&T and WorldCom's comments show that they either do not understand or choose to ignore the fact that costs differ between wire centers and between companies. To explain these differences, one must look at the demographic and geographic characteristics of the wire centers and the area. According to HCPM, Bushnell covers about 211.8 square miles and 7,987 access lines while Brooksville covers about 298.6 square miles and 30,039 access lines. From these simple statistics, the customer density in Brooksville is almost three times that of Bushnell. On average, there are 37.7 access lines per square mile in Bushnell and 101.3 access lines per square mile in Brooksville. The reason for these differences in population density is that Bushnell is more isolated and rural than the other wire centers.

On one hand, the Bushnell wire center is a rural farming community with the main growth taking place in the town itself. Leaving the town in any direction demonstrates that Bushnell is an isolated community that is separated from other towns in the area by farmland to the north and east, the Wahoo swamp to the west, and the Withlacoochee

Forest to the south. Brooksville, on the other hand, is less rural than Bushnell and is experiencing more growth from the Tampa area. Zephyrhills is the most quickly developing area of the three wire centers. It has been a retirement community, but is becoming more of a bedroom community for Tampa.

Suggesting that Bushnell, Brooksville, and Zephyrhills should have the same loop cost because the wire centers are located along the same highway corridor and that the houses are similarly situated from the road, shows that AT&T and WorldCom do not understand, or choose to ignore, all of the factors that influence cost.

Wire Center Costs from AT&T and WorldCom's Own Models Demonstrate Similar Variability

An analysis of the results of the very models advocated by AT&T and WorldCom provides further evidence that it is not the models that drive the cost differences between the three wire centers. Sprint's analysis of HCPM and HAI5.0a default results for each of the wire centers discussed in AT&T and WorldCom's comments supports the fact that loop costs differ by wire center. While Sprint believes that HCPM and HAI do not accurately reflect costs, and have been shown to systematically understate costs (either through poor assumptions and/or inaccurate inputs), the models can be used to prove a point: costs vary by wire center. The table below illustrates that when HCPM and HAI 5.0a default inputs and settings are used for all companies, the cost results for the three wire centers differ by about the same magnitude found in the current prices that the commission approved and the differences cited by AT&T and WorldCom as being

discriminatory. These cost differences reflect the reality that the wire centers have different geographic and demographic characteristics.

Cost Comparison

Central Office	HCPM CLLI Code	HCPM Cost of Service	HCPM Switched Lines	HCPM Square Miles	Lines/Square Mile	HAI5.0a Cost of Service
Bushnell	BSHNFLXA	\$42.74	7,987	211.8	37.7	\$42.93
Brooksville	BKVLFLJF	\$29.76	30,039	298.6	101.3	\$25.04
Zephyrhills*	ZPHYFLXA	\$25.15				\$21.19

*ZPHYFLXA is not found in the HCPM or HAI geographic data files. However, based on the distribution of Census Block Groups, the wire center is split between LKLDFLXN, PTCYFLXA, THNTFLXA, and WLCHFLXA. Based on this data, there is an error with the wire center boundary files used in HCPM and HAI.

According to HCPM default results for total cost of service, it is approximately 44% more expensive to provide service in Bushnell than in Brooksville. When only the loop cost is compared, the difference is consistent with that found in the current commission-approved prices and the difference calculated by AT&T and WorldCom.¹ Further, even the model that AT&T and WorldCom built for UNE and USF cost development purposes, HAI5.0a, produces results (using default inputs) that reflect a difference in cost between the three wire centers consistent with that found in the currently approved prices. According to HAI5.0a, the cost of providing service in Bushnell is about 71% higher than in Brooksville. Thus, calculating costs with two of the three models that AT&T and WorldCom support (HCPM and HAI) with consistent inputs/model settings for each wire center, the results show that the differences currently reflected in the commission-

¹ The HCPM loop cost for Bushnell is \$38.03 while HAI5.0a produces a loop cost of \$38.01. The HCPM loop cost for Brooksville is \$24.54 while HAI5.0a produces a loop cost of \$20.77. The HCPM estimated loop cost for Zephyrhills is \$20.39 while HAI5.0a produces a loop cost of \$16.79.

approved prices reflect the differences of the wire centers. Forcing the costs to be similar would distort the fact that these wire centers are simply different topographically, geographically and demographically, and that the costs should be different as well.

Sprint is not proposing that either the HCPM or HAI cost model be used. Sprint is providing these results as an illustration of differences in cost when consistent inputs are used in the same model for all three companies. Despite the fact that costs can be differentiated using HAI or HCPM given valid inputs, the inefficiencies of implementing a unique model for one state and the resulting impacts to ILEC ordering, billing, provisioning and information systems cannot be ignored. In its Initial Comments, Sprint described at length the system and process changes that would be required in order to implement a single cost model.

Overall Drivers for Cost Differences Between the ILECs

The differences between the three wire centers discussed previously are just a small example of the differences between the Florida serving territories of BellSouth, Sprint and Verizon. Using MapInfo's LECInfo data on the area covered and the approximate access line counts used in Docket No. 990649-TP, the following information reveals the overall differences between the companies' Florida territories:

- Sprint's territory in Florida covers 22,060 square miles and approximately 2,200,000 access lines, reflecting a density of 99.7 access lines per square mile.

- BellSouth's territory in Florida covers 20,392 square miles and 6,900,000 access lines, reflecting a density of 338.4 access lines per square mile. Stated another way, BellSouth serves over three times as many access lines as Sprint in an area that is only eight percent smaller.
- BellSouth's Florida territory is about 3.4 times more densely populated than Sprint's territory.
- Verizon's territory in Florida covers 5,123 square miles and approximately 2,500,000 total access lines, reflecting a density of 488 access lines per square mile.
- Verizon's Florida territory is about 4.9 times more densely populated than Sprint's territory. Stated another way, Verizon serves about 300,000 more access lines than Sprint in an area almost one fifth the size of Sprint's.

The above data is also representative of the companies' national territory and purchasing capacity. Sprint, nationally and in Florida, is the smallest of the three companies and therefore commands less negotiating power for materials and labor. According to fourth quarter 2002 financial statements, Sprint's Local Telephone Division provides about 15 million access line equivalents in 18 states, BellSouth provides about 70 million access line equivalents in nine states, and Verizon provides about 136 million access line equivalents across the United States. BellSouth and Verizon are much larger than Sprint, provide service in many more areas than Sprint, and therefore command better purchasing power and economies of scale than Sprint. These differences in the purchasing power and serving territory of each company further supports the fact that there should be differences between Sprint, BellSouth and Verizon. Thus, there is no

discrimination as suggested by AT&T and WorldCom. Rather, the cost differences between the companies are a reflection of the unique characteristics of different companies serving different markets. These cost differences are real and, as demonstrated with data from several cost models (including HCPM and HAI), are a function of the characteristics of areas being served and not a function of the different cost models.

III. THE SUGGESTED BENEFITS OF ADOPTING A SINGLE MODEL WILL NOT BE REALIZED.

AT&T and WorldCom's suggested benefits from use of a single cost model ignores many real impacts and resulting costs to ILECs and blindly assumes that litigation costs will dramatically decrease. These perceived benefits reflect a naïve, one-sided view of the world from AT&T and WorldCom's perspective, and do not consider the real-world impacts of a requirement that all ILECs use a single cost model. As stated previously, the suggested benefits will either not materialize, or will be more than offset by other inefficiencies created by the use of a single cost model.

Standardization Will Not Reduce Costs

AT&T and WorldCom argue in their comments that the Commission's reliance on a single standardized cost model will reduce the costs for all parties. As Sprint, BellSouth and Verizon all demonstrate in their initial comments, this is clearly not true. All three parties outlined the significant additional costs that would be incurred to implement a standard model, including system modifications, OSS, training, methods and procedures updates, product guides, and billing. Furthermore, additional costs would be incurred

due to the obligation to maintain and operate a cost model solely for use in Florida, unique from the cost models used by the ILECs in the other states in which they operate.

Additionally, as recognized by AT&T and WorldCom, technology and regulation are continually evolving, which will require constant modification of the costing process. Substantial resources will be required to maintain a standard model and the question remains as to who will shoulder the burden of maintaining the model. As was discussed previously, each change to the model will involve an additional proceeding for Staff and the ILECs to reach agreement on the appropriate modifications that will accurately capture costs for each ILEC. AT&T and Worldcom fail to recognize that the ILECs incur all of the costs for developing and maintaining UNE cost models today. There is a significant difference in the resources required to develop, maintain and process UNE cost models than the ALECs and Commission Staff currently commit to reviewing and evaluating ILEC cost models in time-defined UNE cost proceedings.

As AT&T and WorldCom accurately pointed out in their comments, an ILEC may have taken years to design its cost models. It is illogical to abandon these efforts in favor of a standard cost model that sacrifices company-specificity in favor of standard results and cannot accurately calculate the costs which individual ILECs actually incur to provide UNEs. Sprint, BellSouth and Verizon all have operations across multiple states and efficiently employ company-standard UNE cost modeling for all their states. If forced to implement a Florida-specific cost model, each ILEC will have no choice but to spend significant resources on a unique model for Florida, including making changes to OSS,

billing, training, methods and procedures and other related operational areas as discussed in Sprint's initial comments.

AT&T and WorldCom argue that because ALECs will be able to use a standard process for all ILECs in Florida, ALECs will have more incentive to offer telecommunications services across the state rather than only serving the territory of one ILEC. They state that this will reduce the costs to an ALEC for bill audits and ordering. The fallacy of this argument is that ALECs doing business with Sprint rarely do business in only one state. These ALECs will be forced to use multiple processes with Sprint in order to do business in the multiple states in which Sprint operates. This is clearly inefficient for the both the ALEC and the ILEC.

AT&T and WorldCom's claim that use of a single model results in lower costs for all parties is also questionable when one considers that it is unlikely that all three ILECs will be before the Commission at the same time to set UNE rates. The Telecom Act established a process for setting UNE rates that contemplates arbitrations, not generic cost proceedings, as the vehicle for resolving interconnection negotiation stalemates, including those associated with rates. Further, Sprint believes that UNE rate-setting proceedings should be staggered by ILEC and any rates should be effective for at least three years. Given these parameters, there are no compelling reasons for committing the significant resources needed to develop a single cost model for which is there is no immediate need and would not generate the efficiencies for all parties as claimed by AT&T and WorldCom.

