

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

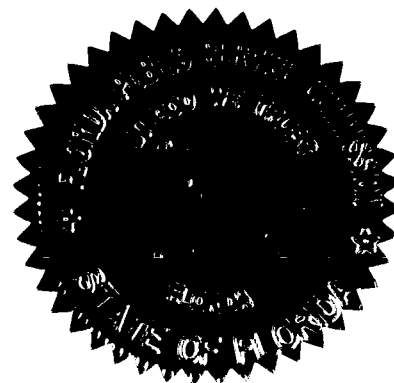
In the Matter of:

PETITION OF COMPETITIVE CARRIERS
FOR COMMISSION ACTION TO SUPPORT
LOCAL COMPETITION IN BELLSOUTH
TELECOMMUNICATIONS, INC.'S
SERVICE TERRITORY.

DOCKET NO. 981834-TP

PETITION OF ACI CORP. d/b/a
ACCELERATED CONNECTIONS, INC. FOR
GENERIC INVESTIGATION TO ENSURE
THAT BELLSOUTH TELECOMMUNICATIONS,
INC., SPRINT-FLORIDA, INCORPORATED,
AND GTE FLORIDA INCORPORATED COMPLY
WITH OBLIGATION TO PROVIDE
ALTERNATIVE LOCAL EXCHANGE CARRIERS
WITH FLEXIBLE, TIMELY, AND COST-
EFFICIENT PHYSICAL COLLOCATION.

DOCKET NO. 990321-TP



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VOLUME 2

Pages 210 through 394

PROCEEDINGS: HEARING
BEFORE: CHAIRMAN BRAULIO L. BAEZ
COMMISSIONER J. TERRY DEASON
COMMISSIONER LILA A. JABER
COMMISSIONER RUDOLPH "RUDY" BRADLEY
COMMISSIONER CHARLES M. DAVIDSON
DATE: Wednesday, January 28, 2004
TIME: Commenced at 9:30 a.m.
Concluded at 5:10 p.m.

1 PLACE: Betty Easley Conference Center
2 Room 148
3 4075 Esplanade Way
4 Tallahassee, Florida

5 REPORTED BY: TRICIA DeMARTE, RPR
6 Official FPSC Reporter
7 (850) 413-6736

8 APPEARANCES: (As heretofore noted.)
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1 I N D E X

2 WITNESSES

3 NAME: PAGE NO.

4 PETE LESTER

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32 CERTIFICATE OF REPORTER

394

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P R O C E E D I N G S

(Transcript continues in sequence from Volume 1.)

CHAIRMAN BAEZ: And we have Witness Lester.

MR. TEITZMAN: Staff would move that Pete Lester's rebuttal testimony consisting of 11 (sic) pages filed April 18, 2003 be entered into the record as though read.

CHAIRMAN BAEZ: Show the rebuttal testimony of Witness Pete Lester moved into the record as though read.

MR. TEITZMAN: Mr. Lester had three exhibits attached to his testimony entitled, "PL-1 through PL-3," and staff would request that those be moved into the record as a composite hearing exhibit.

CHAIRMAN BAEZ: Show the hearing exhibits identified as PL-1, 2, and 3 identified as hearing exhibits -- Composite Exhibit 33 and moved into the record without objection.

(Exhibit 33 marked for identification and moved into the record.)

REBUTTAL TESTIMONY OF PETE LESTER

1
2 Q. Please state your name and business address.

3 A. My name is Pete Lester and my business address is 2540 Shumard Oak
4 Boulevard, Tallahassee, Florida 32399-0850.

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by the Florida Public Service Commission (FPSC or
7 Commission) as an Economic Analyst in the Finance and Tax Section of the
8 Division of Economic Regulation.

9 Q. Will you briefly summarize your educational background and experience?

10 A. I received a Bachelor of Science degree in Finance from Florida State
11 University in March 1978. In June 1980, I received a Masters of Business
12 Administration degree also from Florida State University. In August 1980, I
13 began work as a material price analyst for Avco Aerostructures, a major
14 aerospace subcontractor in Nashville, Tennessee. My responsibilities included
15 preparing bids for subcontracts, analyzing price variances among vendors,
16 pricing plan changes, and helping customer and government auditors.

17 In September 1981, I joined the Staff of the Commission as a staff
18 analyst in the Division of Water and Wastewater. As an analyst, I was
19 responsible for rate structure issues on file and suspend rate cases and for
20 all finance, accounting, and rate structure issues for staff-assisted rate
21 cases, overearnings investigations, and certificate cases. In addition, I was
22 responsible for case coordination and scheduling, presenting staff positions
23 to customers at customer meetings, responding to customer complaints, and
24 conducting research projects.

25 In August 1990, I was promoted to an Economic Analyst position in the

1 Finance Section in the Division of Auditing and Financial Analysis. I now
2 work in the Division of Economic Regulation. My responsibilities include
3 advising the Commission on the appropriate cost of equity, capital structure,
4 and overall cost of capital for regulated companies in rate cases and other
5 proceedings.

6 Q. Are you a member of any professional associations?

7 A. Yes. I am a member of the Society of Utility and Regulatory Financial
8 Analysts (SURFA). I have been awarded the professional designation Certified
9 Rate of Return Analyst (CRRRA) by SURFA. This designation is awarded based
10 upon education, experience, and the successful completion of a written
11 examination.

12 In addition, I have been awarded the professional designation Chartered
13 Financial Analyst (CFA) by the Association for Investment Management and
14 Research (AIMR), of which I am a member. A CFA is awarded based on the
15 candidate having qualifying work experience, meeting AIMR's standards, and
16 passing three exams.

17 Q. Have you previously testified before the Commission?

18 A. Yes. I testified for staff in Docket No. 920733-WS, Docket No. 940620-
19 GU and Docket No. 940276-GU regarding General Development Utilities, Florida
20 Public Utilities, and City Gas Company of Florida, respectively. I also
21 testified for staff in Docket No. 010006-WS regarding the Commission's water
22 and wastewater leverage formula. The subject of my testimony was cost of
23 equity and capital structure. In addition, as a Commission staff member, I
24 have participated in many rate and regulatory proceedings.

25 Q. What is the purpose of your testimony?

1 A. The purpose of my testimony is to rebut the direct testimony of Verizon
2 Florida witness Dr. James Vander Weide. Specifically, I disagree with Dr.
3 Vander Weide's recommended cost of equity, his recommended capital structure,
4 and his recommended risk premium. I provide an alternative cost of equity,
5 capital structure, and weighted average cost of capital for use as an input
6 into the cost model for pricing Verizon Florida's collocation services.

7 Q. Do you have exhibits that accompany your testimony?

8 A. Yes. Attached to my testimony are Exhibits PL-1 through PL-3.

9 Q. What are your comments about Dr. Vander Weide's estimate of Verizon
10 Florida's cost of equity?

11 A. Dr. Vander Weide's estimate of the cost of equity is based on a
12 quarterly version of the Discounted Cash Flow (DCF) model applied to the
13 Standard and Poor's Industrials. For the growth rate, he uses forecasted
14 future earnings growth as provided by I/B/E/S through Standard and Poor's
15 Compustat Database. He uses April 2002 stock prices and growth forecasts.
16 He calculated a market-weighted average of 14.13% as his estimate of Verizon
17 Florida's cost of equity. I disagree with his exclusive use of earnings
18 growth and his proxy group of companies.

19 Q. What is your disagreement with the use of earnings growth?

20 A. I believe the exclusive use of earnings growth in a DCF model can
21 overestimate the cost of equity. The DCF model is a dividend discounting
22 model and the growth rate component describes growth in dividends.

23 Managers try to avoid dividend cuts and they will raise their company's
24 dividend only when they believe it can be sustained. For this reason, year-
25 to-year changes in earnings per share can be more volatile than year-to-year

1 | changes in dividends per share. Projected dividend growth can differ from
2 | projected earnings growth. Therefore, I believe some weighting should be
3 | given to projected dividend growth.

4 | Q. What is your disagreement with the S & P Industrials as a proxy group?

5 | A. I basically agree with Dr. Vander Weide that the appropriate cost of
6 | equity for collocation should be based on required returns for competitive
7 | companies. However, to measure the cost of equity for companies in
8 | competitive markets, I believe a broad proxy group of companies is necessary
9 | to reflect the range of risk and return characteristics of such companies.

10 | Q. What alternative to Dr. Vander Weide's estimate of the cost of equity
11 | input do you recommend?

12 | A. I recommend a cost of equity of 12.64% as an appropriate input for the
13 | cost model for pricing collocation for Verizon Florida. I calculated this
14 | cost of equity by applying a quarterly DCF model to a proxy group of 657
15 | dividend-paying stocks covered by the Value Line Investment Survey that had
16 | positive projected dividend growth and positive projected earnings growth.
17 | I used the same DCF equation as Dr. Vander Weide, which is shown on his
18 | Exhibit JW-1. I used February 2003 stock prices and forecasts as reported
19 | by Value Line and I included a 4% flotation cost allowance.

20 | In theory, dividend and earnings growth should be the same in the long
21 | run. However, with shorter term projections, earnings and dividend growth can
22 | be different. Therefore, for the projected growth component of the DCF model,
23 | I used the average of Value Line's projected dividend growth rate and
24 | projected earnings growth rate.

25 | I eliminated 75 companies that had results below the forecasted BBB bond

1 | yield as reported by the February 1, 2003 Blue Chip Financial Forecast. Since
2 | investors require a higher return on equity than on debt, results below the
3 | cost of debt are illogical. On the high end of the distribution of returns,
4 | I eliminated 11 results that were more than three standard deviations above
5 | the mean. These high results were driven by growth rates that may not be
6 | sustainable. After eliminating outliers, the average DCF result is 12.64%.
7 | On Exhibit PL-1, I provide the calculation of my recommended 12.64% cost of
8 | equity and my proxy group of companies.

9 | Q. Why are you recommending using companies in competitive markets as a
10 | proxy group for determining the cost of equity for collocation?

11 | A. I believe the risks facing the wireline telecommunications network,
12 | including collocation, have risen to the level of risks faced by companies in
13 | competitive markets. Current risk factors for the incumbent local exchange
14 | carriers' (ILECs') network include wireless substitution, partial network
15 | bypass by alternative local exchange carriers (ALECs), cable telephony, and
16 | internet services. Bypass risk is moderated somewhat by the financial
17 | distress in the ALEC sector.

18 | In addition, in announcing its Triennial review of unbundled network
19 | elements (UNEs), the Federal Communications Commission (FCC) clarified that
20 | the risk-adjusted cost of capital used in calculating UNE prices should
21 | reflect the risks associated with a competitive market.

22 | The required returns for a broad group of common stocks reflect the
23 | range of risks faced by companies in competitive markets. I believe that the
24 | use of market data for a diverse group of companies in competitive markets
25 | yields an appropriate cost of equity for pricing Verizon Florida's collocation

1 | services.

2 | Q. What are your comments regarding Dr. Vander Weide's recommended capital
3 | structure?

4 | A. Dr. Vander Weide recommends a market value capital structure of 75%
5 | equity and 25% debt. He bases this recommendation on market value capital
6 | structures for the S & P Industrials and a group of telecommunications
7 | companies for the five-year period 1997 through 2001.

8 | Q. Do you agree with Dr. Vander Weide's recommended capital structure?

9 | A. I agree with the concept of a market value capital structure for use in
10 | calculating the cost of capital of companies operating in competitive markets
11 | but I disagree with Dr. Vander Weide's particular version. I note that Dr.
12 | Vander Weide's recommended 75% equity ratio is essentially the same as the
13 | market value equity ratio for telecommunications companies in 2001. I believe
14 | it is appropriate to use recent data for calculating the market value capital
15 | structure, as opposed to historical ranges, and match the cost of equity and
16 | capital structure to the same period.

17 | Q. Why do you support the concept of a market value capital structure?

18 | A. Financial theory supports the use of market value capital structures.
19 | Market values are the best expression of an asset's earning power, cash flow,
20 | and debt service ability. Further, the goal of firms in competitive markets
21 | is to maximize their shareholders' wealth. A cost of capital based on a
22 | market value capital structure is consistent with this goal.

23 | Q. What capital structure do you recommend?

24 | A. I recommend a market value capital structure of 71% equity and 29% debt
25 | based on the market value capital structures for the three Regional Bell

1 Operating companies (RBOCs) with investment grade bond ratings - BellSouth
2 Corporation, SBC Communications, and Verizon Communications. My calculation
3 of this capital structure is presented on Exhibit PL-2. I used book values
4 for short-term and long-term debt as of December 31, 2002. For equity I used
5 market values as of February 2003. I note that market values for investment-
6 grade debt will be close to book values. Currently, bond prices indicate that
7 the market value for long-term debt is somewhat greater than book value.

8 I estimate that the market value capital structure for my proxy group
9 of companies is 74.4% but that is based on book values for debt typically from
10 December 2001. Therefore, I have chosen the more conservative and more
11 current market value capital structure based on the RBOCs.

12 Q. Is the use of market-value-based capital structures controversial?

13 A. Market value capital structures have not been widely employed in UNE
14 proceedings. Though financial theory specifies market value capital
15 structures, I believe a conservative approach is warranted since market values
16 for equity vary considerably and can result in very high levels of equity in
17 the capital structure. This can imply unreasonably high interest coverage
18 ratios. Further, from the book value capital structure ratios presented on
19 Exhibit PL-2, ILECs evidently use significant amounts of debt to finance their
20 networks. Therefore, while I support the idea of a market value capital
21 structure, I recommend a conservative application.

22 Q. If the Commission rejects the use of a market value capital structure,
23 do you have a recommendation?

24 A. Yes. I recommend a capital structure of 60% equity and 40% debt. This
25 would be consistent with previous Commission decisions regarding the

1 appropriate capital structure for UNEs.

2 Q. Based upon your alternatives to Dr. Vander Weide's cost of equity and
3 capital structure, what is your recommended cost of capital?

4 A. I recommend 11.12% as the appropriate risk-adjusted cost of capital to
5 use in pricing Verizon Florida's collocation services. As presented on
6 Exhibit PL-3, this cost of capital is based on a cost of equity of 12.64%, Dr.
7 Vander Weide's recommended 7.40% cost rate for debt, and a market-value-based
8 capital structure consisting of 71% equity and 29% debt. I believe this cost
9 of capital reflects the risks associated with a competitive market.

10 Q. What are your comments on Dr. Vander Weide's required risk premium?

11 A. Dr. Vander Weide asserts that Verizon Florida incurs risk because ALECs
12 can cancel their collocation leases on a monthly basis. He notes that an
13 operating lease is more risky than a financial lease. He employs a binomial
14 option pricing model and the different required returns for financial and
15 operating leases to estimate a 5.92% required risk premium. He notes that
16 Verizon Florida's weighted average cost of capital is 12.45% without
17 considering what he states are the unique risks of the TELRIC regulatory and
18 operating environment. He adds the 5.92% risk premium to his estimate of
19 Verizon Florida's weighted average cost of capital of 12.45% to arrive at his
20 recommended cost of capital of 18.36% for TELRIC collocation cost studies in
21 Florida. I believe this risk premium is unnecessary.

22 Q. What is the basis for the risk premium recommended by Dr. Vander Weide?

23 A. Dr. Vander Weide notes throughout his testimony that collocation leases
24 are not long term and can be cancelled on a monthly basis. This could leave
25 Verizon Florida with investment in facilities to provide collocation that

1 | might be underutilized since the cost of those facilities is a sunk cost.
2 | Verizon Florida might not be able to recover such cost.

3 | Dr. Vander Weide notes that the risk of investing in collocation
4 | facilities is greater than the risk of investing in the average competitive
5 | company because of the TELRIC pricing methodology. He contends on page 34 of
6 | his testimony that TELRIC rates are re-set every few years to reflect
7 | supposedly lower costs and that TELRIC rates are affected by new technologies.

8 | Q. Is the provision of collocation services affected by new technologies?

9 | A. According to Verizon Florida witness Barbara Ellis:

10 |

11 | . . . the provisioning of collocation services is labor and
12 | materials (and not technology) intensive. Thus, general
13 | technological advances are not likely to lead to "future
14 | efficiency gains" in the provisioning of collocation services.
15 | (See page 16 of the Direct Testimony of Barbara Ellis.)