Standardization Will Not Reduce Litigation

AT&T and WorldCom comment that standardization of the UNE costing models will decrease litigation expenses by eliminating disputes and by eliminating the discrimination that results from drastic variances in UNE rates. On the contrary, litigation expenses will increase because ILECs will not willingly agree to prices that understate their costs. ILECs will not accept a standard cost model and inputs that sacrifice accuracy and company-specificity for the sake of standard results. Additionally, any changes or updates to the model will require an additional proceeding and have the potential for litigation if all parties don't agree.

Further, AT&T and WorldCom discuss discrimination against the ALECs due to variances in UNE rates. As discussed above at length, it is not a valid expectation that UNE costs should be consistent across ILECs and across the state. Adhering to TELRIC standards and considering the differences in density, territory, and economies of scale, the UNE rates of Sprint, BellSouth and Verizon should never be equal. Forcing a standard cost model and standard inputs on the ILECs will discriminate against Sprint, forcing pricing that understates its costs.

IV. PROCESS TO CHOOSE A SINGLE COST MODEL WOULD BE COMPLICATED AND COSTLY.

The process of choosing a single cost model would be complicated and costly for all parties. ALECs and ILECs would necessarily need to be provided the opportunity to present and defend their own models. AT&T and WorldCom suggest in their comments that the HAI Model 5.3, the FCC's Synthesis Model and BellSouth BSTLM Model

should be included in any model review. It would be patently unfair to start with a restricted list of models to be reviewed based on AT&T and WorldCom's suggestions. Sprint and Verizon would need to be provided the opportunity to support their cost models as well. This would mean that all parties would be required to review and evaluate the functioning of at least five separate models.

All of the cost models that would be introduced in a model review proceeding are complex computer models. Although AT&T and WorldCom claim that there is "inadequate documentation" for the ILEC cost models, Sprint's model, and those of the other ILECs, are thoroughly supported and explained in hundreds of pages of documentation. All parties would need to commit significant resources to review and evaluate each of these models. Although AT&T and WorldCom suggest that this review could be accomplished with a series of workshops, they have understated the amount of effort that would be required to complete a thorough analysis of each of the competing models. They further suggest that the Commission could "develop" one, standard cost model. Although not articulated in their comments, this suggests they contemplate a new model being developed as a product of this process that would then be used by all parties. However, they have failed to provide any solution to the issues of which party would be responsible for the "development" of the model and how the costs for "developing" this model would be funded.

The effort that would be required to arrive at a single UNE cost model for Florida would be extensive for all parties: ALECs, ILECs and the Commission. Given the significant

costs that would be involved in selecting one model, the inefficiencies created for ILECs in adopting a unique model for Florida and the lack of true benefits from use of a single model, there is no compelling reason for the Commission to pursue an objective of selecting a statewide UNE cost model.

V. CONCLUSION

Sprint has demonstrated that the foundation for AT&T and WorldCom's call for a single cost model is based on unsubstantiated and factually flawed claims that UNE prices are "inaccurate" and do not reflect TELRIC principles. Contrary to AT&T and WorldCom's claims, use of different cost models does not drive differences in UNE prices among the ILECs. Rather, it is the legitimate and very real differences in costs driven by the territories served, economies of scale, and other factors that drives the UNE price differences. Hence, adoption of a single cost model will not change these true cost drivers.

No one cost model can accurately and efficiently calculate the costs that all ILECs incur to provide UNEs. There are legitimate, real-world differences in ILECs network technologies, rate structures, provisioning systems and billing systems, which, according to TELRIC standards, should be accounted for in UNE pricing. Sprint does not support the development of one standard cost model to be used by all companies.

No one set of standard inputs will accurately reflect the operations of an individual ILEC. There are differences in geography, customer density, local market conditions, and

economies of scale that legitimately drive differences in UNE pricing, as demonstrated in these reply comments. Sprint does not support the development of a single set of standard inputs.

Standardization of the costing model and inputs will result in significant additional costs by the ILECs to implement. As detailed in Sprint's Initial Comments, a significant number of system and process changes would be required, costing several million dollars. Additionally, standardization forces the ILECs to sacrifice the efficiencies they have gained in their current costing process and requires instead that they implement a unique and inefficient process for one state. It is noteworthy that Sprint, BellSouth and Verizon each detail the same inefficiencies associated with the implementation of a standard cost model. If the Commission were to order use of a single cost model, new costs would be imposed on the ILECs without providing any vehicle for recovering these costs. The ILECs would be forced to reflect such costs in UNE rates. Each company should be responsible for developing its own model and inputs in accordance with TELRIC standards.

An attempt to implement a standard cost model and inputs will involve a protracted proceeding and serve to increase litigation expenses. Any changes or updates to the model will require an additional proceeding and have the potential for litigation. The development of a single cost methodology, allowing each company to utilize its own processes rather than attempting to force a standard model and inputs, will significantly

reduce litigation expenses while achieving the consistency of costing principles and methodology desired by the ALECs, ILECs and the Commission.

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BellSouth's Reply Comments

The Commission has found that the rates generated by the incumbents' respective cost processes (models, methodologies, and inputs) are TELRIC-compliant. The cost studies are reflections of the unique rate structures, methods & procedures, network characteristics, billing systems, and operational support systems established by the three companies. Attempting to standardize the cost process further beyond the FCC's requirements would not enhance the results or accuracy of the studies. Instead, it would introduce burdensome, inflexible procedures, add unnecessary, duplicative costs, and blur legitimate cost differences between the three incumbent companies operating in Florida. Additionally, ordering standardization would not result in the reduced litigation AT&T/WorldCom predict, because companies have the legal right to present and defend the evidence they deem appropriate, and history certainly indicates that the companies would appeal and litigate any sub-issue with which they did not agree.

AT&T/WorldCom contend that the standardization of models, inputs, criteria, and outputs is a panacea. They are dead wrong. AT&T/WorldCom's simplistic view of standardizing the cost process would result in a violation of the FCC's First Report and Order (which states that costs should reflect costs the incumbents will incur), minimizes the logistical nightmare of reaching a consensus on any one of the proposed standardized areas, ignores the legal consequences of such actions, overlooks the substantial internal costs to the incumbents to redefine and restructure the unbundled offerings, and misrepresents the potential benefits.

BellSouth agrees with the following positions of Sprint and Verizon:

- 1) The annual review of cost studies is unnecessary and unproductive unless changes to regulatory or legal obligations dictate the need for a specific review. BellSouth agrees with Sprint and Verizon that a multiple-year review cycle would fulfill the Commission's oversight obligations and adequately reflect any potential changes in input values and network configurations. BellSouth does not, however, necessarily believe that this process must occur every three years. Additionally, BellSouth concurs with Verizon's suggestion that the timing of the cost reviews be staggered among the incumbent companies. Such an approach would spread the total workload by allowing the Commission and Staff to devote resources to the cost studies on an individual company-specific basis.
- 2) The Proposed Principles for UNE Cost Analysis (Sprint's Attachment A) appropriately reflects the *current* methodology for UNE cost development and should provide the foundation for all cost studies that support rates for unbundled network elements. The FCC has indicated, however, that it will begin a review of

its TELRIC guidelines later this year¹. Thus, the rules outlined in Sprint's attachment may need to be modified to reflect the results of the FCC's review. Accordingly, BellSouth suggests that, if the Commission adopts Sprint's proposal, it be revised to include the following preamble: "The following principles outline the current status of cost methodology to be used in support of cost-based rates for unbundled network elements and interconnection set forth by the Federal Communications Commission (FCC). These principles are subject to modification based upon any future directives from the FCC which alter the existing guidelines."

- 3) BellSouth also agrees, for the most part, with Sprint's Proposed Principles for Cost Model Design. BellSouth, however, would modify item #4 – "All algorithms should be open" – to include the statement: "subject to execution of a nondisclosure agreement. Any modification to these algorithms made by the end-user is not necessarily supported by the model's developer." The algorithms are the intellectual property of the model developer and must be protected. Furthermore, once a user modifies an algorithm, the integrity of the model is potentially compromised. AT&T/WorldCom's criticism of BellSouth's effort to protect its intellectual property, the BSTLM[®], by not providing an uncompiled version of the model's code is unwarranted. As this Commission stated: "BellSouth was obligated to provide parties with the ability to review and critique the model, we do not believe it was required to provide the actual source code. ... Upon consideration of the evidence, we find that BellSouth's actions here did not impede AT&T/WorldCom's ability to review and critique the BSTLM." See Order No. PSC-01-1181-FOF-TP, Docket No. 990649-TP, dated May 25, 2001, page 132.

Also, item#12 – The Cost Model should be capable of producing deaveraged cost results" – should include "as appropriate." As this Commission is aware, not all costs reflect attributes that would justify geographic deaveraging. In fact this Commission found that only loops reflect characteristics that warrant deaveraging.

- 4) The development of one standard model is inappropriate. A standard model cannot accurately and efficiently calculate the costs that the incumbents incur in providing unbundled network elements to alternative local exchange carriers (ALECs) (Sprint and Verizon position). As each incumbent has emphasized, the companies are different – their rate structures are different, operational support systems are different, deployment guidelines and initiatives are different, capital structures and expenses are different, and data sources are different. Thus, the

¹From the Washington Telecom Newswire discussing Competition Bureau Chief William Maher's plans for the year: "the bureau plans to look at long-pending intercarrier compensation, TELRIC pricing, portability of universal service support and voice over IP." (Dated January 15, 2003)

probability of a single standard model accurately capturing these differences is very remote. Furthermore, the developmental, maintenance, and administrative costs associated with a standard model would be very substantial. Additionally, as the incumbents have stated, the physical telecommunications network and the regulatory environment are not stagnant and any model must recognize this fact. In other words, the model must be able to be altered as necessary to reflect changes in the telecommunications architecture and in regulatory requirements established by this Commission and the FCC. Finally, performance measures have been developed, after extensive debate, based upon the incumbents' rate structures. One model and one rate structure, even if it were possible, would compromise these performance measures and cause the parties and the Commission to re-do a significant amount of work in the performance measurements area.

- 5) Inputs should not be standardized. The FCC's rules allow, and this Commission has recognized, that incumbents properly should utilize inputs that are reflective of their respective operations, provisioning practices, network guidelines, deployment practices, forward-looking expenses and capital structures, contracts, and methods and procedures. Additionally, Verizon made a valid point; if by some miraculous intervention, all parties reach agreement on a set of inputs, then obviously there has been some level of compromise. Each company may be willing to lose a little on one point to preserve victory on another issue. Thus, "taken as a whole," the company is willing to abide by the results. It is inevitable, however, that an individual input would be taken out-of-context, and presented in states outside Florida. The incumbent will then need to explain why it agreed to an input in Florida and not in another state – a time-consuming and potentially dangerous (for the incumbent) situation that certainly would not be worth the small benefit. Furthermore, by the time any compromise on input (or any other issue) is reached, the data may no longer be valid due to such items as technological changes, new regulatory rules, vendor modifications, or increased risk in the capital markets.
- 6) Sprint's suggestion that the incumbents provide this Commission and the ALECs specific pricing information on a logical set of UNE ordering scenarios has merit. Implementation of this proposal would explain the differences in rate structures among the three incumbents. Such a proposal is the least controversial, is the easiest to implement, and provides the relevant information the Commission, Staff and ALECs desire. BellSouth had proposed a matrix that described the network components and provisioning activities captured by each element. BellSouth believes Sprint's proposal is simpler to implement and still allows the Commission and the ALECs to compare rates among the incumbents for identical scenarios. If adopted, to ensure an "apples-to-apples" comparison, the "price-out" scenarios should also specifically detail what the final rates must reflect with respect to configurations, equipment, and activities (e.g. travel and testing), prior

to the calculation of the charges. This would ensure that the charges are truly comparable.

Response to AT&T/WorldCom's Comments

If this Commission adopted AT&T/WorldCom's proposal and dictated the model, inputs, methodology, and outputs of the UNE cost calculations, the legitimate differences that exist among the three incumbent providers would be lost. Thus, the Commission would not fulfill its FCC-dictated obligation to identify the forward-looking long run costs the incumbents "actually expect to incur."

Standard Model

In order to bolster support for total standardization (model, inputs, criteria, and outputs), AT&T/WorldCom's comments begin with a false postulate. They claim that because the cost-based rates for reportedly the same geographic location differ among the three incumbents "at least one set, and possibly all, of the resulting UNE prices are inaccurate." (AT&T/WorldCom, page 2) AT&T/WorldCom attributes the cause of this difference to "three different costing methodologies." (AT&T/WorldCom, page 2) This is incorrect for a number of reasons. First, this Commission expended a considerable effort in setting rates for BellSouth that the Commission determined adhere to the current TELRIC pricing requirements. BellSouth believes that the Commission followed the same process with the other incumbents. Contrary to AT&T/WorldCom's claim, the same cost methodology was used by all three companies, i.e., TELRIC. Second, in evaluating 271 applications, the FCC has found that proper application of its TELRIC principles may produce a range of results. In the FCC's Order in response to BellSouth Georgia/Louisiana 271 Application, the FCC stated: "separate, reasonable applications of TELRIC principles can produce a range of rates." *See* FCC 02-147, CC Docket No. 02-35, dated May 15, 2002, ¶25. Third, there are legitimate reasons why the costs can differ by provider for basically the same location, e.g., different material prices, actual customer locations, density of customers, types of services being provisioned, capital structure, vendor selection, equipment capacities, network designs, utilizations, and expenses. Thus, variations are to be expected, and are not a valid basis for criticism. Finally, as the FCC recognized, it is the incumbents that "have greater access to the cost information necessary to calculate the incremental cost of unbundled elements of the network" – not an ALEC or a committee – and thus, is in the best position to calculate the costs. *See* FCC's First Report and Order, ¶680.

AT&T/WorldCom cite to other industries that have allegedly embraced a standard model to evaluate cost – railroads, motor carriers, and energy. Interestingly, none of these industries are enjoying stellar financial performances. It is inappropriate to equate these non-technical services to the telecommunications industry, where cost is driven by technology. In fact, the FCC uses its Synthesis Model (i.e., the FCC-standard model) mainly to identify relative cost differences among states so that the FCC can allocate federal universal service funds - not to set rates. BellSouth believes that is the sole

purpose (i.e., a benchmark) that a “Florida Model” could fulfill – it could not and should not be used to set rates. Considering the amount of time and resources that would be required to develop this “Florida Model,” it is difficult to support such an effort merely to compare rates to some compromise-driven default value.

AT&T/WorldCom offer five reported benefits of a single model – none of which are totally accurate. First, AT&T/WorldCom claim that a single model creates a “more equal regulatory footing.” (AT&T/WorldCom, page 6) AT&T/WorldCom contend that the current situation allows “each ILEC to frame the debate by deciding on the initial structure and content of the cost support it presents” and to “ ‘game’ the regulatory system by designing costing models that bury key assumptions in obscure computer code.” (AT&T/WorldCom, pages 6 & 7) AT&T/WorldCom’s implication of a focused effort to manipulate the outcome of the cost studies to “achieve a particular result” is unjustified. (AT&T/WorldCom, page 7) The initial structure of the costs are dictated by the definition of the offering and the natural way in which the costs occur – i.e., are the costs recurring or nonrecurring; do the nonrecurring costs reflect a first/additional or initial/subsequent structure; are the nonrecurring costs one-time charges? The FCC’s unbundling obligations, as outlined in the Third Report and Order, and discussions with ALECs influenced BellSouth’s descriptions of the unbundled elements contained in its cost studies². In other words, BellSouth did not define these offerings in a vacuum. The cost studies were then conducted to support this cost structure and the network service descriptions of the elements, not the other way around. BellSouth submits inputs required for the cost calculations that it believes are in compliance with the dictates of the FCC’s TELRIC principles (forward-looking, long-run, least cost, etc.). Further, these inputs and their derivations are open for inspection. Thus, if the Commission or the ALECs disagree with the values or the manner in which the inputs were developed, they can be altered. This is exactly what happened with respect to the in-plant vs. bottoms-up issue.

Contrary to AT&T/WorldCom’s contention that “BellSouth has consistently fought the production of an uncompiled version of the BSTLM,” it was never BellSouth’s intent to deny review of its models. (AT&T/WorldCom, page 7, footnote 3) Indeed, with respect to this same allegation, the Commission ruled: “BellSouth was obligated to provide parties with the ability to review and critique the model, we do not believe it was required to provide the actual source code. Upon consideration of the evidence, we find that BellSouth’s actions here did not impede AT&T/WorldCom’s ability to review and critique the BSTLM.” *See* Order No. PSC-01-1181-FOF-TP, Docket No. 990649-TP, dated May 25, 2001, page 132.

AT&T/WorldCom lament that “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.” (AT&T/WorldCom, page 7) BellSouth

² The results of the FCC’s triennial review may alter BellSouth’s unbundling obligations.

has undergone two Florida generic cost proceedings in which its models were extensively reviewed. BellSouth responded to hundreds of discovery requests made by the Staff and ALECs³, engaged in workshops, filed supporting documentation, provided on-line help, produced thousands of pages of documents, and made its experts available for depositions, in order to support its cost filings and models and provide information requested by the ALECs and the Commission. Sufficient information has always been provided to all parties. Further, based on the extensive testimony filed by AT&T/WorldCom in the generic cost dockets, it is difficult to believe the Commission did not provide adequate review time to formulate a response.⁴

The ALECs had BellSouth's cost models for three months before testimony was due (July 24, 2000) and for five months before the initial hearings (September 19-22, 2000) were conducted. By the time the 120-day phase of this docket was conducted, the ALECs had BellSouth's models for over a year before testimony had to be filed.

Second AT&T/WorldCom contend a single model will “focus[] all parties toward the same goal.” (AT&T/WorldCom, page 6) This is not realistic. BellSouth utilizes its models to accurately calculate the costs associated with providing access to unbundled elements. BellSouth wants to be fairly reimbursed for the economic costs of providing UNES. On the other hand, based on the positions taken before state commissions, ALECs want the opportunity to use the models to drive costs as low as possible and increase their margins.

AT&T/WorldCom claim that “[t]he more fundamental problem [with the cost models] is that the various cost models have different conceptual interpretations of TELRIC.” (AT&T/WorldCom, page 9) This Commission found that BellSouth's models are TELRIC-compliant. BellSouth also believes that the Commission determined that Sprint and Verizon's models satisfy this standard. It appears that AT&T/WorldCom believe that there is only one approach to modeling the network and any deviation from that universal approach results in a fatal TELRIC error – they are wrong. In fact, BellSouth used two different models to calculate loop rates that the FCC reviewed in the context of BellSouth's 271 applications. The FCC found both approaches to be TELRIC-compliant. BellSouth filed rates in Georgia, North Carolina, and Tennessee that were developed based on a sample approach and in Alabama, Florida, Kentucky, Louisiana, Mississippi,

³ In fact, the Cost organization alone responded to over 500 data requests in Docket No. 990649-TP.

⁴ As an example of reputed difficulties in understanding changes in cost results, AT&T/WorldCom question the increase in BellSouth's DS1 loop costs. While BellSouth does not believe that this is the proper forum in which to raise this criticism, the answer has nothing to do with “constant modification of the costing process,” as AT&T/WorldCom claim. Instead, in the earlier cost proceeding (Docket Nos. 960757-TP, 960833-TP, and 960846-TP), BellSouth failed to capture costs associated with the electronics at the customer's premises and thus, the resulting costs were understated. Furthermore, interveners were NOT “effectively precluded from being able to identify the source of such a discrepancy,” as AT&T/WorldCom claim – they did not raise this issue during the cost proceedings. (AT&T/WorldCom, page 8, footnote 5)

and South Carolina using the BSTLM. Both models encompassed the TELRIC standards even though the process of determining the loop costs was very different.

AT&T/WorldCom raise the specter of “unreasonable discrimination in Florida” that supposedly results from the use of multiple cost models. The third benefit claimed by AT&T/WorldCom is that a single model will “eliminate discrimination” in rates paid by the ALECs. (AT&T/WorldCom, page 6) AT&T/WorldCom contend that the charges paid “often depend on nothing more than the particular cost model that was used to establish the UNE rates.” (AT&T/WorldCom, page 10) This is a completely inaccurate charge. First, there is more than one ILEC in many states, and no state commission, however, has ordered standardization of costs models and inputs. Moreover, even if all incumbents used the same cost model, the incumbents’ costs would legitimately vary. For example, in the first round of generic cost dockets, BellSouth filed the testimony of Georgetown Consulting Group (“GCG”) in which the Hatfield model, the model supported by the ALECs, was rerun with the appropriate BellSouth-specific inputs⁵. The Hatfield’s internal logic and assumptions were not altered, only inputs were changed – the results were dramatic. For example, in Georgia the effect of GCG’s analysis was to increase the average cost of a loop as developed by the Hatfield Model from \$14.33 to \$28.43. (Even with input ordered by the Georgia Public Service Commission, the result was \$24.27 – significantly higher than the ALEC-proposed rate.) As BellSouth discussed previously, however, there are legitimate reasons why the incumbents’ inputs, even for the same model and same geographic location, and cost results differ. Also, AT&T/WorldCom’s assertion that “the costs and UNE rates would be very similar if they were all based on the same interpretations of TELRIC” is not supported by the FCC’s own findings. (AT&T/WorldCom, page 11) As stated previously, the FCC has found that a “range of TELRIC” rates exist.