16 |

17 | In addition, Verizon Florida's cost study assumes that collocation will
18 | be requested in central offices that exist today in Florida. It apparently
19 | is not based on the ". . . unrealistic assumption that the telecommunications
20 | network can be reconstructed each time a new technology appears and companies
21 | incur no costs in transitioning to new technologies" (See page 34 of
22 | Dr. Vander Weide's direct testimony.)

23 | I conclude from the above that the effect of new technology on
24 | collocation is not great. Also, the risk of "rapidly changing technology,"
25 | mentioned by Dr. Vander Weide on pages 49 and 50 of his testimony, is minimal

1 | for collocation.

2 | Q. Regarding collocation, are forward-looking costs lower than historical
3 | costs?

4 | A. In general, no. To the extent buildings are involved, the cost of
5 | buildings is rising. For its forward-looking cost study, Verizon Florida
6 | updated its historical building costs to current dollars by adjusting for
7 | inflation. In addition, labor costs are an important part of collocation
8 | costs and labor rates generally increase into the future.

9 | Q. What do you conclude regarding Dr. Vander Weide's arguments that the
10 | risks of investing in collocation facilities under the TELRIC standard is
11 | greater than the risk of investing in the average competitive company?

12 | A. Regarding collocation, I disagree with those arguments. Technology is
13 | not a dominant factor affecting the provision of collocation services. In
14 | addition, significant costs associated with collocation are not declining and
15 | there is no trend in Florida of collocation rates being re-set to reflect
16 | lower costs.

17 | Q. Regarding building space for collocation, are ILECs exposed to more risk
18 | than companies in competitive markets?

19 | A. No. According to Rule 51.321 (e) and (f), CFR, an incumbent LEC is not
20 | required to provide physical collocation if it demonstrates that the physical
21 | collocation is not practical because of space limitations. Since it is not
22 | required to construct additional building space solely to provide collocation
23 | space, it is in the same position as companies in competitive markets, which
24 | have a choice about adding building space to meet additional demand.

25 | Moreover, while Verizon Florida has moved building modification costs

1 | to monthly recurring charges, it still recovers some of its collocation
2 | investment through up-front non-recurring charges. This can reduce the
3 | investment at risk. In contrast, companies in competitive markets typically
4 | absorb all the set-up costs to serve customers and attempt to recover these
5 | costs through future sales.

6 | Q. What is your conclusion regarding Dr. Vander Weide's recommended
7 | required risk premium?

8 | A. I believe it is unnecessary. The risk of an ALEC customer cancelling
9 | its monthly lease is comparable to the risk of a customer not buying a product
10 | or service. That risk is faced by companies in competitive markets. Such
11 | companies face significant risks of underutilized investment and the inability
12 | to recover sunk costs. I believe a cost of capital that reflects the risks
13 | associated with companies in competitive markets encompasses this risk and is
14 | the appropriate cost of capital for pricing collocation services.

15 | In addition, allowing a cost of capital that reflects the risks
16 | associated with a competitive market is consistent with the intent of TELRIC
17 | pricing, which is to simulate a competitive market for UNEs.

18 | Q. Please summarize your testimony.

19 | A. I disagree with Verizon Florida witness Dr. Vander Weide on cost of
20 | equity, capital structure and his recommended required risk premium. I
21 | provide alternatives to his cost of equity and capital structure and I
22 | conclude that 11.12% is the appropriate cost of capital for pricing
23 | collocations services. I note that this cost of capital reflects the risks
24 | associated with a competitive market. I believe Dr. Vander Weide's risk
25 | premium of 5.92% is unnecessary.

1 | Q. Does this conclude your testimony?

2 | A. Yes. It does.

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1 CHAIRMAN BAEZ: That does it for the stipulated
2 witnesses, Mr. Teitzman?

3 MR. TEITZMAN: Yes, Chairman.

4 CHAIRMAN BAEZ: Okay. Now, we're ready to take up
5 witnesses.

6 (Witnesses collectively sworn.)

7 CHAIRMAN BAEZ: Thank you.

8 Ms. White, you can call your witness.

9 MS. WHITE: Yes. BellSouth would call Bernard Shell.
10 And, Chairman, I will be putting Mr. Shell up, but if there are
11 any objections that need to be made with regard to the issue
12 that was the subject of an earlier BellSouth motion,
13 Mr. Carver --

14 CHAIRMAN BAEZ: It's on Mr. Carver.

15 MS. WHITE: -- Mr. Carver will be doing that, just to
16 let the parties and Commission know.

17 CHAIRMAN BAEZ: Any objections, Mr. Watkins?
18 Mr. Carver is going to handle any objections that --

19 MR. WATKINS: I'm happy to have Mr. Carver here.

20 CHAIRMAN BAEZ: Take your shot. You get your pick of
21 any BellSouth attorney, I guess.

22 W. BERNARD SHELL

23 was called as a witness on behalf of BellSouth
24 Telecommunications, Inc., and, having been duly sworn,
25 testified as follows:

DIRECT EXAMINATION

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BY MS. WHITE:

Q Mr. Shell, would you please state your name and address for the record.

A Yes. My name is William Bernard Shell, and my address is 675 West Peachtree Street, Atlanta, Georgia.

Q By whom are you employed and in what capacity?

A I'm employed by BellSouth Telecommunications as a manager in the finance department.

Q Have you caused to be prefiled in this case direct testimony consisting of 12 pages?

A Yes.

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

A No, I do not.

Q If I were to ask you the same questions that were contained in your direct testimony today, would your answers be the same?

A Yes.

MS. WHITE: I would ask that the direct testimony of Mr. Shell that was filed on February 4, 2003 be entered into the record as though read.

CHAIRMAN BAEZ: Without objection, show the direct testimony of W. Bernard Shell entered into the record as though read.

1 BY MS. WHITE:

2 Q Mr. Shell, did you have three exhibits attached to
3 your direct testimony?

4 A That is correct.

5 Q And those exhibits are labeled WBS-1, WBS-2, and
6 WBS-3?

7 A Yes.

8 Q And is it correct that WBS-1 is a confidential
9 exhibit?

10 A That's correct.

11 Q And WBS-2 and 3 are not confidential?

12 A That's correct.

13 Q Do you have any changes to those exhibits?

14 A No, I do not.

15 MS. WHITE: I would ask that the three exhibits
16 attached to Mr. Shell's direct testimony be marked as exhibits.
17 I don't know whether you want to do the one that's proprietary
18 as a separate one.

19 CHAIRMAN BAEZ: I think we're going to peel off
20 WBS-1. You said that is a confidential exhibit --

21 MS. WHITE: Yes, sir.

22 CHAIRMAN BAEZ: -- and we'll give it Confidential
23 Exhibit Number 34. And WBS-2 and 3 will be given Composite
24 Exhibit Number 35.

25 MS. WHITE: Thank you.

1 (Exhibits 34 and 35 marked for identification.)

2 BY MS. WHITE:

3 Q Did you also file surrebuttal testimony in this case
4 on September 26, 2003 consisting of 53 pages?

5 A Yes, I did.

6 Q Do you have any changes or corrections to that
7 surrebuttal testimony?

8 A Yes, I do have a couple. On Page 46, Line 14, I need
9 to exchange the name "Turner" for "Gabel." It should read,
10 "Additionally, on Page 20, Mr. Gabel."

11 COMMISSIONER JABER: Mr. Chairman, I'm sorry to
12 interrupt. I need the witness to speak into the microphone.

13 CHAIRMAN BAEZ: Mr. Shell, remember that we have a
14 Commissioner on the phone. Is your microphone on?

15 THE WITNESS: Testing. Yes.

16 CHAIRMAN BAEZ: Okay. You're going to have to speak
17 a little closer. And if you could repeat that change, please.

18 THE WITNESS: Okay. On Page 46, Line 14, I'm
19 changing the name "Turner" to "Gabel." It should read,
20 "Additionally, on Page 20, Mr. Gabel" instead of "Mr. Turner."

21 CHAIRMAN BAEZ: Thank you, Mr. Shell.

22 THE WITNESS: The second change is on Page 50,
23 Line 5, removing one of the "that's." I have two "that's" in
24 the sentence.

25 CHAIRMAN BAEZ: Can you repeat that again, please,

1 Mr. Shell? I'm sorry.

2 THE WITNESS: Okay. Page 50, Line 5, the sentence
3 has two that's. It reads, "Mr. Turner is also confused in that
4 that," and I'm just taking one of the "that's" to make it
5 correct. Removing that word.

6 CHAIRMAN BAEZ: Okay.

7 THE WITNESS: Those are my only changes.

8 MS. WHITE: Thank you. I would ask that the
9 surrebuttal testimony of Mr. Shell filed on September 26, 2003
10 be entered into the record.

11 CHAIRMAN BAEZ: Show the surrebuttal testimony of
12 Mr. Shell as modified be entered into the record as though
13 read.

14 BY MS. WHITE:

15 Q And, Mr. Shell, did you have five exhibits attached
16 to your surrebuttal testimony -- I'm sorry, four exhibits
17 attached to your surrebuttal testimony?

18 A Yes, four exhibits.

19 Q And do those exhibits consist of a revised WBS-1, a
20 revised WBS-2, and then WBS-4 and WBS-5?

21 A That's correct.

22 Q Do you have any changes to those exhibits?

23 A No, I do not.

24 MS. WHITE: Chairman Baez, again, WBS-1, the revised
25 WBS-1 is proprietary, confidential. The other three are not.

1 So you might want to separate that one out.

2 CHAIRMAN BAEZ: We will take WBS-1 revised
3 surrebuttal exhibit and mark it as Confidential Exhibit Number
4 36.

5 (Exhibit 36 marked for identification.)

6 CHAIRMAN BAEZ: And 2, 3, and 4 you said?

7 MS. WHITE: It would be 2, 4, and 5.

8 CHAIRMAN BAEZ: 2, 4, and 5. I'm sorry. WBS-2, 4
9 and 5 revised will be marked as Composite Exhibit Number 37.

10 MS. WHITE: And I'm sorry, Chairman. Just to make
11 sure, it's revised Number 2, but 4 and 5 are not revised.

12 CHAIRMAN BAEZ: Oh, I'm sorry. Revised WBS-2 and
13 WBS-4 and 5 will be marked as composite Exhibit Number 37.

14 MS. WHITE: Thank you, Chairman.

15 (Exhibit 37 marked for identification.)

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1 **BELLSOUTH TELECOMMUNICATIONS, INC.**
2 **DIRECT TESTIMONY OF W. BERNARD SHELL**
3 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
4 **DOCKET NOS. 981834-TP AND 990321-TP**
5 **FEBRUARY 4, 2003**

6
7 **Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

8
9 A. My name is W. Bernard Shell. My business address is 675 W. Peachtree St., N.E.,
10 Atlanta, Georgia. I am a Manager in the Finance Department of BellSouth
11 Telecommunications, Inc. (hereinafter referred to as "BellSouth"). My area of
12 responsibility is the development of economic costs.

13
14 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL**
15 **BACKGROUND AND WORK EXPERIENCE.**

16
17 A. I attended Clemson University, graduating with a Bachelor of Science Degree in
18 Electrical Engineering in 1981. I received a Masters Degree in Business
19 Administration from Georgia State University in 1997.

20
21 My career with BellSouth spans over twenty years. My initial employment was
22 with Southern Bell in 1981, in Columbia, South Carolina in the Network
23 Department as an Equipment Engineer. In that capacity, I was responsible for the
24 ordering and installation of central office equipment. In 1984, I transferred to the
25 Rates and Tariffs group in Atlanta, Georgia where I was either directly or

1 indirectly responsible for the rates, costs, tariffs, and implementation of services.
2 During my time in that organization, I worked with many services/offerings, such
3 as Local Exchange Service, Service Order Charges, Operator Services, Mobile
4 Interconnection and Inside Wire. I moved to the Interconnection Marketing Unit in
5 1995, where I had various responsibilities, including negotiating with Alternative
6 Local Exchange Carriers (“ALECs”), developing pricing strategies, and product
7 managing Collocation. In December 2000, I moved to a position in the cost
8 organization, a part of the Finance Department. My current responsibilities
9 include cost methodology development and implementation.
10

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

12
13 A. The purpose of my testimony is to present and support the cost studies filed in this
14 proceeding. In doing so, I will describe the methodology BellSouth utilized in
15 developing the costs and respond to issues 9A, 9B, and 10.
16

17 **Issue 9A: For which collocation elements should rates be set for each ILEC?**

18
19 **Q. WHAT ARE THE COLLOCATION ELEMENTS FOR WHICH**
20 **BELLSOUTH IS PROVIDING A COST STUDY TO SUPPORT ITS**
21 **PROPOSED RATES?**

22
23 A. The list of the collocation elements for which cost support is being provided by
24 BellSouth can be found in the following exhibits:
25

- 1 • Exhibit WBS-1, which is the cost study,
- 2 • Exhibit WBS-2, which is a summary of the cost for each element,
- 3 • Exhibit WBS-3, which is a description of each element.

4

5 BellSouth is proposing that the rates be set equal to the costs. While BellSouth has
6 included in these exhibits certain elements and corresponding rates, BellSouth
7 does not agree that these elements should be required. Specifically, these elements
8 are: H.1.56, H.1.57, H.1.58, H.1.63, H.1.64, and H.1.71. These elements are used
9 with either copper entrance cables or DC power per used amp. As stated in the
10 testimony of BellSouth's witness Mr. Milner, BellSouth does not believe that
11 ILECs should be required to provide copper entrance facilities or to provide DC
12 power on a per used amp basis. The costs for these elements are being provided
13 for the sole purpose of providing the Commission with complete information in
14 order to make a final decision regarding the elements.

15

16 **Q. WHAT TYPES OF COLLOCATION WERE STUDIED?**

17

18 A. The collocation elements studied can be grouped into four types:

19

- 20 ▪ Physical collocation,
- 21 ▪ Virtual collocation,
- 22 ▪ Adjacent collocation, and
- 23 ▪ Remote Terminal collocation.

24

25 In addition, Assembly Point, which is considered an alternative to collocation, will

1 be addressed. As stated above, Exhibit WBS-1 provides the cost study, in both
2 paper form and on CD-ROM, and Exhibit WBS-2 provides a summary of the costs
3 for the collocation elements and Assembly Point.

4

5 **Q. PLEASE DEFINE PHYSICAL COLLOCATION.**

6

7 A. Physical collocation is an arrangement for the placement of ALEC/collocator-
8 owned facilities and equipment in BellSouth central offices. Such equipment must
9 be necessary for interconnection to BellSouth's network and/or to unbundled
10 network elements for the provision of telecommunications services. Equipment
11 ownership, maintenance and insurance are the responsibility of the collocator. In a
12 physical collocation arrangement, the ALEC's equipment is located in a defined
13 area of the central office.

14

15 **Q. WHAT ARE THE COST ELEMENTS FOR PHYSICAL COLLOCATION?**

16

17 A. The cost elements for physical collocation are shown under H.1 on Exhibits WBS-
18 2 and WBS-3. Additionally, collocation cable records elements, shown under H.7
19 on the same exhibits, apply for physical collocation.

20

21 **Q. PLEASE DEFINE VIRTUAL COLLOCATION.**

22

23 A. In physical collocation, the ALEC/collocator owns the equipment and has the
24 responsibility to maintain and repair the equipment. In contrast, with virtual,
25 BellSouth will lease the collocator's equipment for the nominal fee of one dollar

1 and will perform all maintenance and repair on the equipment once the collocator
2 requests such work. A maintenance charge will apply for the maintenance and
3 repair work. In this arrangement, the equipment is commonly located in the
4 BellSouth equipment line-up.