A decrease in litigation expenses is the fourth benefit alleged by AT&T/WorldCom. As BellSouth and the other incumbents have cautioned this Commission, both the telecommunications network and the regulatory environment are fluid. Thus, standardization would not eliminate litigation from future modifications to network architecture, regulatory obligations, pricing standards, or capital/expense adjustments. Furthermore, even AT&T/WorldCom recognize that “each party should have the opportunity to present its own evidence using any additional alternative methodology it chooses to present.” (AT&T/WorldCom, page 4) The incumbents have the legal right to submit evidence that it believes appropriately capture the costs that are incurred in providing UNEs on a going-forward basis. The introduction of a standard model and inputs imposes an additional hurdle that must now be overcome – the rebuttal of those standards. Thus, instead of lessening litigation, the potential is that it will increase.

Finally, AT&T/WorldCom state that a single model will “encourage[] ALECs and ILECs to negotiate, rather than litigate.” (AT&T/WorldCom, page 6) There is no

⁵ GCG did not file testimony in Florida.

guarantee that the adoption of a standard model will dampen the amount of litigation associated with the pricing of UNEs. For example, AT&T/WorldCom propose that the Commission adopt the BSTLM to develop loop costs in this proceeding. This does not stop the ALECs from arguing issues with respect to that application, even once the Commission has ruled. To illustrate this point, WorldCom has recently argued before the District Court in Tallahassee that this Commission violated the FCC's TELRIC principles in approving the use of multiple scenarios in the running of the BSTLM. This identical allegation was made and lost in every state where Bellsouth filed the BSTLM and was again made and lost before the FCC in response to BellSouth's 271 applications. This "litigate to the final death" approach is common for AT&T and WorldCom and the adoption of a standard model will not alter this practice.

AT&T/WorldCom assert that: "the Commission's reliance on a single standardized cost model will reduce the costs for all parties – ILECs, ALECs, and the Commission staff alike." (AT&T/WorldCom, pages 12-13) The incumbents disagree. In their initial comments, the incumbents identified substantial areas of costs that would be incurred in the development, implementation, operation, and maintenance of the "Florida Model". Additionally, the costs associated with the duplicative effort of maintaining a separate model unique to Florida have to be considered. As Sprint states: "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." (Sprint, page 5) Furthermore, BellSouth agrees with Sprint's observation that "inefficiencies would include the need to redo Sprint's wholesale performance measurements for Florida." (Sprint, page 6) As AT&T/WorldCom recognize, standardization would result in "a consistent rate structure." (AT&T/WorldCom, page 24) Performance measures, however, are based upon existing rate structures.

Criteria/Methodology

Pages 15-16 of AT&T/WorldCom's comments list "a minimum list of issues that need to be addressed." BellSouth questions the need for such detailed determinations by the Commission. Does a consensus to such granular issues really need to be reached in order to fulfill the FCC's TELRIC principles? No. BellSouth does not believe that the FCC's TELRIC principles dictate that a common approach to these questions must be reached in order to calculate TELRIC-compliant costs. Furthermore, many issues are slanted toward a specific model and modeling technique. Thus, AT&T/WorldCom's "list of issues," though important considerations when a model is developed, do not have to culminate in a common response from all parties to result in compliant costs.

AT&T/WorldCom contend that unless the Commission dictates a common response to its "list of issues" and incorporates that criteria into a standard model, then the "ultimate control of the modeling methodology" would remain "in the hands of the ILECs." They also claim the "ILECs have tremendous incentives to use cost modeling to raise costs of competitive entry and to frustrate Commission efforts to encourage competition."

(AT&T/WorldCom, page 18) BellSouth takes exception to AT&T/WorldCom's portrayal of the incumbents' intent when determining UNE costs. BellSouth does not use its cost models to artificially raise the costs of UNEs. Even under the strict principles outlined by the FCC's TELRIC principles (i.e., forward-looking, least cost), providing telecommunications service is an extremely expensive proposition, a fact that should not be "modeled" away in the name of "competition." BellSouth faithfully calculates the costs associated with providing access to unbundled elements in accordance with regulatory rules and legal obligations. If this Commission wants to view true manipulation of models and inputs, the ALECs' proposed rates are perfect examples. Through the introduction of invalid assumptions (e.g. growth adjustments, trends in material prices, and allocation of common equipment costs) that violate the model's logic, the ALECs attempt to distort the true forward-looking cost.

Standardization of Inputs

The Florida incumbents unanimously agree that standard inputs would not be appropriate and, in fact, would violate the FCC's pricing rules – that rates should reflect the costs the incumbents will incur. On the other hand, AT&T/WorldCom advocate a standard set of input values for all companies claiming that this "process was used by the Commission in establishing USF costs." (AT&T/WorldCom, page 23) The Commission in fact explored this same argument in Docket No. 990649-TP, where ALECs proposed "standard" inputs from the Florida USF docket. The Commission Order stated: "we agree with BellSouth that the inputs ordered in our Universal Service proceeding were for a different purpose and are not appropriate here. We find that AT&T and WorldCom's recommended material inputs from the universal service proceeding in Docket 980696-TP shall not be used in this docket; instead, inputs adopted for use in determining UNE prices shall be BellSouth specific." See Order No. PSC-01-1181-FOF-TP, dated May 25, 2001, page 190. This ruling makes two important points. First, the purpose of a UNE generic cost docket is to establish cost-based rates, not to benchmark cost study results against some default value-generated costs. Second, this ruling clearly indicates that the inputs used to develop rates for BellSouth should be unique to BellSouth – not some contrived input that resulted from negotiations. AT&T/WorldCom again acknowledge that parties can use "the standardized costing approach with its own inputs." Further, AT&T/WorldCom claim that this exercise "merely require[s] a baseline compliance filing." BellSouth does not agree with this conclusion. (AT&T/WorldCom, page 24, footnote 7) This unnecessary, duplicative, inappropriate "compliance filing" introduces an additional hurdle the incumbents must overcome. Every variance will need to be explained, legitimate differences will be disputed, limited resources will be expended, and additional costs will be incurred – for no real purpose.

BellSouth believes it is necessary to make an important clarification. Throughout AT&T/WorldCom's comments, reference is made to "reducing the costs of competitive entry" (e.g., on pages 18 & 23). This is not the objective of any cost proceeding – enticing competition is one thing – identifying the TELRIC-compliant costs that the incumbents will incur is an entirely different issue. The artificial manipulation of

models, inputs, and/or criteria is not the correct approach to promote competition and should not be endorsed by this Commission. The incumbents are not obligated to subsidize the ALECs operations in Florida, which is the result of setting rates at a level below the forward-looking costs that the incumbents incur in providing UNEs.

Standardization of Outputs

The incumbents have too much invested in the existing rate structure to create the “consistent rate structure” envisioned by AT&T/WorldCom. (AT&T/WorldCom, page 24) As explained in the initial comments, operational support systems, billing mechanisms, contractual agreements, cost models/data sources, methods and procedures, and performance measures have been established under the existing rate structures. The potential impact on creating a structure unique to Florida is tremendous.

Conclusion

While AT&T/WorldCom present potential outcomes from the adoption of a standardized approach to cost development, the idealized views are not realistic or attainable. More importantly, this drastic change to the existing processes used by the incumbents is not necessary and introduces additional costs, distorts legitimate differences among the incumbents, is stagnant/inflexible, invalidates existing performance measures, and is duplicative. As BellSouth has expressed, Sprint's proposal allows a direct comparison of incumbent rates for ordering scenarios actually purchased by the ALECs and should be adopted, with certain modifications. Additionally, generic cost proceedings need not be conducted annually. A multiple-year review, staggering the ILECs, is appropriate unless changes to the regulatory and legal environment mandate that a review of UNE rates is warranted earlier.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Undocketed
Standardization of Unbundled
Network Element Costing

Submitted: April 4, 2003

REPLY COMMENTS OF VERIZON FLORIDA INC.

Verizon Florida Inc. (“Verizon”) respectfully replies to the opening comments filed by BellSouth Telecommunications, Inc. (“BellSouth”), Sprint-Florida, Inc. (“Sprint”), and AT&T Communications of the Southern States, LLC and WorldCom, Inc. (collectively, “AT&T/WorldCom”) on February 28, 2003 regarding the proposed standardization of unbundled network element (“UNE”) costing.

I. THE ADOPTION OF A SINGLE COST MODEL IS IMPRACTICAL AND CONTRARY TO THE PRINCIPLES OF UNE COSTING

The incumbent local exchange carriers (“ILECs”) agree that the adoption of a single model is a costly and impractical exercise that will not yield TELRIC-compliant UNE rates or simplify the regulatory process. As Verizon, BellSouth and Sprint explained in their opening comments, a single, standardized model is incapable of producing the kind of accurate, company- and state-specific cost estimates required in UNE proceedings.¹ The only commenting parties advocating the use of a single model are AT&T/WorldCom. AT&T/WorldCom claim that the Commission should choose between three separate cost models: the HAI Model, Release 5.3 (“HM 5.3”), the FCC’s universal service Synthesis Model (“Synthesis Model”), or the bottom-up version of

¹ Before the Florida Public Service Commission, In re: Undocketed Standardization of Unbundled Network Element Costing, *Comments of Verizon Florida Inc.* (Feb. 28, 2003) at 1-2, 5-6 (“Verizon Comments”); Before the Florida Public Service Commission, In re: Undocketed Standardization of Unbundled Network Element Costing, *Comments of BellSouth Telecommunications, Inc.* (Feb. 28, 2003) at 1-5 (“BellSouth Comments”); Before the Florida Public Service Commission, In re: Undocketed Standardization of Unbundled Network Element Costing, *Comments of Sprint-Florida, Inc.* (Feb. 28, 2003) at 2-8 (“Sprint Comments”).