5

6 **Q. HOW DO THE VIRTUAL COLLOCATION COST ELEMENTS DIFFER**
7 **FROM THE PHYSICAL COLLOCATION COST ELEMENTS?**

8

9 A. Virtual collocation has fewer cost elements than physical collocation. For
10 example, the security access system and space preparation elements would not
11 apply in a virtual collocation arrangement. However, all of the virtual collocation
12 cost elements are also physical collocation cost elements, with the exception of the
13 Maintenance cost elements (H.2.20 – H.2.22). The Maintenance cost elements are
14 unique to virtual collocation and recover the cost associated with maintaining the
15 ALEC’s collocated equipment. The cost elements for virtual collocation are
16 shown under H.2 on Exhibits WBS-2 and WBS-3. Additionally, collocation cable
17 records elements, shown under H.7 on the same exhibits, apply for virtual
18 collocation.

19

20 **Q. PLEASE DESCRIBE BELLSOUTH’S ADJACENT COLLOCATION**
21 **OFFERING.**

22

23 A. BellSouth will permit an adjacent collocation arrangement (“Adjacent
24 Arrangement”) on BellSouth property on which a central office is located, where
25 physical collocation space within the central office is legitimately exhausted,

1 subject to technical feasibility, where the Adjacent Arrangement does not interfere
2 with access to existing or planned structures or facilities on the property, and
3 where permitted by zoning and other applicable state and local regulations. The
4 Adjacent Arrangement shall be constructed or procured by the ALEC and in
5 conformance with BellSouth's design and construction specifications.
6

7 **Q. WHAT ARE THE COST ELEMENTS FOR ADJACENT COLLOCATION?**

8

9 A. The cost elements for adjacent collocation are shown under H.4 on Exhibits WBS-
10 2 and Exhibit WBS-3. Additionally, collocation cable records elements, shown
11 under H.7 on the same exhibits, apply for adjacent collocation.
12

13 **Q. PLEASE DESCRIBE BELLSOUTH'S REMOTE TERMINAL**
14 **COLLOCATION OFFERING.**

15

16 A. BellSouth offers Remote Terminal collocation to ALECs on rates, terms and
17 conditions that are just, reasonable, non-discriminatory and consistent with the
18 rules of the Federal Communications Commission ("FCC"). BellSouth allows an
19 ALEC to occupy certain areas designated by BellSouth within a remote site
20 location of a size which is specified by the ALEC and agreed to by BellSouth. The
21 remote site locations include cabinets, huts, and controlled environmental vaults
22 owned or leased by BellSouth that house BellSouth Network Facilities.
23

23

24 **Q. WHAT ARE THE COST ELEMENTS FOR REMOTE TERMINAL**
25 **COLLOCATION?**

1 A. The cost elements for remote terminal collocation are shown under H.6 on
2 Exhibits WBS-2 and WBS-3. ALECs have also expressed an interest in obtaining
3 a virtual collocation arrangement in remote terminals. This filing reflects the
4 elements and costs associated with such an arrangement. They are the same as the
5 physical collocation in a remote terminal and are shown under H.8 on Exhibits
6 WBS-2 and WBS-3.

7
8 **Q. EARLIER, YOU STATED THAT THE ASSEMBLY POINT OFFERING**
9 **WOULD BE ADDRESSED. PLEASE DESCRIBE BELLSOUTH'S**
10 **ASSEMBLY POINT OFFERING.**

11
12 A. BellSouth provides Assembly Point in addition to collocation. The Assembly
13 Point product is offered for three service types on a per cross-connect basis: 1) 2-
14 wire, 2) 4-wire, and 3) DS1. Assembly Point allows ALECs to combine two
15 network elements at a cross-connect point designated by BellSouth. BellSouth
16 will supply all equipment required to access the UNEs. The ALEC must supply
17 the jumpers to connect two elements at the Assembly Point location. The ALEC
18 may not install any equipment within the Assembly Point area.

19
20 **Q. WHAT ARE THE COST ELEMENTS FOR ASSEMBLY POINT?**

21
22 A. Assembly Point is provided as assembly point cross connects and has an associated
23 nonrecurring charge and monthly charge (H.3 on Exhibits WBS-2 and WBS-3).

24 Assembly Point has the following cost elements:

- 25
 - 2 – Wire Cross-Connects: this cost element recovers the cost to run 2 – wire

1 cross-connects from a distribution frame to an assembly point frame. A cross-
2 connect is required for each UNE in the combination established.

3 ■ 4 – Wire Cross-Connects: this cost element recovers the cost to run 4 – wire
4 cross-connects from a distribution frame to an assembly point frame. A cross-
5 connect is required for each UNE in the combination established.

6 ■ DS1 Cross-Connects: this cost element recovers the cost to run DS1 cross-
7 connects from a DSX panel to an assembly point frame. A cross-connect is
8 required for each UNE in the combination established.

9

10 **Q. WHY HAS BELL SOUTH CHOSEN TO FILE COST SUPPORT FOR THE**
11 **ELEMENTS SHOWN IN ITS COST STUDY AND ON EXHIBITS WBS-2**
12 **AND WBS-3?**

13

14 A. The elements listed on Exhibits WBS-2 and WBS-3 are the elements that
15 BellSouth needs to provision the various types of collocation pursuant to FCC
16 orders and based on customer requests. For example, the FCC requires that ILECs
17 provide physical collocation not just for caged, but also for cageless and shared
18 arrangements (paragraphs 40 and 41 of the Advanced Services Order in CC Docket
19 No. 98-147). The FCC also requires that ILECs permit adjacent collocation and
20 remote terminal collocation (paragraph 44 of the Advanced Services Order in CC
21 Docket No. 98-147 and paragraph 221 of the Unbundled Network Element
22 Remand Order in CC Docket No. 96-98). Additionally, ALECs have requested a
23 unique application fee just for power reduction (H.1.60) and remote site data that
24 can be used to develop an appropriate business plan (H.9.1). Again, as stated
25 previously, while disagreeing that the elements should be required, BellSouth has

1 also provided cost support for elements used with copper entrance facilities and
2 DC power on a per used amp basis solely for this Commission's review and
3 analysis.

4

5 BellSouth has filed cost support for collocation elements to allow for the recovery
6 of its reasonable cost while providing the required collocation offerings and the
7 collocation offerings requested by ALECs.

8

9 **Issue 9B: For those collocation elements for which rates should be set, what is**
10 **the proper rate and the appropriate application of those rates?**

11

12 **Q. WHAT SHOULD DETERMINE WHETHER THE PROPOSED RATES**
13 **ARE PROPER?**

14

15 A. The proposed rates should be proper if they are based on a forward-looking cost
16 study that adheres to the Total Element Long Run Incremental Cost ("TELRIC")
17 pricing rules and uses the cost study methodology previously approved by this
18 Commission.

19

20 **Q. WHAT COST METHODOLOGY DID BELL SOUTH USE TO**
21 **DETERMINE THE COSTS FOR THE ELEMENTS CONTAINED IN THIS**
22 **FILING?**

23

24 A. BellSouth used the same cost methodology previously approved by this
25 Commission in its Orders in Docket No. 990649-TP (Order No. PSC-01-1181-

1 FOF-TP, dated May 25, 2001 and Order No. PSC-01-2051-FOF-TP, dated October
2 18, 2001). Additionally, BellSouth has made all applicable ordered adjustments in
3 that docket. For example, BellSouth is using the ordered cost of capital,
4 depreciation rates, and income tax factor. However, since this is a new proceeding
5 and the study period is 2003 - 2005, other factors and loadings have been updated
6 to reflect the latest available inputs.
7

8 **Q. DO BELLSOUTH'S COST STUDIES FOR THE COLLOCATION**
9 **ELEMENTS AND ASSEMBLY POINT ADHERE TO THE TELRIC**
10 **PRICING RULE?**

11
12 A. Yes, BellSouth's cost studies do adhere to the TELRIC pricing rules. They reflect
13 only forward-looking economic costs. BellSouth's collocation and Assembly
14 Point rates, which are based on the costs BellSouth will incur, are just, reasonable,
15 and nondiscriminatory.
16

17 **Q. WHAT ARE THE PROPER RATES AND APPROPRIATE APPLICATION**
18 **OF THOSE RATES?**

19

1 A. The proper rates are the rates based on BellSouth's cost study. The cost study
2 adheres to TELRIC pricing rules and is compliant with the cost study methodology
3 approved by this Commission. The rates should be applied as addressed in the
4 testimonies of BellSouth witnesses Mr. Wayne Gray (Issue 1) and Mr. Keith
5 Milner (Issues 4 and 6).

6

7 Regarding issue 1, Mr. Gray explains when recurring charges and nonrecurring
8 charges should be billed. Regarding issues 4 and 6, Mr. Milner explains why
9 BellSouth should not be required to provide copper entrance facilities within the
10 context of a collocation arrangement inside the central office and that the per amp
11 rate for DC power should apply on fused capacity.

12

13 **Issue 10: What are the appropriate definitions, and associated terms and**
14 **conditions for the collocation elements to be determined by the Commission?**

15

16 **Q. WHAT ARE THE APPROPRIATE DEFINITIONS FOR THE ELEMENTS**
17 **FOR WHICH BELL SOUTH HAS PROVIDED COST SUPPORT?**

18

19 A. The appropriate definitions for the elements for which BellSouth has provided cost
20 support are the definitions provided in the Narrative Section of the cost study
21 (Exhibit WBS-1) and in Exhibit WBS-3. The file location for the Narrative
22 Section of the cost study on the CD is: E:\Documentation\1 Narratives and Study
23 Descriptions\FLCOLLnar.doc (Section 5). The cost study also provides additional
24 descriptive and supportive information on the various collocation elements.

25

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

2

3 A. Yes.

1 **BELLSOUTH TELECOMMUNICATIONS, INC.**
2 **SURREBUTTAL TESTIMONY OF W. BERNARD SHELL**
3 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION,**
4 **DOCKET NOS. 981834-TP AND 990321-TP**
5 **SEPTEMBER 26, 2003**

6
7 **Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

8
9 A. My name is W. Bernard Shell. My business address is 675 W. Peachtree St., N.E.,
10 Atlanta, Georgia. I am a Manager in the Finance Department of BellSouth
11 Telecommunications, Inc. (hereinafter referred to as "BellSouth"). My area of
12 responsibility is economic costs.

13
14 **Q. ARE YOU THE SAME W. BERNARD SHELL THAT FILED DIRECT**
15 **TESTIMONY IN THIS DOCKET?**

16
17 A. Yes. I filed direct testimony on February 4, 2003.

18
19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20
21 A. The purpose of my testimony is to respond to the testimony of Mr. Steven Turner,
22 representing AT&T Communications of the Southern States, L.L.C. ("AT&T") and
23 the testimonies of Mr. Rowland Curry and Mr. David Gabel representing the Florida
24 Commission Staff. My testimony will address certain statements made regarding
25 collocation costs. Additionally, in preparing my responses and re-looking at the cost

1 studies, I discovered a need to correct one of the cost elements (Element H.1.37,
2 Security Access System per square foot).

3

4 **Q. PLEASE BRIEFLY DESCRIBE THE CORRECTION TO ELEMENT H.1.37**
5 **AND ITS IMPACT.**

6

7 A. This element develops the recurring cost per square foot to place security access
8 system card readers in central offices. To develop this cost per square foot,
9 BellSouth divides the total cost by the state-specific average square footage of the
10 central offices. BellSouth used Georgia's average square footage instead of Florida's
11 by mistake. The correction uses Florida's number as intended. The net effect of this
12 change is that the proposed cost goes from \$.0125 per square foot to \$.0101 per
13 square foot. Attached are revised Exhibit WBS-1 (the complete cost study on CD-
14 ROM and the revised pages to the paper portion) and revised Exhibit WBS-2 (cost
15 summary) containing the corrected number.

16

17 **Q. BEFORE YOU SPECIFICALLY ADDRESS THE BELLSOUTH'S**
18 **COLLOCATION COST STUDIES, CAN YOU ADDRESS MR. TURNER'S**
19 **STATEMENTS REGARDING A SINGLE COST MODEL AND**
20 **CONSISTENCY ACROSS COST DEVELOPMENT AMONG INCUMBENT**
21 **LOCAL EXCHANGE COMPANIES ("ILECS").**

22

23 A. Yes, while BellSouth agrees with Mr. Turner that its model, the BellSouth Cost
24 Calculator[®], is a wonderful model, BellSouth does not support the use of a single

25

1 model for all ILECs for reasons explained below. Moreover, given that each ILEC
2 has its own operational procedures for provisioning collocation and its own network
3 infrastructure and planning guidelines, cost development by the various ILECs is not
4 exactly the same.

5

6 **Q. MR. TURNER CLAIMS THAT THE “DISPARATE COSTS AND RATES FOR**
7 **COLLOCATION INDICATES THAT THE RESULTS ARE INACCURATE**
8 **AND INCONSISTENT WITH COST-BASED TELRIC PRINCIPLES.” (PAGE**
9 **3, LINES 15-17) IS HE CORRECT?**

10

11 A. No. The foundation of Mr. Turner’s contention is that “the underlying investments
12 should be similar” among the three companies providing collocation in Florida. (Page
13 3, line 15) This assumption is false and, therefore, so is his conclusion. The
14 companies have unique rate structures that dictate the network components that need
15 to be considered in the development of the investments and thus, what is reflected in
16 the cost-based rates. The FCC’s TELRIC principles do not mandate that the rate
17 structures utilized by the incumbents must be identical. Thus, there is no merit in Mr.
18 Turner’s supposition that varying cost results mean that the cost studies do not adhere
19 to the TELRIC guidelines.

20

21 Additionally, contrary to Mr. Turner’s allegation, the companies have unique
22 purchasing agreements for the network components, land, and buildings required for
23 collocation. This Commission has recognized in its UNE orders that it is proper to
24 accurately portray the company-specific inputs. For example, in its May 25, 2001
25 Order in Docket No. 990649-TP, the Commission ruled that “inputs adopted for use

1 in determining UNE prices shall be BellSouth specific.” (Page 188, Order No. PSC-
2 01-1181-FOF-TP) Nothing proffered by Mr. Turner should alter the Commission’s
3 ruling with respect to collocation. In fact, acceptance of Mr. Turner’s erroneous claim
4 of a common set of investments would violate previous Commission’s rulings that
5 company-specific input is appropriate.

6

7 **Q. MR. TURNER ALSO CONTENDS THAT “A SINGLE COLLOCATION**
8 **COST MODEL CAN READILY BE USED FOR ALL THREE INCUMBENTS**
9 **IN FLORIDA.” (PAGE 7, LINES 17-18) PLEASE COMMENT.**

10

11 A. Mr. Turner’s simplistic assertion is not realistic. He requests that this Commission
12 adopt the BellSouth Cost Calculator[®] for use in determining collocation costs. While
13 the model may be “readily” available for BellSouth, the same conclusion cannot be
14 made for Sprint and Verizon.

15

16 First, the model is the intellectual property of BellSouth. Therefore, BellSouth is
17 entitled to compensation on the use of its intellectual property as well as the time
18 required to train others on the use of it. This compensation would be in the form of a
19 licensing fee. BellSouth believes that it deserves to be paid for the effort required to
20 develop and maintain the model. Under no circumstances should the Commission
21 require BellSouth to turn over its model without compensation. On the other hand,
22 use of BellSouth’s model by the other ILECs, with compensation, would raise the
23 costs to them. Thus, AT&T’s proposal would necessarily leave an adverse, and
24 unfair, impact either on BellSouth (if its intellectual property is taken without

25

1 compensation) or on other ILECs (in the form of increased costs).

2

3 Second, existing Sprint/Verizon data feeds would likely need to be altered or scrapped
4 entirely to generate the inputs required by the adopted model. Finally, the issue of
5 model administration and maintenance would need to be resolved. The question of
6 who has ultimate control over the algorithms and methodology inherent in the model
7 would need to be answered. BellSouth would require that prior to any model
8 modification, notification and approval be obtained.