BellSouth's Telecommunications Loop Model ("BSTLM"). The Commission should reject this recommendation. HM 5.2a (HM 5.3's predecessor) and the Synthesis Model are not capable of producing accurate UNE cost estimates for a single company (let alone estimates for a group of different companies), and therefore have been soundly rejected by other state regulatory commissions.² Perhaps this is why AT&T/WorldCom did not sponsor either of these models in the UNE dockets below. Moreover, the other model, BSTLM, is deemed by its sponsor (BellSouth) to be ill-suited for standardized UNE costing purposes.³

The ILECs all agree that a single model cannot capture the numerous and significant differences among carriers providing service in Florida.⁴ Sprint correctly notes, "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."⁵ BellSouth concurs:

[T]he 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 in existing contractual agreements. In order to be valid, the Commission's "standard model" would need to reflect the very

² Before the Massachusetts Department of Telecommunications and Energy, D.T.E. 01-20, *Final Order* (July 7, 2002); Before the Pennsylvania Public Service Commission, Docket No. R-00016683, *Final Order* (Oct. 24, 2002); Before the Maryland Public Service Commission, Case No. 8879, *Letter Order* (Oct. 8, 2002); Before the New York Public Service Commission, Case No. 98-C-1357, *Order on Unbundled Network Element Rates* (Jan. 28, 2002); Before the New Jersey Board of Public Utilities, Docket No. TO00060356, *Summary Order of Approval* (Dec. 17, 2001).

³ BellSouth Comments at 1 ("BellSouth does *not* support the standardization of models, not even if its own models are chosen.")

⁴ Sprint Comments at 4 ("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.")

⁵ Sprint Comments at 16-17.

real differences among the companies – a requirement that a common model would have difficulty in satisfying.⁶

Even the Commission recognizes that the operations of the three Florida ILECs are fundamentally different. With respect to operations support systems (“OSS”), the Commission stated:

From a practical perspective, we question the feasibility of having one national system. Even within the state of Florida, we are not attempting to establish one system for all ILECs. There is variability in the operations support systems and processes used by the various ILECs, which means that, at a minimum, the business rules may need to vary between ILECs. While we believe that the wholesale service quality measurements and standards for the Florida ILECs should be similar, we do not envision that they should be identical across ILECs since there are differences between companies in how functionally similar systems measure processes.⁷

By definition, a single, standardized cost model ignores the very real differences among carriers. Yet, it is precisely these differences that UNE cost proceedings are intended to capture. The FCC has made clear that the primary purpose of a UNE cost proceeding is to produce “costs that incumbents actually expect to incur in making elements available to new entrants.”⁸ A standardized, one-size-fits-all model is incapable of accurately reflecting such costs, and thus necessarily violates TELRIC costing principles.⁹

The ILECs also agree that the development, maintenance, and update of a single model will be extremely expensive and time-consuming. Among the costs identified by the incumbents are those associated with:

⁶ BellSouth Comments at 3. *See also* BellSouth Comments at 1 (“[T]he 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.”).

⁷ Before the Federal Communications Commission, In the Matter of Performance Measurements and Standards for Unbundled Network Elements and Interconnection, Docket Nos. 01-318, 98-56, -147, -98, -141, *Comments of the Florida Public Service Commission* (Jan. 18, 2002) at 2.

⁸ 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”).

- Programming new code, modifying existing programs, and developing new databases
- Administering and updating the models
- Paying right-to-use fees and licensing fees for existing models
- Testing and verifying the model logic, assumptions and results
- Obtaining equipment vendor information
- Producing documents and manuals
- Training new users
- Obtaining new computer equipment
- Developing new data sources
- Geocoding/sampling
- Preparing cost studies that are unique to Florida (and useless elsewhere)
- Preparing additional studies if, as anticipated, other state regulatory commissions within the incumbents' jurisdiction desire a comparison to the "Florida model"

These and other costs will be borne by both the carriers and the taxpayers.

The incumbent carriers do not have the resources to devote to this futile exercise in Florida, while also supporting their own internal models for use in other states.¹⁰ As BellSouth correctly notes, all three incumbents have expended considerable resources to develop and refine separate models that reflect each carrier's unique way of providing (and supporting the provisioning of) UNEs:

Even though each incumbent began with the same set of FCC standards, since each incumbent company independently negotiated with [alternative local exchange carriers ("ALECs")], the unbundled offerings are not defined in exactly the same manner. Additionally, the provisioning

⁹ Verizon Comments at 1-2.

¹⁰ See Sprint Comments at 5 ("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.").

process and supporting systems are not identical. These differences are reflected in the incumbents' cost studies.¹¹

It would be costly and burdensome to require the incumbents to develop, support and operate a separate cost model solely for use in Florida.¹² As Sprint notes, "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."¹³ Moreover, as Sprint appropriately recognizes, adoption of a single model is likely to create confusion for those ALECs ordering UNEs in multiple states, as the incumbents' price lists for Florida will deviate from the uniform price lists used in other states in which the ILECs provide service.¹⁴ Use of a single model will also require an ongoing commitment of capital and resources. Without such a commitment, any benefits that a single model may bring will be short-lived.

The ILECs also agree that reaching consensus on a single model will be extremely difficult (if not impossible) given the real and significant differences among the parties.¹⁵ As BellSouth explains:

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.¹⁶

¹¹ BellSouth Comments at 2.

¹² Sprint Comments at 5.

¹³ Sprint Comments at 5. *See also* BellSouth Comments at 2 (noting that if a single model is adopted in Florida, the incumbents' efforts "to develop and refine a set cost models, which interface with each other and with the data sources required to populate them . . . would be scrapped").

¹⁴ Sprint Comments at 4.

¹⁵ *See* BellSouth Comments at 3 ("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.").

¹⁶ BellSouth Comments at 3. *See also* BellSouth Comments at 5 ("[I]t 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.

However, given the extremely high costs and risks associated with the adoption of a single UNE cost model and the lack of associated benefits, it will be extremely difficult to obtain the concessions and compromises essential to the adoption of a standardized UNE cost model. Indeed, it took the FCC years to develop its less-sophisticated universal service Synthesis Model, at considerable expense to the federal government and industry, and the model has proven to be of limited utility.

The ILECs also agree that any cost model adopted would lack the necessary flexibility to take advantage of advances in cost modeling (*e.g.*, migration to a web-based platform) and respond to regulatory and technological change.¹⁷ This is particularly problematic given that: (1) as both Sprint and Verizon note, the FCC’s Triennial Review Order is likely to result in widespread changes in the incumbents’ unbundling requirements;¹⁸ (2) advancements in technological innovations—such as the shift from a circuit-switched to a packet network—are occurring at a rapid pace; and (3) the telecommunications industry is inherently fluid and dynamic. In short, a standardized model would quickly become obsolete given the need to obtain industry and regulatory consensus on all future modifications.

Finally, the ILECs concur that any perceived benefits associated with the adoption of a single model are purely illusory. As BellSouth notes, the incumbents (and ALECs) have “the legal right to present and defend models, inputs, and methodologies [they] support and challenge any default standards set by this Commission.”¹⁹ Moreover, the

Additionally, to glean the most from this effort, the ALECs must support the modeling process or this point of contention would remain open.”).

¹⁷ BellSouth Comments at 5. *See also* BellSouth Comments at 6 (noting that standardization of inputs also “creates a stagnant approach to developing costs and ignores the fact that over time inputs will change”).

¹⁸ Sprint Comments at 8; Verizon Comments at 11.

¹⁹ BellSouth Comments at 9.

incumbents and ALECs have the right to propose changes to the standardized model.²⁰

Given the adversarial nature of UNE cost proceedings, there is every reason to believe that the ILECs will avail themselves of these options. Thus, it is extremely unlikely that any of the perceived benefits flowing from a single model will ever materialize.²¹

For these reasons, and those identified in its opening comments, Verizon joins BellSouth and Sprint in opposing the adoption of a single model.²²

II. AT&T/WORLDCOM DO NOT IDENTIFY A SINGLE LEGITIMATE REASON WHY THE ADOPTION OF A STANDARDIZED COST MODEL WOULD BE BENEFICIAL

AT&T/WorldCom's comments are filled with unsupported allegations, inconsistencies, and half-truths. AT&T/WorldCom have not proffered a single, legitimate reason why the development of a standardized cost model would be beneficial, cost-effective, or even practical. It is precisely because the development of a standardized model cannot reasonably be supported that, in the seven years since the passage of the 1996 Telecommunications Act, not a single state regulatory commission has adopted a standardized model for purposes of developing forward-looking UNE costs.²³

A. The Supposed Benefits Identified by AT&T/WorldCom Would Be Impossible to Attain

AT&T/WorldCom tout the potential benefits of adopting a single model, but do not offer a shred of proof to establish that these alleged benefits are realistic or attainable.

²⁰ Verizon Comments at 10.

²¹ AT&T/WorldCom also admit that parties are free to proffer their own cost models and propose changes to the standardized model. Before the Florida Public Service Commission, In re: Undocketed Standardization of Unbundled Network Element Costing, *Comments of AT&T Communications of the Southern States, LLC and WorldCom, Inc.* (Feb. 28, 2003) at 4 ("AT&T/WorldCom Comments").

²² BellSouth Comments at 1; Sprint Comments at 16-17.

²³ See, e.g., Sprint Comments at 4 ("No state commission has issued an order forcing Sprint to adopt and exclusively use any single UNE model other than its own.").

In the process, AT&T/WorldCom understate (or completely ignore) the costs associated with the adoption of a single model. For example, AT&T/WorldCom would have the Commission believe that, by simply issuing an Order mandating the adoption of a single model, the adversarial nature of UNE cost proceedings would somehow disappear. It is flat wrong to presume, as AT&T/WorldCom do, that in the wake of such an order the ALECs and ILECs will no longer disagree, or that the differences characterizing each ILEC's operations and affecting each ILEC's UNE rate structure will cease to exist.

A Single Model Will Not Increase Efficiencies and Decrease Costs.

AT&T/WorldCom assert that a single model will “significantly improve the administrative efficiency of the UNE costing process,”²⁴ and “reduce the costs of participation in regulatory proceedings.”²⁵ However, at the same time, AT&T/WorldCom acknowledge, “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.*”²⁶ This acknowledgment that incumbents and ALECs (like AT&T/WorldCom) remain free to proffer their own cost models or, presumably, propose changes to any standardized model that may be adopted by the Commission, belies the notion that any of the alleged benefits identified by AT&T/WorldCom would actually be realized. Given the adversarial nature of UNE proceedings, there is every reason to believe that incumbents, as well as ALECs, will sponsor their own cost studies, challenge any standardized approach that may be adopted, and propose changes to any common model adopted by the Commission, especially given

²⁴ AT&T/WorldCom Comments at 3.