9

10 While BellSouth would not have to expend the time required to develop new inputs,
11 pay the potential on-going expense, and maintain the support of a Florida-specific
12 model as would Sprint and Verizon, BellSouth does not support the use of a
13 standardized model. As stated above, BellSouth would need to spend time training
14 the other ILECs and maintaining the model for use by all ILECs. This position was
15 articulated in BellSouth's response to the Commission's request on this subject.
16 (February 28, 2003 letter to Patricia A. Christensen Re: UNE Costing Workshop
17 Comments)

18

19 What Mr. Turner does not appear to realize is that the model used to complete a cost
20 study is not considered a cost driver. Cost drivers are things that impact cost studies,
21 such as the assumptions used and input data associated with the cost elements. The
22 cost model is just a tool that accepts inputs, makes the appropriate calculations, and
23 produces the outputs. Such things as a company's network plans, budget, and
24 operations procedures drive the assumptions and input data. Additionally, the cost
25 model does not determine the cost elements or the rate structure used. Simply put,

1 Mr. Turner's proposal for a single model would cause the ILECs to spend more time
2 and more costs with no real effect on the resulting cost numbers.

3

4 **Q. PLEASE LIST THE AREAS OF THE COLLOCATION COST STUDIES**
5 **THAT WILL BE ADDRESSED.**

6

7 A. The cost-related areas discussed in my testimony are as follows:

- 8 • DC power
- 9 • Nonrecurring elements associated with planning, engineering, installation times,
10 space availability report, and cable records
- 11 • Floor space
- 12 • Space Preparation
- 13 • Cage construction
- 14 • Cable rack capacity
- 15 • Fill factors

16

17 **Q. HOW IS DC POWER ADDRESSED IN BELL SOUTH'S COLLOCATION**
18 **COST STUDY?**

19

20 A. BellSouth makes DC power available for an Competitive Local Exchange Carrier's
21 ("CLEC's") physical collocation space at a BellSouth Power Board or a BellSouth
22 Battery Distribution Fuse Bay ("BDFB"), at the CLEC's option, within the premises.
23 The CLEC's certified vendor must engineer and install fuses and power cables from
24 the collocation space to the BDFB. The CLEC's certified engineer must also engineer
25 and install power cables from the collocation space to the Power Board, if this option

1 is chosen. Recurring charges for DC power will be assessed per ampere per month
2 based upon the BellSouth Certified Supplier engineered and installed power feed
3 fused ampere capacity. Therefore, BellSouth developed the recurring costs for power
4 based on the assumption that the charge would be per-fused amp, as opposed to per-
5 used amps. "Fused" refers to the protection device rating. Protection devices are
6 fuses or circuit breakers.

7
8 **Q. ON PAGE 19 AND 20 OF HIS TESTIMONY, MR. TURNER ASSERTS THAT**
9 **POWER AUGMENTS ARE NOT PRICED ON THE SAME BASIS AS A**
10 **COMPREHENSIVE POWER PLANT. PLEASE RESPOND.**

11
12 A. Mr. Turner is incorrect in his assertion that the power augment jobs for collocation
13 are priced differently than a total power plant job would be priced. He states on the
14 top of page 20 that "[a]ugments, by nature, do not provide the scale economies in the
15 derivation of the DC power investment that BellSouth benefits from based on its
16 installation of a comprehensive DC power plant." However, BellSouth's cost study is
17 based on BellSouth operating under a standard regional contract with its vendor for
18 the DC power plant components, regardless of the size of the power job. The same
19 vendor that installs BellSouth's day-to-day power equipment to serve its end users
20 also installs BellSouth's power equipment to serve the CLECs desiring to collocate in
21 the central office. Regardless of the size of the central office or the size of the power
22 needs, the same price that applies for a comprehensive DC power plant also applies
23 for a smaller augment. BellSouth's cost studies used data from actual collocation
24 projects throughout the region to determine the expected regional forward-looking
25 investment per DC amp. Data was taken from 711 projects. Costs that would not

1 apply on a forward-looking basis, such as power cabling, were backed out. An
2 average of all the data was taken to produce the forward-looking investment per amp.
3 Again, the standard regional contract pricing would apply on the augments.

4

5 **Q. PLEASE RESPOND TO MR. TURNER'S STATEMENT (PAGE 20, LINES 20**
6 **AND 21) THAT USING AUGMENTS "CONTRADICTS THE**
7 **REQUIREMENTS OF A TELRIC COST STUDY."**

8

9 A. The FCC has specifically allowed incumbent local exchange carriers to recover the
10 cost of central office modifications, including power upgrades/augments, required to
11 meet a collocator's needs. In its Advanced Services Order (Order FCC 99-48),
12 paragraph 51 states:

13

14 We conclude, based on the record, that incumbent LECs must allocate
15 space preparation, security measures, and other collocation charges on a
16 pro-rated basis so the first collocator in a particular incumbent premises
17 will not be responsible for the entire cost of site preparation. For example,
18 if an incumbent LEC implements cageless collocation arrangements in a
19 particular central office that requires air conditioning and power upgrades,
20 the incumbent may not require the first collocating party to pay the entire
21 cost of site preparation.

22

23 This language clearly allows ILECs such as BellSouth to recover the costs of
24 preparing collocation space including power upgrades (augments). Since the FCC
25 established the TELRIC principles, it presumably would not have allowed the ILECs

1 to recover site preparation cost if doing so conflicted with TELRIC principles. Site
2 preparation includes the cost of power upgrades or augments. As such, BellSouth's
3 methodology for developing the investment per DC amp is compliant with TELRIC
4 principles. It is simply a way of pro-rating the cost of collocation power requirements
5 among CLECs on a reasonable and nondiscriminatory basis.

6
7 Additionally, Mr. Turner (page 20, lines 9 – 13) references paragraph 677 of the
8 FCC's First Report and Order (dated August 8, 1996). He is addressing Total Service
9 Long Run Incremental Cost ("TSLRIC"). However, paragraph 678 of this same order
10 states:

11 While we are adopting a version of the methodology commonly referred to
12 as TSLRIC as the basis for pricing interconnection and unbundled
13 elements, we are coining the term "total element long run incremental
14 cost" (TELRIC) to describe our version of this methodology.

15
16 Therefore, while TSLRIC and TELRIC have similarities, the collocation studies are
17 based on TELRIC principles. As stated above, BellSouth's methodology for
18 developing the investment per DC amp is compliant with TELRIC principles.

19

20

21 **Q. MR. CURRY, ON PAGE 8 OF HIS TESTIMONY, ALSO STATES THAT**
22 **BELLSOUTH HAS NOT ESTABLISHED AN APPROPRIATE TELRIC FOR**
23 **DC POWER AND REFERS TO THE FCC'S INTERCONNECTION PRICING**
24 **RULES. DO YOU AGREE WITH HIS ASSESSMENT?**

25

1 A. No. Mr. Curry references paragraph 682 from the FCC's Local Competition Order
2 (CC Docket No. 96-98 released August 8, 1996). The reference is correct, however,
3 as stated above the FCC established the TELRIC principles, and it presumably would
4 not have allowed the ILECs to recover site preparation cost if doing so conflicted with
5 TELRIC principles. The FCC addressed collocation in the Local Competition Docket
6 where it established rules to implement the collocation requirements of the 1996
7 Telecommunication Act. The FCC reviewed collocation again in the Advanced
8 Services Docket (CC Docket No. 98-147, order released March 31, 1999) and
9 strengthened the collocation rules to reduce costs and delays faced by competitors that
10 seek to collocate equipment in an incumbent LEC's central office. It is after this
11 additional review of collocation that the FCC stated that the ILECs can recover the
12 cost for site preparation. The only stipulation contained in the FCC order was that the
13 total cost of site preparation would be pro-rated so that the first collocater in a
14 particular central office would not be responsible for the entire cost. Consistent with
15 this directive, BellSouth has developed a way of pro-rating the cost of collocation
16 power requirements among CLECs on a reasonable and nondiscriminatory basis.
17 This same cost methodology has been used in all BellSouth states.

18
19 Moreover, in approving BellSouth's applications for in-region interLATA authority in
20 Georgia and Louisiana on May 15, 2002 (FCC Order 02-174, ¶210 and 211), in
21 Alabama, Kentucky, Mississippi, North Carolina, and South Carolina on September
22 18, 2002 (FCC Order 02-260, ¶231 and appendix H, ¶21), and in Florida and
23 Tennessee on December 19, 2002 (FCC Order 02-331, appendix D, ¶21), the FCC
24 concluded that BellSouth provides collocation based on TELRIC principles. For
25 example, in FCC Order 02-260 it states the following:

1 As stated above, checklist item 1 requires a BOC to provide
2 “interconnection in accordance with the requirements of a section
3 251(c)(2) and 252(d)(1). Section 252(d)(1) requires state determinations
4 regarding the rates, terms, and conditions of interconnection to be based
5 on cost and to be nondiscriminatory, and allows the rates to include a
6 reasonable profit. The Commission’s pricing rules require, among other
7 things, that in order to comply with its collocation obligations, an
8 incumbent LEC provide collocation based on TELRIC. [Paragraph 21 in
9 appendix H]

10
11 For the foregoing reasons, we reject commenters’ allegations of error and
12 find that BellSouth complies with checklist item 1. [Paragraph 231]

13
14 **Q. ON PAGES 23 AND 24, MR. TURNER PRESENTS SOUTHWESTERN**
15 **BELL’S INVESTMENT PROPOSAL IN TEXAS AS A COMPARISON TO**
16 **BELLSOUTH’S POWER JOBS. HE IS USING THIS AS AN EXAMPLE OF**
17 **PUBLICLY AVAILABLE DATA TO CHALLENGE THE**
18 **REASONABLENESS OF BELLSOUTH’S INVESTMENT PER AMP DATA.**
19 **PLEASE PROVIDE YOUR ASSESSMENT OF THE SOUTHWESTERN**
20 **BELL DATA.**

21
22 **A.** The Southwestern Bell investment numbers for Texas are not relevant to determining
23 BellSouth’s costs in Florida. These numbers are based on Southwestern Bell’s
24 approach to constructing a DC power plant, its supplier costs, its assumptions on
25 quantity of items and cable distances, etc. Nonetheless, I will provide a few

1 comments on Mr. Turner's Exhibits SET-3 and SET-4.

- 2 • The exhibits seem to only account for one BDFB. An office equipped with a
3 2500 amp or a 4000 amp power plant would certainly have multiple BDFBs. A
4 2500 amp power plant should have 2 to 4 BDFBs and a 4000 amp power plant
5 should have at least 3 to 5 BDFBs. Thus the total cost for BDFBs should be
6 greater.
- 7 • The exhibits do not indicate the distance of the BDFB cable run assumed.
8 Cabling cost is sensitive to the distance of the cable run, with the cost increasing
9 exponentially with distance.
- 10 • From reviewing the exhibit, it is not evident if the cost of a power plant controller
11 or monitor was included. Monitors are required to control the rectifiers and to
12 report power plant alarms. Such costs should be included, which would increase
13 the total cost.

14

15 It is unreasonable for AT&T to argue, based on cost support presented by another
16 company in another state, that BellSouth's costs in Florida are too high. The two
17 companies may have different operating procedures and different supplier costs.
18 These different procedures and supplier costs have a real impact on projected
19 investment per amp. Based on a review of the exhibits, it appears that Southwestern's
20 costs may be understated, and there is no need to rely on such data for BellSouth.
21 BellSouth's study is based on real jobs for provisioning power in its region.

22

23 **Q. PLEASE ADDRESS MR. CURRY'S COMMENTS ON PAGES 6 AND 7 OF**
24 **HIS TESTIMONY REGARDING BELLSOUTH'S POWER CONTRUCTION**
25 **COST PER AMP FOR THE VARIOUS CENTRAL OFFICES SHOWN.**

1 A. Mr. Curry is correct that these power jobs represent power augments or upgrades due
2 to collocators' requests or projected power needs. As stated previously, the FCC
3 allows ILECs to recover the cost of power augments as part of its collocation site
4 preparation work. The key point is that each power job could trigger different power
5 equipment needs. There are different power components that may be at or near
6 exhaust in various central offices at the time a CLEC requests power. Some of these
7 components can only be purchased in "chunks" of capacity. Mr. Curry agrees on page
8 7 that "[p]ower plant investments are often characterized as 'lumpy' investments."
9 Some examples of the power capacity components are: rectifiers, battery distribution
10 fuse bays, and standby AC plants. Any combination of these items, as well as others,
11 may be exhausted by an individual power demand request. For that reason, it would
12 be misleading to analyze each individual central office project power construction
13 cost per amp. Thus, BellSouth chose to develop a regional number using 711 actual
14 projects to ensure that a sufficient number of jobs were used to develop a reliable
15 forward-looking investment per DC amp. Attached, as Exhibit WBS-4, is a copy of
16 the results of the 711 projects. While there are extreme cases at either end of the
17 distribution of projects, the average across the 711 projects accurately pro-rates the
18 real-world cost to provision an amp of power capacity based on collocators' requests
19 or projected needs. In some cases, BellSouth had to pre-provision power, earlier than
20 normal, to ensure that sufficient power capacity existed to meet the ordered
21 collocation provisioning intervals. A power job could take up to 26 weeks to
22 complete. If power capacity were not available, the provisioning interval would be
23 missed.

24

25 **Q. MR. TURNER, ON PAGES 24 THROUGH 26, ALLEGES THAT**

1 **BELLSOUTH HAS MADE A CALCULATION ERROR IN DETERMINING**
2 **THE POWER INVESTMENT PER AMP. DO YOU AGREE?**

3

4 A. No, I do not. Dividing the incremental investment in the Gainesville-Main central
5 office power plant by the total rectifier capacity (amps) added to the office, as stated
6 on page 25 of Mr. Turner's testimony, does not produce a number that represents
7 BellSouth's total forward-looking investment per amp. This is because additional
8 equipment investment is required. To produce these additional rectifier amps of
9 power would require use of other power equipment for which investments are not
10 shown in the analysis; thus, this number would understate true forward-looking
11 investment per amp. For example, there could be additional investment associated
12 with batteries, power cabling, and fuse bays. The true investment associated with
13 providing the total capacity (amps) of the rectifiers would be greater.

14

15 Further, Mr. Turner is obviously targeting an extreme example of the actual power
16 projects. What he does not mention are the many cases where the data shows CLECs
17 being provided power without triggering a power project. In those cases, BellSouth
18 obviously is showing no construction costs even though power is being provided and
19 zero cost are shown in the study. Again, while there are extreme cases at either end of
20 the distribution of projects, the average across the 711 projects accurately pro-rates
21 the real-world cost to provision an amp of power capacity.

22

23 **Q. MR. TURNER MAKES A RECOMMENDATION ON THE APPROPRIATE**
24 **INVESTMENT PER DC AMP ON PAGE 26. DO YOU AGREE?**

25

1 A. No. Mr. Turner recommends that the Commission use the \$165.80 investment figure
2 used by BellSouth in a cost study filed in Florida in 1997 in Docket Numbers 960846-
3 TP, 960757-TP, and 971140-TP. The collocation power cost study in that docket was
4 the very first power cost study performed by BellSouth, and actually underestimated
5 the cost for BellSouth to provision an amp of -48V DC power. The first study was
6 based on a long list of assumptions and performed before any significant activity with
7 collocation in BellSouth's central offices. By contrast, the current cost study
8 producing the \$286 per fused amp investment is more reliable because it is based on
9 actual power construction projects associated with actual collocation power requests
10 and is more reflective of the power investment that BellSouth expects to incur on a
11 going-forward basis.

12

13 **Q. ON THE TOP OF PAGE 9, MR. CURRY RECOMMENDS THAT**
14 **BELLSOUTH RECALCULATE ITS DC POWER INVESTMENT USING AN**
15 **INCREMENTAL, BUILDING BLOCK OF CAPACITY APPROACH. DO**
16 **YOU AGREE?**

17

18 A. I do not agree. I believe that the approach taken by BellSouth meets the FCC
19 TELRIC requirements and allows BellSouth to recover the costs it expects to incur.

20

21 **Q. MR. TURNER, ON PAGES 28 THROUGH 30, PROPOSES THAT THE AC**
22 **POWER COMPONENT OF THE DC POWER CHARGE BE REDUCED. DO**
23 **YOU AGREE?**

24

25 A. No. Mr. Turner bases his recommendation on data taken from the U.S. Department of

1 Energy Estimated U.S. Electricity Utility Average Revenue per Kilowatt Hour to
2 Ultimate Consumers by Sector, Census Division, and State, Year-to-Date (November)
3 2002 and 2001. BellSouth also used the U.S. Department of Energy average when the
4 cost study was developed. BellSouth used \$.07 per kilowatt-hour using the
5 Commercial user category. Mr. Turner states that the Industrial user category is
6 appropriate, which includes a rate of \$.053 per kilowatt-hour. The Commercial user
7 category in Mr. Turner's Exhibit SET-5 for Florida shows \$.07 and \$.067 per
8 kilowatt-hour for 2001 and 2002, respectively. Mr. Turner's support for the
9 Industrial category is (1) his experience with ILECs and (2) his claim that ILECs
10 normally have load-sharing arrangements. As to his first point, Mr. Turner does not
11 provide any detail on his experience with ILECs, or state whether that experience
12 includes BellSouth. As to his second point, load sharing/curtailment agreements are
13 rate riders offered by the power company to be used in conjunction with base rates.
14 BellSouth utilizes these rate riders in conjunction with our base rates, which are
15 commercial, where they are economically and operationally feasible. Further, while
16 BellSouth may have some load-sharing arrangements with some power companies in
17 certain central offices, this is by no means the case in the majority of BellSouth's
18 central offices. Thus, Mr. Turner's vaguely defined "experience" with ILECs is
19 inconsistent with the rates BellSouth actually pays for AC power.

20

21 Additionally, Mr. Turner makes a statement that, in Georgia, he "obtained copies of
22 invoices for two of BellSouth's central offices and learned that BellSouth actually
23 incurs costs that are much lower than the \$0.07 per kilowatt hour that BellSouth seeks
24 here." Mr. Turner based his assessment on two AC power bills for one month. AC
25 power charges are seasonal and the total charge varies as demand varies. The AC

1 power charges could also vary by central office. One month and a couple of central
2 offices are not enough data to make a reasonable determination. Again, BellSouth
3 used the U.S. Department of Energy average when the cost study was developed. The
4 Department of Energy average for the Commercial user category in Mr. Turner's
5 Exhibit SET-5 for Georgia shows \$.067 per kilowatt-hour for 2001, when BellSouth
6 filed the Georgia study.

7

8 **Q. PLEASE ADDRESS MR. TURNER'S COMMENTS ON PAGE 29**
9 **CONCERNING BELLSOUTH'S 85% EFFICIENCY FACTOR FOR**
10 **RECTIFIER LOSSES WHEN CONVERTING COMMERCIAL AC POWER**
11 **TO DC.**

12

13 A. Mr. Turner simply says that BellSouth should use the rectifier efficiency that he
14 claims exists in AT&T's network. He provides no data to support that claim.

15 Because rectifier efficiency can vary by technology and type, BellSouth chose to use a
16 number that is used by Telcordia in many of its economic studies. Telcordia uses an
17 average figure of 85%. It is interesting to note that Mr. Turner's Exhibits SET-3 and
18 SET-4, the Southwestern Bell DC power investment proposal and the Texas PUC
19 approved investment, both include the use of an 85% rectifier efficiency.

20

21 **Q. MR. TURNER PROVIDES A DESCRIPTION OF THE PROVISIONING OF**
22 **DC POWER ON PAGES 30 – 34 OF HIS REVISED REBUTTAL**
23 **TESTIMONY. HIS MAIN POINT, ON PAGE 34, LINES 5 – 7, IS THAT THE**
24 **RATE STRUCTURE MUST BE ORGANIZED AROUND ACTUAL USAGE**
25 **TO ACHIEVE A COST-BASED SYSTEM. DO YOU AGREE?**

1 A No. BellSouth provisions DC power to collocators by ensuring that there are
2 sufficient "load amps" available to meet the collocators' requirements. In other
3 words, if a collocator requested 40 amps of power (load amps), BellSouth would
4 ensure that 40 amps of DC power plant infrastructure existed and was reserved for the
5 collocator's use. Given that there is a technical requirement to size fuses at 1.5 times
6 the equipment load, BellSouth developed the recurring cost for power based on the
7 assumption that the charge would be per-fused amp, not per-used amp. To account
8 for using per-fused amps, BellSouth multiplies the per-used amp cost by a factor of
9 .6667 (1/1.5) to develop the power charge to the CLEC. Therefore, if a CLEC
10 informs BellSouth that it will need 40 amps of power to operate equipment in a
11 BellSouth central office, the cost-based rate will already account for the use of a 60-
12 amp fuse and the rate being based on 60 amps [40 amps * 1.5 = 60 amps].

13

14 Thus, BellSouth developed its cost based on the load amps and the requirement to
15 place fuses at 1.5 times the equipment drain. The DC power plant infrastructure cost
16 is not impacted by actual usage. This cost is based on the collocator's requested load
17 amps.

18

19 **Q. MR. TURNER RECOMMENDS REDUCING THE WORK TIMES**
20 **ASSOCIATED WITH FIBER ENTRANCE CABLE INSTALLATION ON**
21 **PAGES 35 THROUGH 38 OF HIS REVISED TESTIMONY. DO YOU AGREE**
22 **WITH HIS RECOMMENDATIONS?**

23

24 A. No. His reasons for reducing the work times are based on a misunderstanding of
25 BellSouth's procedures for installing entrance cable. Despite what Mr. Turner states

1 in his testimony, BellSouth always installs the entrance cable through the manhole
2 into the cable vault up to the splice point. This is never done by a CLEC or its
3 certified vendor. He is correct that most of the current interconnection agreements
4 state that the CLEC will provide and install the riser cable, which is the cable that
5 runs from the collocation space in the central office to the splice point in the cable
6 vault. For that reason, BellSouth is filing cost support for cost elements H.1.65 and
7 H.1.66. These cost elements recover the cost of BellSouth installing the fiber
8 entrance cable from the manhole to the splice point in the vault and splicing the
9 fibers. It also recovers the costs associated with planning the riser cable installation.
10 It does not include the cost to install the riser cable.

11

12 Cost element H.1.5 recovers the cost of BellSouth installing the fiber entrance cable
13 from the manhole to the splice point, the cost to install the riser cable, and the splicing
14 of the fibers. This element would still apply where an agreement does not require a
15 CLEC to install the riser cable.

16

17 **Q. MR. TURNER ALSO CLAIMS (ON PAGE 35) THAT THE WORK TIME**
18 **FOR THE COMMON SYSTEMS CAPACITY MANAGER ASSOCIATED**
19 **WITH RISER CABLE INSTALLATION SHOULD BE REMOVED BECAUSE**
20 **THE CLEC INSTALLS THE RISER CABLE. HOW DO YOU RESPOND?**

21

22 A. The Common System Capacity Manager work time is valid. This work time is
23 associated with planning the riser cable installation, such as which route the cable
24 should take. This work is required whether BellSouth is installing the riser cable or a
25 CLEC's certified vendor is installing the riser cable. This work time is appropriate

1 for elements H.1.5 and H.1.65.

2

3 **Q. PLEASE ADDRESS MR. TURNER'S SUGGESTED REDUCTION, ON THE**
4 **TOP OF PAGE 37, OF THE WORK TIME FOR THE OUTSIDE PLANT**
5 **ENGINEER.**

6

7 A. The Outside Plant Engineer work time is also valid. Mr. Turner contends that the
8 work time should be reduced because he interprets the Interconnection Agreement
9 language, which states that CLECs will install riser cable, to mean that the Outside
10 Plant Construction group will not install the entrance cable from the manhole to the
11 vault. BellSouth will always install the entrance cable. It is the riser cable, the cable
12 that runs from the collocation space in the central office to the splice point in the
13 cable vault, that the CLEC will install. Therefore, given that Mr. Turner's sole basis
14 for reducing this work time is his misinterpretation of the Interconnection Agreement,
15 the work time should not be changed. The work time is appropriate for elements
16 H.1.5 and H.1.65.

17

18 **Q. PLEASE ADDRESS MR. TURNER'S SUGGESTED REDUCTION, ON PAGE**
19 **37, OF THE WORK TIME FOR OUTSIDE PLANT CONSTRUCTION.**

20

21 A. As stated previously, BellSouth is filing cost support for cost elements H.1.65 and
22 H.1.66. These cost elements recover the cost of BellSouth installing the fiber
23 entrance cable from the manhole to the splice point in the vault and splicing the
24 fibers. Cost element H.1.5 recovers the cost of BellSouth installing the fiber entrance
25 cable from the manhole to the splice point, the cost to install the riser cable, and the

1 splicing of the fibers. BellSouth has already shown a reduction in the work time for
2 Outside Plant Construction in element H.1.65 as a result of the CLEC installing the
3 riser cable. That reduced work time is 5.25 hours. Given that BellSouth continues to
4 install the fiber entrance cable from the manhole to the vault, that reduced work time
5 is appropriate.

6

7 **Q. PLEASE ADDRESS MR. TURNER'S SUGGESTED REMOVAL, ON PAGE**
8 **38, OF THE COST FOR MANHOLE CONTRACT LABOR.**

9

10 A. Because BellSouth continues to install the fiber entrance cable from the manhole to
11 the splice point in the vault, the manhole contract labor is required, and is
12 appropriately included.

13

14 **Q. MR. TURNER SUGGESTS THAT BELLSOUTH SHOULD HAVE TWO**
15 **RATE ELEMENTS FOR ENTRANCE CABLE INSTALLATION. PLEASE**
16 **RESPOND.**

17

18 A. Mr. Turner suggests having one element that includes the cost of splicing and one that
19 does not. Alternatively, he suggests developing a weighted cost based on the
20 percentage of installations that require splicing. BellSouth has proposed fiber
21 entrance cable installation collocation elements H.1.65 and H.1.66, which separate the
22 nonrecurring cost of labor to pull the fiber cable from the nonrecurring cost to splice
23 the fibers. Thus, if a splice is not required due to the type of cable, the splicing
24 charge, element H.1.66, would not apply. Contrary to Mr. Turner's assertion,
25 collocators would not be charged for splicing when the splicing is not done.

1 **Q. SECURITY ACCESS LABOR TIMES ARE DISCUSSED ON PAGES 38**
2 **THROUGH 39 OF MR. TURNER'S TESTIMONY. DO YOU AGREE WITH**
3 **HIS RECOMMENDATIONS?**

4

5 A. No. Mr. Turner makes three recommendations regarding the security access labor
6 times, none of which have merit. First, Mr. Turner's recommendation is to use the
7 labor time of 0.2 labor hours per card instead of the 0.8583 labor hours per card that
8 he says is used in BellSouth's study. What Mr. Turner apparently overlooks is that
9 both labor times are used in the study. The 0.2 labor hours are for the customer
10 contact person to verify contractual status for billing and provisioning purposes and to
11 ensure that the order is placed. The 0.8583 labor hours are for contract labor to
12 administer the ordering, programming and distribution of access cards. Each is a
13 valid and appropriate work time that applies to the labor involved in two different
14 functions.

15

16 His second recommendation is for the Commission to modify BellSouth's cost for
17 replacing a security card so that it will not be more than the cost to initially provide
18 one. However, Mr. Turner is mistaken in the belief that the charge BellSouth
19 proposes to replace a security card is greater than the charge to initially provide a
20 security card. The cost element for new card activation is H.1.38 and the cost element
21 to replace lost or stolen card is H.1.40. The cost for H.1.38 is \$38.95 and the cost for
22 H.1.40 is \$28.78. Therefore, no change is required.

23

24 Mr. Turner's third recommendation is that the Commission set the Security Key costs
25 equal to those for the Security Card because, he contends, this will be consistent with

1 TELRIC. Mr. Turner bases his recommendation on the belief that BellSouth did not
2 provide support for the times or costs associated with the Security Key, and also that
3 the physical key would not be required in the future. Again, Mr. Turner is mistaken.
4 BellSouth did provide support for the Security Key study. The support for the
5 Security Key work times and costs are in the file labeled, "FLphycol.xls".
6 Furthermore, there are cases when keys will be required in the future. For example,
7 there could be a need for internal keys (keys to gain access to secure areas inside
8 central office) and to access secure gateways. In addition, the FCC, in the Advanced
9 Services Order, paragraph 48, made clear that ILECs can recover reasonable security
10 cost. Hence, the Security Key costs are appropriate in a TELRIC study.

11

12 **Q. ON PAGES 40 AND 41 OF MR. TURNER'S TESTIMONY, HE ADDRESSES**
13 **ALLEGED PROBLEMS WITH THE SUBSEQUENT APPLICATION COST.**
14 **PLEASE RESPOND.**

15

16 A. The first alleged problem is that the Job Grade 58 function shows 6.5 hours for the
17 initial application and 7.5 hours for subsequent applications. Mr. Turner claims that
18 subsequent applications generally require less labor (page 40, lines 13 – 14). This
19 claim is not correct, at least in this case. The Job Grade 58 function is performed by
20 the Account Team Collocation Coordinator ("ATCC"). Two of the functions
21 performed by the ATCC are: 1) to gather response data from the various
22 interdepartmental network and real estate coordinators and review them for
23 compliance with the Agreement or Regulatory requirements, and 2) to respond to the
24 interdepartmental coordinators' questions. For the first function listed, the ATCC is
25 gathering information to respond to the CLEC's request for collocation (e.g.,

1 information on space, alternative arrangements, power, entrance facility duct space,
2 and building related requirements). For the second function, the ATCC responds to
3 questions from the interdepartmental team on issues relating to the Agreement.

4

5 An additional hour is shown for the subsequent application because it takes longer, on
6 average to perform these two functions on subsequent applications than the initial
7 one. This is primarily due to CLECs typically having new Agreements or
8 amendments to Agreements or Regulatory requirements changes since the initial
9 collocation space was established. The ATCC would spend more time to ensure the
10 interdepartmental team is aware of differences so they can properly respond to the
11 augment request. They would review prior applications as well to ensure the current
12 application can be processed as requested. The ATCC would also spend more time
13 reviewing the responses from the interdepartmental team. For example, while a prior
14 Agreement may have allowed for Point of Termination ("POT") Bays or POT Bay
15 connections, the current one may not. This will require the ATCC to verify whether
16 that arrangement can be provided as requested. There are simply opportunities for
17 more conflicts to occur when augmenting an arrangement.

18

19 **Q. PLEASE ADDRESS THE SECOND ALLEGED PROBLEM.**

20

21 A. The second alleged problem Mr. Turner identified with the development of the
22 subsequent application cost concerns the time shown for the Outside Plant Engineer
23 ("OSPE"). Mr. Turner contends that no time should be included because, he claims,
24 engineering is almost never required for subsequent applications. However, the
25 OSPE must review every application, both initial and subsequent, and determine

1 whether work is required. The amount of time included is only 30 minutes. This 30
2 minutes is an average. There are situations when this review could take less time and
3 there are situations when this review could take more time. In either case, a response
4 is required by the OSPE on all applications, including subsequent applications.

5

6 **Q. WHAT IS THE THIRD ALLEGED PROBLEM?**

7

8 A. The third problem Mr. Turner alleges regarding the development of the subsequent
9 application cost concerns the fact that the level of work required by Parsons
10 Engineering is assumed to be the same as for the initial application. Mr. Turner is not
11 totally correct. While the Parsons Engineering fee input for the initial and subsequent
12 application is the same, the actual amount of engineering work would not be the
13 same. The Parson's engineering fee input is based on the average amount of work
14 performed on both initial and subsequent applications. There would likely be more
15 engineering work associated with the initial applications than subsequent applications,
16 as a general rule, however, their fee is based on an average of both. Thus, the Parsons
17 Engineering fee, as included in the BellSouth's cost study, should apply on both the
18 initial application and subsequent application. If the fee were reduced on the
19 subsequent applications, as Mr. Turner proposes, then it would have to be
20 correspondingly raised for initial applications.