²⁵ AT&T/WorldCom Comments at 3.

that they have the legal right to do so.²⁷ These realities, unaccounted for by AT&T/WorldCom, render any perceived efficiency improvements or cost savings forever illusive.

A Single Cost Model Will Not Produce Comparable and Consistent Results.

AT&T/WorldCom claim that UNE prices for the three ILECs should be comparable and consistent because “the characteristics of the territories served by the three Florida [ILEC’s] are similar.”²⁸ This unsupported statement is erroneous. The service territories of the three incumbents are actually quite different. Verizon’s service territory in the Tampa/St. Petersburg area is densely populated, whereas BellSouth and Sprint’s service territories are more widely dispersed, both geographically and by density. For the state overall, BellSouth serves 3.5 times as many lines per local switch than does Verizon, and presumably, the ratio is even larger for Sprint.²⁹ The incumbents’ costs necessarily reflect their divergent operational realities and unique network design. Given the vastly different service territories of the three incumbents, their UNE rates naturally exhibit significant variation. Moreover, even assuming the incumbents’ service territories were similar, a carrier’s costs are dependent upon a multitude of other factors beyond the mere geography of a particular serving area (*e.g.*, economies of scope and scale, cost of money, labor costs, network design, equipment and facilities deployed in the network, density, customer locations, tariff structure, accounting system, and cost-recovery strategies).

²⁶ AT&T/WorldCom Comments at 4 (emphasis added).

²⁷ Indeed, AT&T/WorldCom have crafted a convenient escape route for themselves, arguing that a single model is the only choice available to the Commission while at the same time legitimizing the introduction of new models, methodologies, or inputs should AT&T/WorldCom not be satisfied with the Commission’s ultimate decision.

²⁸ AT&T/WorldCom Comments at 2.

²⁹ 2002 ARMIS Data, Report No. 4307. Sprint does not report ARMIS data.

For example, due to differences in the size of the incumbents' operations both nationally and in Florida, it is reasonable to expect that BellSouth, Verizon, and Sprint pay different amounts for network components such as poles, cables and switches, as well as for the labor needed to install these items. Similarly, Verizon has adopted the cost-recovery strategy of excluding common costs in its non-recurring rates, whereas BellSouth includes them. Even if all other things were equal (which they are not) this fact alone would mean that Verizon's recurring rates would be higher than BellSouth's recurring rates. Moreover, Verizon's costing system is designed to allow Verizon to identify the costs of all of its offerings (i.e., retail, access, and wholesale). A standardized UNE model would not only be deficient in identifying Verizon-specific UNE costs, it would be useless for costing Verizon's other services and products.

A Single Model Will Not Decrease Litigation Expenses. AT&T/WorldCom claim that a single model will make "the discovery process that occurs in UNE costing much more efficient."³⁰ As a threshold matter, the existing process is not inefficient. To the contrary, the United States Supreme Court observed that:

TELRIC rate proceedings are surprisingly smooth-running affairs, with incumbents and competitors typically presenting two conflicting economic models supported by expert testimony, and state commissioners customarily assigning rates based on some predictions from one model and others from its counterpart.³¹

Moreover, the adoption of a single model will only complicate matters. With carriers free to introduce cost studies of their own, the discovery process will become *more* burdensome and costly. Parties will have to take discovery on a greater number of proposed cost studies than they have in the past, and undoubtedly will request

³⁰ AT&T/WorldCom Comments at 11.

³¹ *Verizon v. Federal Communications Comm'n*, 122 S.Ct. 1646, 1651 (2002).

information, and demand alternative model runs, to better understand the differences between the standardized model and any independent cost studies introduced. Moreover, other state regulatory commissions within the incumbents' national footprints may also require that comparisons be made to the "Florida model," thereby increasing the carriers' costs outside of Florida.

B. AT&T/WorldCom Understate the Significant Costs Associated with the Adoption of a Single Model

AT&T/WorldCom attempt to downplay the significant costs associated with the adoption of a standardized cost model. However, AT&T/WorldCom's arguments cannot withstand scrutiny. AT&T/WorldCom understate, and in many instances completely ignore, the considerable expenditure of Commission and industry resources that will necessarily accompany any endeavor to develop a standardized cost model. Contrary to AT&T/WorldCom's assertions, the costs incurred, resources expended, and time wasted will be substantial.

Costs Will Not Be Short-Term. AT&T/WorldCom are mistaken in claiming that the costs associated with adopting a single model will only be "short-run."³² AT&T/WorldCom themselves acknowledge that a potential cost of adopting a single model is the need "to modify an existing cost model or to purchase licenses to use a cost model developed and maintained by a third party."³³ While this is certainly a legitimate cost, it is not going to be short-term, and it is not going to be minimal. Indeed, in the past, AT&T/WorldCom have stated that the cost to review remotely (via PCAnywhere) the customer location data compiled and manipulated by TNS Telecoms ("TNS") (the owner of HM 5.3's proprietary customer location data) was \$1,500 to \$2,000 per day.

³² AT&T/WorldCom Comments at 12.

Likewise, additional ongoing expenses will also include the cost of purchasing licenses for models maintained by a third party (e.g., Telcordia's SCIS model), and the cost of employing a third-party to develop inputs or maintain the model if, as AT&T/WorldCom suggest, the model is too complicated to be maintained by the parties themselves.³⁴

Costs Will Not Be Avoided. AT&T/WorldCom recognize that “[a]dditional cost will be incurred to develop the underlying data that will be used in the model,”³⁵ but go on to proclaim that:

...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.³⁶

This is incorrect. Incumbents do not create data sets to be run in the cost models of the other ILECs. Moreover, the “pooling and sharing” of resources would only be possible if the underlying source data were the same across all three ILECs, which is clearly not the case. AT&T/WorldCom claim, “Further costs savings can be achieved by using a single third-party vendor to process all of the input data.”³⁷ While this may be true, any such cost savings would be minimal because the bulk of the work in developing model inputs is incurred in extracting data from each company's own information systems—a process that cannot be made uniform for all three ILECs, and is not amenable to the use of third-party vendors. Moreover, even assuming such savings were possible, they would come at the expense of adopting a cost model that is too complicated and costly for the individual parties to run. Finally, AT&T/WorldCom's alleged cost savings ignore the fact that the

³³ AT&T/WorldCom Comments at 11.

³⁴ AT&T/WorldCom Comments at 12.

³⁵ AT&T/WorldCom Comments at 12.

³⁶ AT&T/WorldCom Comments at 12.

³⁷ AT&T/WorldCom Comments at 12.

adoption of a standardized model will not obviate the filing of separate cost studies by the individual carriers.

Costs Will Not Be Reduced in the Long Run. AT&T/WorldCom contend that, in the long run, it will be “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.”³⁸ This contention is flatly wrong. All three incumbents strenuously oppose any attempt to develop a standardized cost model. The ILECs will not willingly abandon the company-specific cost models that they have spent years developing and refining, and will continue to use in other jurisdictions, for a single Florida model that lacks accuracy and company-specificity. Given that a standardized model will be unable to capture the specific costs incurred by each ILEC, in violation of TELRIC principles and the FCC’s UNE pricing rules, court challenges are certain to follow immediately upon its adoption. As a result, the outcome the Commission had hoped to achieve would be delayed and, very possibly, invalidated by a subsequent court ruling.

The Adoption of a Single Model Is Not in the Public Interest.

AT&T/WorldCom’s claim that “standardization is always in the public interest”³⁹ completely disregards the objective of a UNE cost proceeding: to obtain accurate company and state-specific UNE cost estimates. The FCC has stated in no uncertain terms that the costs of the ILEC itself are 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

³⁸ AT&T/WorldCom Comments at 12-13.

³⁹ AT&T/WorldCom Comments at 13.

is commercially available today – equipment that carriers are already using to upgrade and expand their networks.⁴⁰

The incumbents’ company-specific cost models are consistent with the FCC’s UNE pricing standards—each company’s model estimates UNE costs based upon the company-specific prices the carrier actually pays, the specific manner in which the carrier provides and bills its services, the characteristics of the network over which the carrier provides service, and the specific tariff structure according to which the carrier’s services are priced. A cost model should be designed to capture the network, operational, and data realities of a particular carrier. A carrier’s operations are not organized or structured to conform to a specific cost model design; therefore, no standardized model could ever properly comprehend the sundry nuances between carriers—the resulting costs would be relevant only by chance. The public interest is served when, in accordance with TELRIC principles, UNE costs are based upon the costs that the incumbents “actually expect to incur.”⁴¹ This result is impossible to achieve with a standardized, one-size-fits-all cost model.

The Adoption of a Single Model Will Be an Incredibly Complex Endeavor.

AT&T/WorldCom proclaim, “There is a *single factor* that is essential to successfully implementing a single, standardized cost model – a Commission order requiring one.”⁴²

AT&T/WorldCom recognize the need for workshops, comments and a compliance filing, but conclude that there are *no other factors* that “stand in the way of successful implementation of a single loop cost model.”⁴³ AT&T/WorldCom are wrong. A

⁴⁰ Reply Brief for Petitioners Federal Communications Commission and the United States, *Verizon Communications, Inc. v. Federal Communications Comm’n* (“FCC Reply Brief”) at p. 6 (emphasis added).

⁴¹ First Report and Order at ¶ 685.

⁴² AT&T/WorldCom Comments at 13 (emphasis added).

⁴³ AT&T/WorldCom Comments at 13-14.

standardized model will not be implemented successfully simply because the Commission orders its adoption. Rather, the viability of the underlying premise (*i.e.*, whether the standardized model can accurately estimate each carrier's unique costs of providing UNEs) will determine whether the endeavor succeeds or fails. As Verizon and the other incumbents have demonstrated, this premise is fundamentally flawed, and thus any attempt to standardize UNE costing will be futile.