21

22 **Q. MR. GABEL, ON PAGES 38 THROUGH THE TOP OF PAGE 41,**
23 **ADDRESSES THE COST TO PROCESS AN APPLICATION AND THE**
24 **ENGINEERING COST AFTER A CLEC HAS ACCEPTED THE**
25 **APPLICATION. HE STATES THAT SPRINT AND BELL SOUTH EXPECT**

1 **TO BE LESS EFFICIENT BECAUSE THEIR WORK TIMES AND ACTIVITIES**
2 **ARE GREATER THAN VERIZON'S. DO YOU AGREE?**

3

4 A. No. Mr. Gabel has reached the erroneous conclusion that each ILEC providing
5 collocation will have the same expected work activities and work times. The
6 expected work activities and work times are based on each company's processes and
7 procedures. These procedures would be based on the current network infrastructure,
8 network planning, network forecasts, etc. For example, collocation application
9 review time could potentially be affected by: 1) the amount of collocation and other
10 central office activity, 2) the amount of available space typically seen in central
11 offices, 3) the budget for central office work, and 4) the number of central offices in
12 the state. BellSouth has estimated its work times and work activities based on the
13 requirements associated with its procedures and network. BellSouth is unable to
14 address why Verizon can perform this function in less time, but believes that it is not
15 appropriate to simply assume that Verizon is more efficient. A more reasonable
16 assumption is that the work times are different because the actual work that is
17 necessary differs from one company to the next.

18

19 Mr. Gabel refers to Paragraph 690 of the FCC's First Report and Order in the Local
20 Competition Docket (CC Docket No. 96-98, Released August 8, 1996) in footnote 46
21 of his testimony (page 36). He states on page 36, "TELRIC calls for costs to be based
22 on those incurred by an efficient firm." As additional useful information, paragraph
23 685 of the FCC's First Report and Order, which ends with basically the same words
24 referred to in paragraph 690, states the following:

25

1 This benchmark of forward-looking cost and existing network design most
2 closely represents the incremental costs that incumbents actually expect to
3 incur in making network elements available to new entrants.
4 (emphasis added)

5

6 BellSouth bases its work times and activities on its network and what it expects to
7 incur as a result of reviewing a collocation application.

8

9 **Q. MR. GABEL REFERS (AT PAGE 38 AND PAGE 40) TO TWO EXHIBITS,**
10 **EXHIBITS DJG-3 AND DJG-4. IS THE BELLSOUTH INFORMATION**
11 **SHOWN ON THOSE EXHIBITS ACCURATE?**

12

13 A. BellSouth's work times shown in Exhibit DJG-3 are correct. However, BellSouth's
14 work times shown in Exhibit DJG-4 are not correct. BellSouth's "post acceptance"
15 work function is called Space Preparation – Firm Order Processing (cost element
16 H.1.45). Firm Order Processing recovers costs associated with receiving, reviewing,
17 and processing a collocation firm order. A CLEC submits a firm order to notify
18 BellSouth to move forward with the collocation installation work after reviewing the
19 application response. BellSouth's total work time is 5.5 hours and applies for all
20 physical collocation firm orders.

21

22 **Q. PLEASE ADDRESS MR. GABEL'S RECOMMENDATION (PAGE 39) THAT**
23 **THE RATE STRUCTURE MIRROR THE WAY VERIZON CALCUALTED**
24 **ITS PROPOSED COSTS BY INCLUDING A "PRE-ACCEPTANCE FEE"**
25 **AND A "POST ACCEPTANCE FEE."**

1 A. BellSouth has been operating, and continues to operate, under a similar rate structure.
2 BellSouth has application fees (e.g., H.1.1, H.1.46) that apply for work associated
3 with a CLEC submitting an application to request a specific collocation arrangement.
4 The application fee recovers costs associated with various activities, such as
5 reviewing application for accuracy, processing the application, review of application
6 by different departments, and compiling responses on the specific application. Thus,
7 these rate elements correspond to Mr. Gabel's "pre-acceptance fee" element.

8
9 BellSouth also has a cost element called Space Preparation – Firm Order Processing.
10 As stated above, Firm Order Processing recovers costs associated with receiving,
11 reviewing, and processing a collocation firm order. A CLEC submits a firm order to
12 notify BellSouth to move forward with the collocation installation work after
13 reviewing the application response. Therefore, BellSouth's rate structure agrees with
14 Mr. Gabel's recommendation.

15
16 It should be noted that the recurring Space Preparation cost elements (elements
17 H.1.41, H.1.42, and H.1.43) allow BellSouth to recover the cost of engineering,
18 design, and modification of the network infrastructure and the building to meet a
19 collocator's specified requirements.

20

21 **Q. MR. TURNER, ON PAGE 42, STATES THAT BELLSOUTH'S SPACE**
22 **AVAILABILITY REPORT NONRECURRING CHARGE IS OUT OF RANGE**
23 **WITH WHAT SOME OTHER STATES HAVE ORDERED. PLEASE**
24 **RESPOND.**

25

1 A. First, Mr. Turner's analysis did not include charges for any of BellSouth's states,
2 which he obviously has access to, and could have included. If Mr. Turner had
3 reviewed the Commission approved charges for other states in BellSouth's territory,
4 he would have seen that BellSouth's proposed charge in Florida is not out of line. In
5 fact, it is the lowest. For example, the nonrecurring charge ordered in Alabama in its
6 UNE cost docket is \$1,075.12, the charge ordered in South Carolina in its UNE cost
7 docket is \$1,077.57, and the nonrecurring charge ordered in Louisiana in its UNE cost
8 docket is \$1,044.07. BellSouth proposed nonrecurring charge of \$572.66 for Florida
9 is appropriate and is based on its latest review of this activity.

10

11 BellSouth is entitled to recover its cost of providing space availability reports to
12 CLECs. To develop the cost, BellSouth first determined the work groups involved
13 and the amount of time they would require to produce a report. Then the work time
14 was multiplied by the appropriate labor rate and factors to calculate the cost for
15 developing the report.

16

17 To produce the report requires one group to interface with the CLEC and two other
18 groups to make an assessment and compile data of current space availability, current
19 and future space demand, current and future associated power and air conditioning
20 needs, etc. BellSouth is not aware of what assumptions are used by other companies
21 in the development of their charge for providing a space availability report. However,
22 the marked difference between the approved charges in the out-of-region states Mr.
23 Turner cites to and the charges described above approved in BellSouth's region
24 suggest that the charges in these out-of-region states reflect different activities, etc. In
25 other words, the existence of these differences demonstrates that the rates in the out-

1 of-region states are a poor basis for comparison.

2

3 **Q. PLEASE RESPOND TO MR. TURNER'S STATEMENT THAT HE "IS**
4 **CONFIDENT" THAT BELLSOUTH HAS AT ITS DISPOSAL A COMPUTER**
5 **AIDED DESIGN SYSTEM TO MAINTAIN A SPACE INVENTORY FOR USE**
6 **IN DEVELOPING A SPACE AVAILABILITY REPORT (PAGE 43)?**

7

8 A. The way Mr. Turner has phrased his statement suggests that he has no actual
9 knowledge on this point. Further, BellSouth does not, in fact, have such a system.
10 While BellSouth does have a computer aided design (CAD) system that it uses to
11 maintain floor space drawings for company purposes, the CAD system is not real-
12 time. It is updated on a scheduled basis. Further, given that BellSouth has over 1600
13 central offices, it is not reasonable to assume that the CAD system will have the
14 current information at any point in time. As a result, Mr. Turner is incorrect to the
15 extent he suggests BellSouth is seeking to recover the costs of building an inventory;
16 rather BellSouth is seeking to recover the cost that will be incurred in preparing a
17 report requested by a CLEC. It should be noted that BellSouth has received less than
18 five CLEC requests for these reports in all nine states. Thus, the report is just an
19 option that is made available to CLECs, but which they rarely choose to utilize.

20

21 **Q. ON PAGES 43 AND 44, MR. TURNER EXPRESSES TWO CONCERNS WITH**
22 **THE COST DEVELOPMENT FOR THE COPPER ENTRANCE CABLE**
23 **INSTALLATION NONRECURRING CHARGE. HOW DO YOU RESPOND?**

24

25 A. First, as stated in my direct testimony and as addressed by Mr. Milner's testimony

1 regarding issue 4 in phase I, BellSouth does not believe that ILECs should be required
2 to provide copper entrance facilities. If the Commission accepts BellSouth's position
3 in phase I of this proceeding, then this issue becomes moot. These cost elements are
4 being provided for the sole purpose of providing the Commission with complete
5 information in order to make a final decision regarding the elements.

6

7 However, in response to Mr. Turner's first concern, BellSouth always installs the
8 entrance cable (fiber or copper) from the manhole to the splice point in the vault,
9 therefore, the manhole contract labor is valid.

10

11 Mr. Turner's second concern is related to the fact that BellSouth has two cost
12 elements for the copper entrance cable. He lists them as H.1.57 and H.1.58. H.1.57 is
13 comparable to H.1.5 (fiber entrance cable). Element H.1.57 recovers the cost to
14 perform functions other than splicing, e.g., pulling the entrance cable from the
15 manhole to the vault and placing the cable on racks in the vault. In contrast, Element
16 H.1.58 recovers the cost to splice copper pairs. H.1.58 is a new cost element. This
17 new element recovers the additional cost associated with the need to perform many
18 more splices for copper cables than fiber cables. For fiber cable, BellSouth would
19 splice the number of fibers in the cable (e.g., if a 24 fiber cable was used, then 24
20 fibers would be spliced). However, if a relatively small copper cable of 1200 cable
21 pairs was used, then BellSouth splices 1200 pairs. Thus, there would be a need to
22 establish a new cost element and both charges are appropriate. There are connection
23 and test activities performed in both cost elements.

24

25 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF CABLE RECORDS**

1 **CHARGES.**

2

3 A. Cable Records charges apply for work required to build cable records in company
4 systems. The cables belong to the collocator. The collocator's certified vendor runs
5 the cables (e.g., voice grade/ DS0 and DS1) from the collocation space to the
6 distribution frame. The collocators' specific distribution frame termination locations
7 are needed for the collocator to place orders to cross-connect network elements (e.g.,
8 unbundled loops) to their collocated equipment.

9

10 The work activities associated with building cable records are one-time or
11 nonrecurring. Once the records are built, there would be no need to make a change
12 unless requested to do so by the CLEC.

13

14 **Q. MR. TURNER, ON PAGES 44 AND 45, STATES THAT THERE SHOULD**
15 **NOT BE A CHARGE FOR CABLE RECORDS WORK. WHY IS IT**
16 **APPROPRIATE FOR BELL SOUTH TO APPLY A NONRECURRING**
17 **CHARGE FOR INPUTTING CABLE RECORDS FOR CLECS?**

18

19 A. The only reason this work would be done is to comply with the request of a CLEC
20 desiring to collocate equipment in BellSouth's central office. In other words, the
21 work is strictly driven by a collocation application and the need to input new
22 information in current systems for the benefit of the collocator. BellSouth has simply
23 developed a standard rate for the activity associated with manually inputting carrier-
24 specific cable termination information into our systems. Since BellSouth performs
25 this work solely at the request of a CLEC, BellSouth should be able to recover the

1 one-time costs associated with such work.

2

3 **Q. PLEASE ADDRESS MR. TURNER'S CONCERNS WITH THE**
4 **DEVELOPMENT OF THE COLLOCATION CABLE RECORDS CHARGE.**

5

6 A. Mr. Turner does not claim that cable records should not be kept. Instead, he wrongly
7 assumes that other rate elements and factors (e.g., the maintenance factor) used to
8 develop recurring rates duplicate the functions and labor that comprise the elements
9 that recover cable records costs. Regarding the other rate elements, Mr. Turner
10 believes that the labor time that BellSouth includes for the Circuit Capacity Manager
11 ("CCM") function in cable records is duplicative of functions and labor cost captured
12 in the Application cost and Subsequent Application cost elements (H.1.1 and H.1.46).
13 This is not true. The CCM labor time and functions associated with the application
14 responses (elements H.1.1 and H.1.46) are strictly associated with reviewing the
15 collocation application requirements (e.g., shelves, bays, frame terminations),
16 interfacing with other network groups, and providing input to the final application
17 response to the CLEC. These activities occur prior to a CLEC accepting an
18 application response.

19

20 Once a CLEC accepts an application response by submitting a bona fide firm order,
21 BellSouth's space preparation work begins. Additionally, the cable records work
22 begins. The CCM interfaces with CLECs, obtains the equipment inventory utilization
23 of the frames, and interfaces with other network individuals to develop the initial
24 frame assignments based on CLECs' applications and firm orders. This activity can
25 occur anytime between the receipt of a firm order and BellSouth's completion of its

1 work at the collocation site.

2

3 During the application review phase, the CCM verifies equipment availability and
4 other associated equipment requirements. After the firm order is received the CCM
5 obtains specific frame utilization information and coordinates with CLECs and/or
6 CLECs' certified vendors to develop the initial assignment of frame locations and
7 works with other network groups to ensure that the actual facility assignments are
8 included in required databases for CLECs. Thus, the work is not duplicative.

9

10 Regarding factors, BellSouth does not recover cable records costs via factors. The
11 manual effort to update cable records is not recovered by maintenance or any other
12 factors used by BellSouth. Factors do not recover the manual effort to input the
13 CLEC's cable information into BellSouth's systems. For example, maintenance
14 factors recover the cost of performing routine work to prevent trouble, including
15 inspecting and reporting on the condition of plant investment. The cable records work
16 is not associated with BellSouth's normal repair and maintenance of systems.
17 Therefore, the proposed nonrecurring charges do not over-recover costs.

18

19 **Q. ON PAGES 50 AND 51, MR. GABEL DISCUSSES COLLOCATION CABLE**
20 **RECORDS. HE RECOMMENDS THAT BELLSOUTH PROVIDE IN ITS**
21 **SURREBUTTAL TESTIMONY A DETAILED EXPLANATION OF THE**
22 **FUNCTIONS ASSOCIATED WITH THIS SERVICE, THE BASIS FOR ITS**
23 **TIME ESTIMATES, AND ADDRESS THE DEGREE TO WHICH SPRINT**
24 **AND VERIZON SEEK COST RECOVERY OF SIMILAR ACTIVITIES.**
25 **PLEASE RESPOND.**

1 A. As stated above, Cable Records charges apply for work required to build cable
2 records in company systems. The cables belong to the collocator. The collocator's
3 certified vendor runs the cables (e.g., voice grade/ DS0 and DS1) from the collocation
4 space to the distribution frame. The collocators' specific distribution frame
5 termination locations are needed for the collocator to place orders to cross-connect
6 network elements (e.g., unbundled loops) to their collocated equipment.
7
8 There are several groups involved in the process of identifying frame terminations,
9 assigning frame terminations, verifying frame terminations, and notifying CLECs',
10 via circuit facility assignments, of final frame assignments. The CCM is the group
11 that interfaces with CLECs and the other BellSouth network groups. The CCM
12 obtains the equipment inventory utilization of the frames and works with the CLEC or
13 CLEC's certified vendor on the initial assignment on the frames. This activity could
14 include several phone calls, several meetings, and a site visit to the central office.
15 Once the CLEC's certified vendor installs the cables on the frame, BellSouth must
16 verify that the correct terminations were made before facility assignments are input in
17 the required databases. These activities can occur anytime between firm order and
18 completion of the space preparation.
19
20 Once the frame terminations are verified, the CCM works with the other network
21 groups to provide the needed information for them to begin the process of inputting
22 the assignments in databases. The other groups are: COSMOS [computer system for
23 main frame operations]/Switch, Address & Facility Assignment ("AFIG"), Loop
24 Capacity Management ("LCM"), and Circuit Provisioning Group ("CPG"). All of the
25 groups, except CPG, just handle voice grade frame information. The CPG works with

1 DS1, DS3 and Fiber frame terminations.

2

3 The LCM, upon receiving the information from the CCM, investigates existing
4 collocation cables at the same office, assigns new cable range and name (being careful
5 not to duplicate any cable ranges already being used), and creates terminal name and
6 count including unique address to identify the collocation terminal. This information
7 is provided back to the CCM and also to the AFIG and COSMOS/Switch for input
8 into databases. The COSMOS/Switch group inputs the voice grade (2 wire and 4-
9 wire) frame information into COSMOS/Switch by first establishing the inventory
10 range and then inputting the frame location and any remarks. The AFIG identifies
11 cable and pair range and builds the inventory in the loop/local facility assignment
12 control system ("LFACS"). The AFIG also places restrictions on the collocator's
13 facilities to keep BellSouth from accidentally assigning them for other use.

14

15 The CPG, upon receiving the information from the CCM, inputs the customer
16 information for DS1s, DS3s, and Fiber cables into the Trunk Integrated Records
17 Keeping System ("TIRKS").

18

19 **Q. NOW THAT YOU HAVE PROVIDED AN EXPLANATION OF THE**
20 **FUNCTIONS ASSOCIATED WITH THIS SERVICE, WHAT IS THE BASIS**
21 **FOR THE TIME ESTIMATES?**

22

23 A. BellSouth has estimated its work times and work activities based on the requirements
24 associated with its procedures and network. BellSouth must ensure that frame
25 assignments are made correctly before beginning the process of entering this

1 information into the databases. If the information is not entered correctly, CLECs
2 requesting connection to unbundled elements (e.g., unbundled loops or unbundled
3 ports) will not be able to establish that connection. Without the correct information in
4 the databases, when the order is placed the assignments will not cross connect the
5 right terminations on the frames. Therefore, the CCM must work with the CLEC and
6 the other network groups to ensure that the correct facility assignments are made and
7 input into the databases. Additionally, this is not a new function for BellSouth.
8 BellSouth charged for this function in the past via Additional Engineering Charges.
9 Establishing the Cable Records charge simply allows BellSouth to provide this
10 function using a standard charge.

11

12 **Q. CAN YOU ADDRESS THE DEGREE TO WHICH SPRINT AND VERIZON**
13 **SEEK COST RECOVERY OF SIMILAR ACTIVITIES?**

14

15 A. BellSouth cannot know with complete confidence the answer to this question.
16 However, BellSouth believes that both Verizon and Sprint recover this cost in other
17 cost elements. For example, Verizon may recover this cost in its Facility Pull charges
18 (e.g., Elements 12 and 13) and Cable Termination charges (e.g., Elements 15 – 18)
19 since they seem to be associated with cross connections and installing the cable from
20 the collocation space to the frame. Sprint may recover this cost in its Administrative
21 & Project Management Fees (Elements 2, 4, and 7). The description of the Regional
22 Transmission Engineer functions (page 8 of 17 of Davis Exhibit JRD-2) include
23 engineering work for cross connects and updating the circuit assignment system. This
24 description is under Administration & Project Management Fees. Therefore,
25 BellSouth believes that Verizon and Sprint seek cost recovery for this activity, which

1 is only reasonable. Moreover, BellSouth does not have the above-described Sprint
2 and Verizon cost elements in its list of cost elements.

3

4 **Q. MR. TURNER ADDRESSES THE FLOOR SPACE COST ON PAGES 45 – 49**
5 **OF HIS TESTIMONY. HIS BASIC ALLEGATION IS THAT SINCE THE**
6 **INVESTMENT USED BY BELL SOUTH IN ITS STUDY IS GREATER THAN**
7 **PUBLICLY AVAILABLE DATA ON TELECOMMUNICATIONS SPACE**
8 **INVESTMENT, IT IS INCONSISTENT WITH TELRIC PRINCIPLES AND**
9 **SHOULD BE REJECTED. DO YOU AGREE?**

10

11 A. No. Mr. Turner basically contends that BellSouth's investment amount is improper
12 and non-compliant with TELRIC because he can find a way to develop a lower
13 investment number based on data that does not relate to BellSouth's network.
14 Specifically, Mr. Turner states that publicly available investment data from R.S.
15 Means should be used because it contains information that is verifiable and can be
16 reviewed.

17

18 The floor space charge allows BellSouth to recover the cost of the building space
19 being occupied by collocators. Obviously, the use of actual costs for BellSouth's
20 actual telephone-company building additions are more reflective of the costs that
21 BellSouth will incur in providing floor space to CLECs on a going forward basis than
22 publicly available data that does not relate to BellSouth. There is no reason to believe
23 that the costs incurred recently are not reflective of future expenditures.

24

25 The R.S. Means publication simply estimates construction costs based on past

1 construction jobs. R.S. Means averages jobs done across the nation. It is dependent
2 upon contractors reporting information to it. The user of the average national data
3 from R.S. Means must then use a modifier to adjust for the size of the building. The
4 user must also use a factor to adjust the national average to make it a state/city
5 average. R.S. Means can be best described as an estimator.

6
7 The investment number used by BellSouth is based on actual jobs in BellSouth
8 central offices in Florida. Thus, this number reflects the cost of provisioning
9 collocation, which meets TELRIC requirements. TELRIC principles do not require
10 that the information must be publicly available. BellSouth simply believes it is better
11 to use actual data to determine realistic investment numbers rather than to manipulate
12 an estimate based on national averages to arrive at an artificially low investment
13 number.

14

15 **Q. MR. GABEL, ON PAGES 12 – 22, ADDRESSES FLOOR SPACE AND SPACE**
16 **PREPARATION COSTS. PLEASE DESCRIBE THE FLOOR SPACE COST**
17 **ELEMENT.**

18

19 A. The Floor Space cost element is a recurring cost element that recovers the cost of the
20 building space being occupied by CLECs. It includes the costs for lighting, heating,
21 air conditioning, and other allocated expenses and associated maintenance of the
22 building.

23

24 **Q. PLEASE DESCRIBE YOUR SPACE PREPARATION COST ELEMENTS.**

25

1 A. Space Preparation cost elements allow BellSouth to recover the cost of engineering,
 2 design, and modification of the network infrastructure and the building to meet a
 3 collocator's specified requirements. Such modification could include:

- 4 ▪ Augmenting air conditioning cooling capacity
- 5 ▪ Reworking ventilation ducts
- 6 ▪ Adding cable racking
- 7 ▪ Adding or moving light fixtures

8
 9 BellSouth's Space Preparation costs consist of four cost elements. Only one of them
 10 is nonrecurring. The other three are recurring costs. The nonrecurring Space
 11 Preparation cost element is called Firm Order Processing and it recovers costs
 12 associated with receiving, reviewing, and processing a collocation firm order. A
 13 CLEC submits a firm order to notify BellSouth to move forward with the collocation
 14 installation work after reviewing the application response.

15
 16 The three recurring cost elements are: 1) C.O. Modification per square foot, 2)
 17 Common Systems Modification per square foot for cageless collocation, and 3)
 18 Common Systems Modification per cage for caged collocation.

19
 20 **Q. PLEASE DESCRIBE SPACE PREPARATION – C.O. MODIFICATION PER**
 21 **SQUARE FOOT.**

22
 23 A. This element recovers the costs associated with the building design, construction and
 24 modification work associated with preparing a central office space for collocation.
 25 For example, it would include the following types of work:

- 1 • heating, ventilation, and air conditioning
- 2 • electrical
- 3 • architectural

4

5 This element applies for both cageless and caged collocation.

6

7 **Q. PLEASE DESCRIBE SPACE PREPARATION – COMMON SYSTEMS**
8 **MODIFICATION PER SQUARE FOOT.**

9

- 10 A. This element recovers the costs associated with the installation and modification of
11 network infrastructure (e.g., cable racking, stanchions, AC main feed to bay, fiber
12 ducts) required to prepare the central office for cageless collocation. Note that this
13 element would only apply with cageless collocation.

14

15 **Q. PLEASE DESCRIBE SPACE PREPARATION – COMMON SYSTEMS**
16 **MODIFICATION PER CAGE.**

17

- 18 A. This element recovers the costs associated with the installation and modification of
19 network infrastructure (e.g., cable racking, stanchions, AC main feed to bay, fiber
20 ducts) required to prepare the central office for caged collocation. Note that this
21 element would only apply with caged collocation.

22

23 **Q. ON PAGES 13 AND 14 OF HIS TESTIMONY, MR. GABEL EXPRESSES**
24 **THREE CONCERNS WITH THE METHOD USED BY BELLSOUTH TO**
25 **ESTIMATE FLOOR SPACE INVESTMENT. PLEASE RESPOND.**

1 A. First, Mr. Gabel is concerned that not enough central offices are represented to be a
2 statistically valid sample. As stated above, the floor space charge allows BellSouth to
3 recover the cost of the building space being occupied by collocators. BellSouth
4 believes that the use of actual costs for its actual telephone-company central office
5 building additions are reflective of the costs that BellSouth will incur in providing
6 central office floor space to CLECs on a going forward basis. There is no reason to
7 believe that the costs incurred recently are not reflective of future expenditures. All
8 building additions shown were made to existing central office buildings. As for the
9 number of observations used, BellSouth used 100% of the building additions with
10 final numbers for the years 2001 and 2002. These were the most current jobs. The
11 numbers are unbiased in that we did not selectively remove any jobs from the study.

12

13 Mr. Gabel's second concern is with the degree of variation in the cost per square foot
14 shown from one of the central office building additions to the next. The cost per
15 square foot by central office does vary. This variation is due to the specific
16 requirements at each central office. For example, some building additions could
17 trigger the need for a new air conditioning system or other high cost items.
18 Additionally, the code requirements in one city could be more stringent than in
19 another city.

20

21 Third, Mr. Gabel states that the data used by BellSouth is not appropriate for a
22 TELRIC study because BellSouth has "used incremental rather than total demand in
23 its space study." (Page 14, lines 11 – 20) He refers to paragraph 682 in the FCC's
24 First Report and Order in the Local Competition Docket (CC Docket No. 96-98,
25 Released August 8, 1996) in footnote 10 of his testimony (page 14). He states on

1 page 14, “The FCC’s pricing order requires that TELRIC cost estimates be obtained
2 ‘by dividing the total cost associated with the element by a reasonable projection of
3 the actual total usage of the element’.” BellSouth has, in fact, done this. The total
4 cost of the building additions have been divided by the total useable square footage
5 added, which include both space used by BellSouth and other parties (i.e., total cost
6 divided by actual total usage). This methodology, since it is based on the most
7 current expenditures, is reflective of forward-looking space cost for both BellSouth
8 and collocators. Moreover, given that the FCC’s collocation rules (specifically FCC
9 Rule 51.323(f)(1)) do not require ILECs to lease or construct additional space to
10 provide for physical collocation when existing space has been exhausted, BellSouth
11 does not believe that there is TELRIC requirement to develop an investment based on
12 reconstructing all central offices in the state and dividing by the total central office
13 space in all central offices in the state.

14

15 **Q. PLEASE ADDRESS MR. GABEL’S CLAIM (PAGE 16, LINES 2 – 7) THAT**
16 **BELLSOUTH’S INVESTMENT ESTIMATE IS SIGNIFICANTLY OUT OF**
17 **LINE WITH THE ESTIMATES OF VERIZON AND SPRINT.**

18

19 A. Mr. Gabel seems to believe that BellSouth’s methodology for developing the
20 investment for the Floor Space cost has led to an investment per square foot that is
21 significantly more than TELRIC and what the other party’s in this docket have
22 proposed. Based on my review of the other party’s filing, I do not agree. While it
23 does appear that BellSouth’s investment per square foot is greater than Verizon’s, it
24 also appears that BellSouth’s investment is less than Sprint’s.

25

1 Moreover, as stated above, in approving BellSouth's applications for in-region
2 interLATA authority in all of its nine states, the FCC concluded that BellSouth
3 provides collocation based on TELRIC. The same Floor Space cost development
4 process that Mr. Gable criticizes was in use at the time the FCC made that
5 determination. BellSouth's Floor Space cost/rate is reasonable and
6 nondiscriminatory.

7

8 **Q. MR GABEL ADDRESSES SPACE PREPARATION CHARGES ON PAGES 17**
9 **AND 18. HE STATES THAT BELLSOUTH HAS NOT DEMONSTRATED**
10 **THAT THE COSTS REPORTED ON H.1.41 ARE FROM A RANDOM**
11 **SAMPLE AND REPRESENTATIVE OF THE LOCATIONS WHERE THE**
12 **COMPANY INCURS SPACE PREPARATION COSTS. PLEASE RESPOND.**

13

14 A. As stated above, Space Preparation cost elements allow BellSouth to recover the cost
15 of engineering, design, and modification of the network infrastructure and the
16 building to meet a collocator's specified requirements. BellSouth's Space Preparation
17 costs consist of four cost elements. The three recurring cost elements are: 1) C.O.
18 Modification per square foot, 2) Common Systems Modification per square foot for
19 cageless collocation, and 3) Common Systems Modification per cage for caged
20 collocation. Although Mr. Gabel criticizes BellSouth's space preparation charges in
21 general, his comments really only address element H.1.41, which is the C.O.
22 Modification per square foot element. Specifically, Mr. Gabel contends that
23 BellSouth has not shown that its sample is representative.

24

25 This element recovers the costs associated with the building design, construction and

1 modification work associated with preparing a central office space for collocation. To
2 develop this forward-looking investment, BellSouth started with final investment data
3 from actual collocation projects over a certain time period. Costs that would not
4 apply on a forward-looking basis, such as barrier walls, were backed out. This data
5 was obtained region-wide due to the limited quantity of collocation projects with final
6 costs. Attached, as Exhibit WBS-5, is a copy of the data. All available projects
7 during the time period with final costs were used. A weighted-average of the data
8 from all nine states was taken to produce the forward-looking investment per square
9 foot of \$121.11. A total of 123 projects encompassing 594 firm order collocation
10 sites were used. Thus, the investments shown for element H.1.41 are representative
11 of locations where the company incurs space preparation costs.

12

13 The FCC, in paragraph 51 of its Advanced Services Order, specifically allows ILECs
14 to recover the costs of preparing collocation space. It states:

15

16 We conclude, based on the record, that incumbent LECs must allocate
17 space preparation, security measures, and other collocation charges on a
18 pro-rated basis so the first collocater in a particular incumbent premises
19 will not be responsible for the entire cost of site preparation.

20

21 BellSouth's methodology for developing the investment per square foot or per cage is
22 simply a way of pro-rating the cost of collocation space preparation requirements
23 among CLECs on a reasonable and nondiscriminatory basis.

24

25 **Q. MR. GABEL STATES THAT (PAGE19) BELLSOUTH'S TARIFF**

1 **REQUIREMENTS AT TERMINATION OF OCCUPANCY MEANS THAT**
2 **THE CLEC IS INAPPROPRIATELY REQUIRED TO BOTH MAKE THE**
3 **SPACE READY FOR ITSELF (AT THE TIME OF OCCUPATION) AND**
4 **MAKE THE SPACE READY FOR THE NEXT COLLOCATOR AS WELL.**
5 **IS HE CORRECT?**

6
7 A. No. The tariff simply requires the CLEC to remove its equipment/property and to
8 return the space in the same condition when first occupied by the CLEC. The CLEC
9 is only responsible for removing its equipment, not BellSouth's equipment. The
10 CLEC is not required to remove any items of investment (e.g., racks and power bays)
11 BellSouth has included in its study. Therefore, the space preparation charges only
12 apply once.

13
14 Additionally, on page 20, Mr. ^{Gabel}~~Turner~~ states that depreciation rates reflect the cost of
15 removing plant (telecommunications equipment). He is correct. Depreciation rates
16 do reflect the cost of removing BellSouth's depreciable equipment. It does not reflect
17 the cost of removing CLEC equipment. Since the tariff only requires the CLEC to
18 remove its equipment (and not BellSouth's equipment), there is no over charge.

19
20 **Q. ON PAGES 20 AND 21, MR. GABEL EXPRESSES CONCERN WITH**
21 **BELLSOUTH'S APPLICATION OF THE SPACE PREPARATION CHARGE.**
22 **HE BELIEVES THAT BELLSOUTH DISCRIMINATES AGAINST**
23 **COMPETITORS BY CHARGING THEM FOR SPACE PREPARATION,**
24 **WHILE NOT INCLUDING THE COSTS OF SPACE PREPARATION IN ITS**
25 **RETAIL COST STUDIES. DO YOU AGREE?**

1 A. No. First of all, when a CLEC uses collocation to provision its network, BellSouth
2 incurs specific costs for preparing that collocation space as well as assigning a portion
3 of that building for use only by that collocator. The FCC allows ILECs to recover the
4 cost of collocation. Specifically, as stated above, paragraph 51 of the FCC's
5 Advanced Services Order allows ILECs to recover the costs of preparing collocation
6 space.