AT&T/WorldCom ignore completely the complexities inherent in any UNE costing endeavor, let alone one where each and every aspect of the cost model must be approved by multiple parties with divergent interests. The initial outline of issues to be addressed in this workshop prepared by AT&T/WorldCom's own consultant, Mr. Brian F. Pitkin, demonstrates just how complex the process leading up the adoption of a standardized model will be. Charged with crafting an outline for the workshop's comments to follow, Mr. Pitkin submitted for the parties' consideration a framework with approximately *178 separate issues* on which the parties were to comment. While Mr. Pitkin's outline was rejected in favor of a more simplified approach, it does highlight the vast array of issues that must be addressed, debated, and ultimately agreed upon if the Commission attempts to develop a single model. At bottom, the development of a single "Florida model" will be difficult, protracted, and costly.

AT&T/WorldCom implicitly acknowledge the complexities involved in adopting a standardized model by suggesting that "the Commission should first concentrate its standardization efforts on recurring UNE loop rates...."⁴⁴ However, they ignore the fact that the modeled network must be consistent for loops, switching and transport. It is erroneous to suggest that loops can be modeled and costed in isolation. The development

of the modeled expenses and common costs are contingent upon, and directly related to, the modeled network. It is not possible to develop a standardized loop model without also considering expenses, common costs, and the rest of the modeled network.

C. AT&T/WorldCom Take Positions that Are Internally Inconsistent or Only Divulge Half the Facts

AT&T/WorldCom's comments are riddled with internal inconsistencies and filled with half-truths. Rather than support the adoption of a standardized cost model, AT&T/WorldCom's arguments provide ample basis for rejecting such an approach.

The Current Process Does Not Discriminate Against ALECs. Contrary to AT&T/WorldCom's claims, the current UNE costing process does not discriminate against ALECs. AT&T/WorldCom claim, "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."⁴⁵ AT&T/WorldCom cite to a fifteen-mile stretch of US 301 north of Tampa (allegedly served by BellSouth, Sprint and Verizon), and contend that "there is no logical or valid reason" why the UNE charges between the three incumbents should differ. First, AT&T/WorldCom have their facts wrong. AT&T/WorldCom's Attachment 1, which allegedly details the differences among the loop rates charged by the three ILECs, erroneously states that Verizon's loop rate along US 301 for Dade City, Florida (central office Zephyrhills) is \$26.15. Verizon does not have customers in Dade City; that is Sprint's territory. Verizon does have a

⁴⁴ AT&T/WorldCom Comments at 3.

⁴⁵ AT&T/WorldCom Comments at 10-11.

central office in Zephyrhills, but the loop rate for that office in Zone 2 is \$16.18, not \$26.15 as AT&T/WorldCom allege.⁴⁶

Even if AT&T/WorldCom had their facts straight, however, this example only tells half the story. AT&T/WorldCom fail to mention that the rates charged along this stretch of highway reflect not only the costs of serving those particular end users, but also the costs of serving *all other customers* in each wire center in the relevant deaveraged zone for each ILEC. Thus, even if the costs in each of the three wire centers were identical, there is no reason why the rates charged by the three ILECs should be the same, since the average costs in each wire center's deaveraged zone are rarely (if ever) identical.

Moreover, AT&T/WorldCom's claim that the three incumbents have similar purchasing power, economies of scale, engineering standards, and facilities investments is unsupported and omits a number of significant details. The three incumbents' operational realities and costs of doing business are not the same, and AT&T/WorldCom have not presented any evidence to the contrary. For example, the ILECs' placement costs in Florida reflect the different local labor market conditions, as well as differences in terrain and density characteristics. Contrary to AT&T/WorldCom's claims, the divergence among the three ILEC's rates is not caused by the use of different cost models. Rather, it is caused by the very different operational realities and assumptions pursuant to which each carrier provides service.

The ILECs Do Not Have "Complete Control" Over the Cost Modeling Process.

AT&T/WorldCom claim that the ILECs have complete control over the form and type of

⁴⁶ AT&T/WorldCom also neglected to reduce the UNE-P rate by \$1.39 to account for the use of integrated digital loop carrier ("IDLC").

inputs into the costing process.⁴⁷ Not so. First, Verizon does not develop cost models “to achieve a particular result.” Rather, Verizon, and presumably other ILECs, design their cost models to produce accurate estimates of their costs of providing UNEs. Second, the UNE costing dockets, which were recently completed for Verizon, BellSouth and Sprint, afforded the parties much longer than “weeks” to analyze and evaluate the incumbents’ UNE models and associated cost estimates. In many instances, these proceedings have been ongoing for years. Third, even if the Commission were to accept AT&T/WorldCom’s argument, which it should not, it counsels in favor of more time to evaluate the various cost models, not the adoption of an entirely new cost model that will take years to develop and implement, and thereby further extend the UNE costing process. Fourth, the ILECs do not have complete control over the cost modeling process because, as AT&T/WorldCom acknowledge, the ALECs are free to introduce their own cost studies and thereby exert “control over the form and type of inputs into the costing process.” Finally, if AT&T/WorldCom truly believed that they did not have enough time, and lacked the necessary documentation, to evaluate the incumbents’ models, input values, and resulting UNE costs, they could have requested additional time and/or introduced one of the cost models they now advocate.

D. The Cost Models Recommended by AT&T/WorldCom Are Unsuitable for UNE Costing Purposes and Inconsistent with the Modeling Principles Advocated by AT&T/WorldCom

Two of the cost models advocated by AT&T/WorldCom are inappropriate for UNE costing, repeatedly have been rejected for UNE costing purposes,⁴⁸ and contradict

⁴⁷ AT&T/WorldCom Comments at 7.

⁴⁸ Curiously, AT&T/WorldCom allege, “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.” AT&T/WorldCom Comments at 5

many of the modeling principles advocated by AT&T/WorldCom in their opening comments.

The FCC's Universal Service Synthesis Model Is Incapable of Producing Accurate UNE Cost Estimates. The FCC's universal service Synthesis Model is wholly inappropriate for UNE costing purposes. The Synthesis Model was not designed to develop forward-looking UNE costs, and the FCC has repeatedly cautioned parties against making any claims regarding the use of the Model for such purposes. The FCC has made it clear that:

The federal cost model was developed for the purpose of determining federal universal service support, and it *may not be appropriate to use nationwide values for other purposes, such as determining prices for unbundled network elements.* We caution parties from making any claims in other proceedings based upon the input values we adopt in this Order.⁴⁹

The FCC recently reiterated this position when it stated:

The Commission has never used the USF cost model to determine rates for a particular element, nor was it designed to perform such a task. The model was designed to determine relative cost differences among different states, not actual costs. That is the purpose for which the Commission has used the model in the universal service proceeding.⁵⁰

Thus, contrary to AT&T/WorldCom's assertions, the Synthesis Model was not intended, and cannot properly be used, to develop accurate and reliable UNE cost estimates.

(emphasis added). In the very next sentence, AT&T/WorldCom recommend the adoption of *three different cost models* -- HM 5.3, the Synthesis Model and BSTLM (AT&T/WorldCom Comments at 5) -- a statement clearly at odds with AT&T/WorldCom's assertion that there is *one* clearly superior cost model. This assertion also begs the question of why AT&T/WorldCom did not file any of these "superior" cost models in the UNE dockets below.

⁴⁹ In re Federal-State Joint Board on Universal Service, In re Forward-Looking Cost Mechanism for High Cost Support for Non-Rural LECs, 14 FCC Rcd 20156, *Tenth Report and Order* (1999) at ¶ 32 (emphasis added) ("Tenth Report and Order"). See also Tenth Report and Order at 31, n.416.

⁵⁰ In the Matter of Application of Verizon VA New England, Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon VA Long Distance), NYNEX Long Distance (d/b/a Verizon VA Enterprise Solutions) And Verizon VA Global Networks Inc. for Authorization to Provide In-Region, Inter-LATA Services in Massachusetts, CC Docket No. 01-9, FCC 01-130, *Memorandum Opinion and Order* (rel. April 16, 2001) at ¶ 32 (emphasis added).

AT&T/WorldCom's attempts to modify the Synthesis Model for UNE costing purposes have also proven unsuccessful. In an effort to remedy obvious model deficiencies (while at the same time substantially reducing the cost estimates produced by the Model), AT&T/WorldCom made significant changes to the Synthesis Model's platform and input values, thereby producing the so-called "Modified Synthesis Model." However, AT&T/WorldCom's attempts to "fix" the Synthesis Model only exacerbated existing model flaws, producing cost estimates that were significantly understated and inappropriate for state UNE purposes.

One of the most fundamental, and ultimately fatal, flaws with the Modified Synthesis Model is its inability to produce cost estimates for the vast majority of UNEs that ILECs must make available to ALECs. This shortcoming stems from the Synthesis Model's genesis as a universal service cost model: in a universal service context, where the range of costs to be estimated is limited to plain old telephone service ("POTS"),⁵¹ there is simply no need to model the network elements used to provide special access and high-capacity services (e.g., DS-1 and DS-3 loops, dark fiber, and ISDN loops), let alone the broad spectrum of UNEs required by the FCC.⁵² The ability to model these network elements is essential and, indeed, required by the FCC's rules.⁵³ The Modified Synthesis Model, however, lacks this ability.⁵⁴ For these and other reasons, the Modified Synthesis Model has been rejected repeatedly by state regulatory commissions.

⁵¹ In re Federal-State Joint Board on Universal Service, In re Forward-Looking Cost Mechanism for High Cost Support for Non-Rural LECs, 13 FCC Rcd 21323, *Fifth Report and Order* (1998) at ¶¶ 70, 75; see also Tenth Report and Order at ¶¶ 31-32.

⁵² See 47 C.F.R. § 51.319.

⁵³ See *id.* § 51.505 (requiring prices that are based on TELRIC costs to be "calculated taking as a given the incumbent LEC's provision of other elements").

⁵⁴ Indeed, AT&T/WorldCom's own witness in the UNE dockets below, Mr. Brian F. Pitkin, admits that the Modified Synthesis Model "does not produce costs for all of the UNEs as they are outlined . . . [in] this

HM 5.3 Is an Inaccurate and Unsupported UNE Costing Tool. HM 5.3 is equally ill-suited to the task of UNE costing. HM 5.3 is nothing more than a convoluted conglomeration of unsubstantiated engineering assumptions and dubious estimating methodologies that have never been shown to be reasonable. The vast majority of the inputs used in the Model are based upon data from inconsistent sources and, in most cases, “expert” opinion that has little or no record support. Moreover, the Model’s customer location data, along with the underlying components and algorithms, are essentially a “black box” that is insusceptible to meaningful review and analysis.

HM 5.3 is based upon a set of theoretical and hypothetical assumptions, often supported by only the opinion of AT&T/WorldCom’s consultants. In effect, AT&T/WorldCom substitute the judgment of a handful of consultants—principally engaged in the support of a litigation effort rather than running a real-world network—for the collective record of efficient decisions made while operating an actual, fully-functioning network.

HM 5.3 also violates many of the cost modeling principles advocated by AT&T/WorldCom. For example, AT&T/WorldCom claim, “[T]he 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.”⁵⁵ If there

proceeding.” Before the Maryland Public Service Commission, Case No. 8879, *Hearing Transcript* (Dec. 6, 2001) at 1215.

⁵⁵ AT&T/WorldCom Comments at 19. AT&T/WorldCom also accuse the ILECs of attempting “to ‘game’ the regulatory system by designing cost models that bury key assumptions in obscure computer code.” AT&T/WorldCom Comments at 7. This is not true and, not surprisingly, no legitimate support is offered to substantiate AT&T/WorldCom’s claims. Indeed, as Verizon demonstrated in its UNE proceeding, AT&T/WorldCom (not Verizon) are the parties attempting to game the regulatory process, as the only thing that prevented AT&T/WorldCom from analyzing and evaluating the source code of Verizon’s cost model (ICM-FL) was the abilities of its chosen consultant. Before the Florida Public Service Commission, Docket No. 990649-TP, *Deposition of Dr. August H. Ankum* (March 15, 2002) at 20-25; Before the Florida

is one cost model that has consistently been rejected because it remains a “black box,” it is HM 5.3 (and its predecessor releases). Critical components of HM 5.3 are closed entirely from inspection—paramount among them is the Model’s customer location database. Fundamental to determining the cost of providing service is the location of the customers to be served. The customer location data used in HM 5.3, however, is preprocessed and input into the model to determine the “clustering,” or allegedly natural groupings, of customers. AT&T/WorldCom and TNS have steadfastly refused to grant any party—including state and federal regulatory commissions, incumbents, competitive entrants, and their consultants—the right to review the numerous files, algorithms, and processes used by TNS to convert the source data into customer location data. Claiming that the source code and processed customer location data is third-party proprietary information, that they were prohibited from making these files available, and that such a review was not necessary, AT&T/WorldCom have steadfastly refused to grant the ILECs access to this data and source code.⁵⁶

E. AT&T/WorldCom’s Arguments Regarding the Other Potential Workshop Outcomes Are Incorrect and at Odds with its Endorsement of a Standardized Model

AT&T/WorldCom’s arguments on the remaining three workshop options (*i.e.*, adoption of standardized model criteria or methodologies, a standard set of inputs or input development processes, and standard output reports) have only one goal: to reinforce their contention that the adoption of a standardized cost model is the only feasible outcome of the workshop. Rather than bolster their claims, however,

Public Service Commission, Docket No. 990649-TP, *Surrebuttal Testimony of David G. Tucek on Behalf of Verizon Florida Inc.* (March 19, 2002) at 26-28.

AT&T/WorldCom's arguments are riddled with inaccuracies and provide further proof that the adoption of a common model is an unworkable outcome.

The Costs Associated with the Adoption of Standardized Model Criteria or Methodologies Apply Equally to the Adoption of a Standardized Model.

AT&T/WorldCom emphasize the costs, and minimize the benefits, of adopting standardized criteria or methodologies in a transparent attempt to bolster their claim that the adoption of a standardized model is the preferable workshop outcome. However, AT&T/WorldCom's advocacy is unconvincing. The vast majority of the costs identified by AT&T/WorldCom—costs that AT&T/WorldCom claim make the three proposed alternatives to a standardized model unworkable—apply equally to the adoption of a single, standardized model.

AT&T/WorldCom identify “a minimum” of twenty-four separate issues that will need to be addressed if the Commission decides to adopt a common set of standardized criteria.⁵⁷ However, each of the matters listed—from “[d]oes TELRIC require keeping existing wire centers, switch locations or both? to “Should equipment be sized based on a design standard per unit, a fill factor, or a sizing factor?”—would also need to be addressed when fashioning a standardized model.

AT&T/WorldCom also claim that the following costs counsel against the adoption of a standard set of costing criteria or methodologies:

- 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

⁵⁶ Before the Department of Telecommunications and Energy Department, D.T.E. 01-20, *Initial Brief of Verizon Massachusetts* (March 5, 2002) at 174-77; Before the California Public Service Commission, Application Nos. 01-024, et al., *Reply Comments of Pacific Bell Telephone Company* (Feb. 7, 2003) at 23.

⁵⁷ AT&T/WorldCom Comments at 15-16.

many rounds of comments to develop the final set of “criteria and guidelines” that are clear and precise.⁵⁸

Again, these costs would be equally applicable to the development of a standardized model, and AT&T/WorldCom have presented nothing to suggest otherwise.

AT&T/WorldCom’s Advocacy in Favor of Standardized Inputs Casts Further Doubt on the Efficacy of Adopting a Standardized Model. AT&T/WorldCom claim that “the benefits, costs and likely success of [selecting a standardized cost model or standardized model criteria and methodologies] *will hinge* on the ability of the Commission to ensure consistency in the application of the standardized inputs.”⁵⁹ As Verizon noted in its opening comments, the development of a standardized set of inputs or input parameters will be an exceedingly difficult (if not impossible) task:

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.⁶⁰

Like company-specific cost model platforms, differences among the inputs used by the different ILECs reflect differences in the carriers’ operating realities and engineering assumptions. Attempts to standardize the inputs or input parameters used by the various ILECs would be futile and, as AT&T/WorldCom correctly note, would almost certainly doom any attempt to select a standardized cost model. As Sprint correctly acknowledges:

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

⁵⁸ AT&T/WorldCom Comments at 18.

⁵⁹ AT&T/WorldCom Comments at 20 (emphasis added).

⁶⁰ Verizon Comments at 10.

standard cost model will not meet Commission objectives of fair and comparable UNE rates in the most efficient manner.⁶¹

Indeed, the input parameters of a company-specific cost model tend to reflect the unique attributes and operations of the company. In other words, a company does not modify its operations to accommodate the input parameters of its cost model; rather, the input parameters are designed to conform to the company's operations.

AT&T/WorldCom's Claims Regarding Standardized Output Reports Identify False Benefits and Ignore Many of the Costs Associated With Such an Endeavor. With respect to the standardization of output reports, AT&T/WorldCom identify false benefits and ignore many of the costs associated with such an endeavor. For example, AT&T/WorldCom claim that a standardized output report will “create[] a consistent rate structure and formalize[] the way the rate structure is reported (e.g., where each rate appears on a given output spreadsheet).”⁶² This is not true. Common output reports will not standardize either an ILECs' actual rates or their application. The rate structure is driven by a company's ordering and provisioning process—consistency will never be achieved simply by adopting a standardized output report for costs.

AT&T/WorldCom also ignore the costs associated with standardized output reports. For example, AT&T/WorldCom overlook that, if an incumbent's ordering and provisioning systems must be changed to conform to a specific Florida format, the nonrecurring costs associated with ordering and provisioning will necessarily increase, since the economies of scale inherent in multi-state operations will be lost. Accordingly, AT&T/WorldCom's arguments regarding the benefits of a standardized model cannot be taken at face value.

⁶¹ Sprint Comments at 3.

III. SPRINT'S PROPOSED PRINCIPLES FOR UNE COST ANALYSIS AND COST MODEL DESIGN ARE GENERALLY APPROPRIATE, BUT REQUIRE CLARIFICATION

In addition to the three proposed workshop outcomes, Sprint proffers a number of principles for UNE cost analysis and cost model design. Verizon agrees with Sprint's proposed guidelines in large part, but offers the following observations:

- UNE Cost Analysis Principle No. 5: Verizon notes: (1) all costs are variable and avoidable in the long run only because exit of the industry is an option; (2) once the decision to produce has been made, there will always be some fixed costs; (3) with respect to telecommunications in particular, these fixed costs include the costs associated with the need to operate and add capacity to an existing network; and (4) as a result, all costs are not variable and avoidable in the long run, and all inputs to a UNE model and all network characteristics need not change. In this regard, the Commission should follow the conclusions reached in Docket No. 98-0696TP:

While this proceeding is to determine the cost of a forward-looking scorched node network, there needs to remain a basis in reality if the costs developed for the network are to have any relevance to the cost of basic local telephone service. We believe that assuming sharing percentages which require, for example, power and cable TV companies to rebuild their networks so that more of the cost of a telephone network can be shifted to other industries, means a network severed from reality.⁶³

- UNE Cost Analysis Principle No. 7: Verizon notes that, "while costs must be based on a reasonable projection of fill," that does not mean that fill factors need to be an input to a UNE cost model. In reality, fills are the result of technology deployed, engineering practices, provisioning procedures, and market demand.
- UNE Cost Model Design Principle No. 3: Verizon takes exception to Sprint's assertion that "[a]ll inputs should be capable of being modified by a user" (*i.e.*, they should not be hardcoded). Verizon notes that there are some values that could be viewed as inputs, but are hardcoded because they reflect an industry or a company practice (*e.g.*, the configuration of conduits in terms of the number of ducts, the additional trench depth needed to place cable in a shared environment, etc.).
- UNE Cost Model Design Principle No 4: Sprint's claim that algorithms "should not be hardcoded" is unclear. Algorithms are represented by either program code

⁶² AT&T/WorldCom Comments at 24.

⁶³ Before the Florida Public Service Commission, Docket No. 98-0696TP, *Order* (Jan. 7, 1999) at p. 129.

or spreadsheet formulas. While they can be changed, they are hardcoded in the sense that the logic underlying the algorithm cannot be modified in the manner that inputs can be modified.

- UNE Cost Model Design Principle No. 6: Verizon agrees that a “Cost Model should be manageable . . . [and] easy to run,” but notes that ease of use should not be the primary criterion for evaluating a cost model.
- UNE Cost Model Design Principle No. 7: Verizon agrees that “[r]esults generated utilizing the Cost Model should be replicable,” but notes that it is not possible to replicate every calculation in a model when another platform is used (*i.e.*, it is not necessarily possible to use a spreadsheet to replicate all the calculations made using in a code-based platform).
- UNE Cost Model Design Principle No. 10: Verizon disagrees with this principle and believes that both PC-based and web-based cost models are acceptable.
- UNE Cost Model Design Principle No. 11: Verizon agrees that a “Cost Model should include the capability to examine and modify the critical assumptions and engineering principles,” but notes that “critical” should not be interpreted to mean “all.”