7
8 For BellSouth's retail services, the services range from a voice grade loop which uses
9 everything from the main distribution frame to a circuit switch, to a Digital Subscriber
10 Line service, which uses a digital subscriber line access manager ("DSLAM") as well
11 as high capacity services that uses synchronous optical network ("SONET")
12 equipment with speeds ranging from 1.544 megabits to gigabits. Similarly, the CLEC
13 can offer the same type of services depending on the equipment they choose to
14 deploy. BellSouth's infrastructure includes central office buildings that house
15 everything from circuit switches to DSLAM and SONET equipment. CLECs
16 infrastructure includes buildings it may own and purchased collocation space, again
17 housing similar equipment. BellSouth in its retail offerings recover the costs of its
18 buildings by assigning the cost on a per circuit investment basis. Hence, BellSouth
19 has chosen its methodology for recovering building-related costs from its end users.
20 It should be noted that the price for retail offerings are not set at cost. Similarly, the
21 CLEC can choose to recover its costs from its end users in any method it chooses.
22 The important distinction is that provisioning a circuit out of a DSLAM or switch to
23 an end user does not entail the same costs as providing central office space and its
24 preparation for a collocator.

25

1 **Q. DO YOU AGREE WITH MR. GABEL'S RECOMMENDATION FOR**
2 **BELLSOUTH TO USE VERIZON'S METHODOLOGY FOR ESTIMATING**
3 **FLOOR SPACE COST?**

4

5 A. No, I do not. As previously stated, the FCC has found BellSouth's costs for
6 collocation to be TELRIC compliant. Mr. Gabel offers no concrete evidence that
7 BellSouth's costs are not TELRIC compliant. He simply uses a methodology that
8 produces a lower cost, based on the apparent (incorrect) belief that this is what
9 TELRIC requires. To the contrary, the FCC allows for a range of reasonableness for
10 TELRIC pricing. Paragraph 30 in FCC Order 02-260 states:

11

12 We will, however, reject an application if "basic TELRIC principles are
13 violated or the state commission makes clear errors in factual findings
14 on matters so substantial that the end result falls outside the range that
15 the reasonable application of TELRIC principles would produce."¹ We
16 note that different states may reach different results that are each within
17 the range of what a reasonable application of TELRIC principles would
18 produce.

19 Costs and rates must be developed on a company specific basis as stated previously.
20 For example, BellSouth has approximately 200 central offices in Florida and
21 approximately 130 have collocation. Verizon has fewer central offices and fewer
22 central offices with collocation in Florida. This simple difference between the two
23 companies would have a real impact on the procedures and planning within the state,

24

25

¹ Verizon Pennsylvania Section 271 Application Order, CC Docket No. 01-138, 16 FCC Rcd 17419, 17453, para. 55.

1 which would impact the resulting cost estimates. Verizon's methodology of
2 reconstructing all central offices in the state by using the embedded investment
3 (adjusted using the current cost to booked cost factor) divided by the total demand is
4 not a more accurate method than BellSouth's method of looking at situations where
5 building additions have occurred. BellSouth has divided the total cost associated with
6 the recent building additions by the total useable square footage added, and thus
7 reflected the forward-looking cost of floor space.

8

9 **Q. THE SPACE PREPARATION COST ELEMENT IS DISCUSSED IN MR.**
10 **TURNER'S TESTIMONY ON PAGES 55 - 57. HE STATES THAT HE HAS A**
11 **CONCERN WITH THE INVESTMENT NUMBER AND THE ITEMS**
12 **INCLUDED IN THE STUDY. PLEASE CLARIFY THIS PART OF HIS**
13 **TESTIMONY AND RESPOND.**

14

15 A. Mr. Turner appears to be very confused as to what BellSouth is proposing for the
16 space preparation cost element. BellSouth's space preparation cost elements consist
17 of four elements as stated above. Mr. Turner specifically addresses the space
18 preparation – central office modification element. This element recovers the costs
19 associated with the building design, construction and modification work associated
20 with preparing a central office space for collocation, such as, heating, ventilation, and
21 air conditioning.

22

23 To develop this forward-looking investment, BellSouth started with final investment
24 data from actual projects over a certain time period. Costs that would not apply on a
25 forward-looking basis, such as barrier walls, were backed out. This data was obtained

1 region-wide due to the limited quantity of projects with final costs. A weighted-
2 average of the data from all nine states was taken to produce the forward-looking
3 investment per square foot of \$121.11.

4

5 Mr. Turner is also confused in that ~~that~~ the items he highlighted on page 55, line 22
6 (cage cost set fee, barrier wall, and card reader) were specifically backed out of the
7 study where they may have been included in the actual projects. These items were
8 highlighted on some support papers and Mr. Turner must have assumed that they
9 were included in the study. Therefore, that concern should be resolved.

10

11 **Q. MR. TURNER, ON PAGES 52 – 55, PROPOSES THAT THE CAGE**
12 **PREPARATION COST BE DEVELOPED USING R. S. MEANS. PLEASE**
13 **RESPOND.**

14

15 A. First, it should be noted that the construction of the collocation cage can be done by a
16 certified vendor if the CLEC chooses. There is no requirement that BellSouth
17 construct the cage.

18

19 However, if BellSouth does construct the cage, it should be able to recover its costs.
20 Mr. Turner is basically stating that the investment is not correct because he can find a
21 way to show that a lower investment number can be developed. Again, he states that
22 investment data from R.S. Means should be used because it contains information that
23 is verifiable and can be reviewed. As stated previously, R.S. Means publication
24 simply estimates construction costs based on past construction jobs and at best can
25 only be described as an estimator.

1 The investment numbers used by BellSouth for cage construction are based on actual
2 contractor quotes and actual prices from manufacturers. BellSouth simply believes it
3 is better to use actual data rather than manipulate a national average investment.

4

5 **Q. PLEASE ADDRESS MR. TURNER'S REASON FOR REMOVING THE DUST**
6 **PARTITION COST (PAGES 54 - 55).**

7

8 A. Mr. Turner supports his position that the dust partition cost should be removed
9 primarily on his observation of Lucent Technologies personnel installing framing
10 equipment. Lucent is not a good choice for comparison, since Lucent is an equipment
11 installers. Equipment installation does not typically create dust. BellSouth uses
12 general contractors to construct cages in Bellsouth central offices. Cage construction
13 does create dust, and therefore, it is appropriate for BellSouth to include the dust
14 partition in its cost study.

15

16 **Q. MR. TURNER, ON PAGES 49 THROUGH 51, QUESTION THE CABLE**
17 **RACK CAPACITY USED BY BELL SOUTH IN DEVELOPING THE CABLE**
18 **SUPPORT STRUCTURE COST FOR FIBER ENTRANCE CABLE. HE**
19 **STATES THAT THE CAPACITY WAS NOT DONE CORRECTLY AND**
20 **PRESENTS HIS PROPOSAL. PLEASE RESPOND.**

21

22 A. Mr. Turner states that BellSouth's proposed capacity of 30 cables is understated, and
23 he proceeds to develop a number that will lower costs by using information from Bell
24 Labs. Mr. Turner does not state when the Bell Labs data was developed. From
25 reviewing the table included in his testimony on page 50 and reading his testimony, it

1 appears Mr. Turner arbitrarily chose a fiber rack size of 12 inches. From there, he
2 used the table to estimate the number of DS1 cables that should be placed in that rack.
3 Then he converts the number of DS1 cables to a number of fiber cables using the
4 assumption that three DS1 cables equal one fiber cable in diameter.

5

6 Mr. Turner's process starts with an arbitrary assumption of the cable rack size and
7 ends with an assumption that 3 DS1 cables equal one fiber cable. His analysis is not
8 representative of the size racks BellSouth would use or BellSouth's procedures for
9 placing fiber cable in racks.

10

11 BellSouth developed the fiber entrance cable support structure costs based on the
12 following assumptions:

- 13 • Collocator private entrance cable rack is a 5 inch width rack
- 14 • BellSouth standards for maximum pile-up height on a 5 inch rack is 5 inches.
- 15 • The quantity and size of riser cables is at the discretion of the collocator;
16 BellSouth's assumption was an average riser cable diameter of approximately .75
17 inches.
- 18 • Cable racks are equipped with cable retaining brackets and cables are run
19 unsecured
- 20 • Physical fill of rack is estimated at 70% of theoretical maximum or approximately
21 30 riser cables.

22

23 Therefore, BellSouth cable rack capacity is based on BellSouth's standards and the
24 actual cable racking used. BellSouth does utilize a systematic approach for
25 determining the capacity of cable racks. Mr. Turner's proposal should be rejected.

1 **Q. MR. TURNER STATES (PAGES 51 AND 52) THAT BELLSOUTH SHOULD**
2 **USE THE SAME FILL FACTOR IT USES FOR ITS FRAME EQUIPMENT IN**
3 **THE POT FRAME COST STUDY. DO YOU AGREE?**

4

5 A. No. The Point of Termination ("POT") bay/frame was initially a required termination
6 arrangement for CLECs collocating in BellSouth's central office. As a result of FCC
7 orders, BellSouth does not require CLECs to use this termination and it is totally
8 optional. In fact, it has not been offered by BellSouth as a required termination point
9 since 1999. The only CLECs that continue to receive charges for this item are the
10 ones that happen to have older Agreements containing that rate element. This is
11 essentially a grandfathered offering.

12

13 For the reason stated above, BellSouth does not treat POT frame termination the same
14 as its frame terminations (e.g., the 2-wire terminations on the main distribution frame
15 ("MDF")) that are used by BellSouth's customers and the CLECs. The POT frame
16 terminations are only used by a CLEC that continues to have the grandfathered option
17 in its Agreement. At some point in time, there will be no new terminations on these
18 frames.

19

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

21

22 A. Yes.

23

24

25

1 BY MS. WHITE:

2 Q Mr. Shell, could you please give your summary for the
3 record?

4 A Yes. Thank you. Good morning, Commissioners. The
5 purpose of my testimony is to describe the development of the
6 costs associated with collocation and to respond to statements
7 made by witnesses representing AT&T and the Florida Commission
8 staff regarding BellSouth's collocation elements.

9 The collocation elements studied by BellSouth can be
10 grouped into four categories: Physical collocation, virtual
11 collocation, adjacent collocation, remote terminal collocation.
12 In addition, BellSouth filed Assembly Point, which is an
13 alternative to collocation. These collocation elements are the
14 ones BellSouth needs to provision the various types of
15 collocation pursuant to FCC orders and based on customer
16 requests.

17 BellSouth used the same cost methodology previously
18 approved by this Commission in its orders in Docket Number
19 990649-TP. Additionally, BellSouth has made the applicable
20 adjustments from that docket. For example, BellSouth is using
21 the ordered cost of capital and depreciation rates. However,
22 since this is a new proceeding and the study period is 2003 to
23 2005, other factors and loadings have been updated to reflect
24 the latest available inputs.

25 BellSouth's cost studies adhere to TELRIC pricing

1 rules that reflect forward-looking economic costs. Before
2 specifically addressing the cost studies, I will address
3 Mr. Turner's statement regarding a single cost model.
4 BellSouth does not support the use of a single cost model.
5 Mr. Turner assumes that varying cost results between ILECs
6 means that the cost studies do not adhere to the TELRIC
7 guidelines. He uses this incorrect assumption to support the
8 need for a single model. However, what's most important is
9 that Mr. Turner does not seem to realize that the model used to
10 complete a cost study is not considered a cost driver. It is
11 just a tool that accepts inputs, makes the appropriate
12 calculations, and produces the outputs. Cost drivers are
13 things such as assumptions used, input data that are based on
14 the company's network plans and operating procedures. Specific
15 inputs and assumptions are not going to change just because the
16 ILECs use the same model.

17 Additionally, his statement that a single cost model
18 can readily be used by all three ILECs is not true. It would
19 cost more and require more time to perform studies if all three
20 ILECs were required to use a single model. Simply put,
21 Mr. Turner's proposal for a single model would cause the ILECs
22 to spend more time, incur more costs with no real effect on the
23 resulting cost numbers.

24 Mr. Turner and Mr. Curry both express concerns with
25 BellSouth's development of the DC power costs. Their primary

1 concern seems to be that the study does not comply with TELRIC
2 pricing rules. However, the FCC has specifically allowed the
3 ILECs to recover the costs of central office modifications or
4 site preparation, including power augments, to meet collocators
5 needs. Paragraph 51 of the FCC's Advanced Services Order
6 clearly allows the ILECs to recover such costs.

7 Since the FCC established the TELRIC principles, it
8 presumably would not have allowed the ILECs to recover this
9 cost if doing so conflicted with TELRIC principles. Moreover,
10 in approving BellSouth's applications for any region interLATA
11 authority, the FCC concluded that BellSouth provides
12 collocation based on TELRIC principles.

13 Mr. Gabel has concerns with several of BellSouth's
14 cost elements as well. It appears that he is assuming that
15 TELRIC principles require that the appropriate cost or rate
16 should be the lowest of all three ILECs. For example, he seems
17 to take this position with the application fee and the
18 subsequent engineering firm order processing and floor space.
19 However, it is BellSouth's position, consistent with Paragraph
20 685 of the FCC's report, First Report and Order, that a
21 benchmark of forward-looking costs and existing network design
22 most closely represents the incremental costs that a specific
23 ILEC actually expects to incur. As such, BellSouth has
24 developed forward-looking costs based on real word actual
25 BellSouth inputs. Thank you. That concludes my summary.

1 MS. WHITE: Mr. Shell is available for
2 cross-examination.

3 CHAIRMAN BAEZ: I'm assuming no friendly cross.
4 Okay. Mr. Kassman, we'll start with you.

5 MR. KASSMAN: FDN has no questions.

6 CHAIRMAN BAEZ: Okay. Mr. Hatch.

7 MR. HATCH: (Inaudible. Microphone off.)

8 CHAIRMAN BAEZ: All right.

9 CROSS EXAMINATION

10 BY MR. WATKINS:

11 Q Good morning, Mr. Shell.

12 A Good morning.

13 Q Mr. Hatch has an exhibit that I'm going to use in my
14 extremely brief cross-examination of you today. First, my name
15 is Gene Watkins; I'm with Covad Communications. Good morning.

16 A Good morning.

17 MR. WATKINS: To Commissioner Jaber, I apologize for
18 not having this in front of you.

19 COMMISSIONER JABER: No, that's quite all right.
20 I'll have it by the end of the day.

21 MR. WATKINS: This will be used tomorrow as well with
22 Ms. Ellis. Just for purposes of the record, I'd like to mark
23 this as Shell, Covad-1. I've asked Mr. Shell's counsel whether
24 they will stipulate to the accuracy of the inputs to this chart
25 for total monthly recurring charge, power percentage,

1 maintenance percentage, and infrastructure percentage for the
2 current and proposed monthly recurring charges. Will
3 BellSouth's counsel stipulate to that, so I don't have to hand
4 him the discovery responses from which it came and go through
5 that?

6 MR. CARVER: Yes, with a qualification. We have gone
7 through the chart, and the dollar amounts and the percentages
8 appear to be an accurate reflection of what was contained in
9 our discovery, so we think that that's been accurately depicted
10 on the chart.

11 I would note, though, that one column is
12 infrastructure NRC, which is the number that we provided if the
13 Commission ordered us to constitute the charge that way, so I'm
14 reserving an objection on that. But what's listed in the chart
15 does appear accurate.

16 CHAIRMAN BAEZ: As accurate. Thank you, Mr. Carver.
17 And, Mr. Watkins, just for identification purposes, we're going
18 to identify this confidential exhibit as Confidential Exhibit
19 Number 38, and that will be identified as Shell, Covad-1.

20 MR. WATKINS: Okay.

21 (Exhibit 38 marked for identification.)

22 BY MR. WATKINS:

23 Q Mr. Shell, in looking at this chart, the one thing
24 that leaps out is that far right-hand column, and that is if
25 one assumes that BellSouth's infrastructure costs are -- and,

1 Mr. Carver, the number in that infrastructure NRC column is not
2 confidential, is that correct, for BellSouth?

3 MR. CARVER: That's correct.

4 Q That the \$648.35 in that column, if we assume that
5 that is the infrastructure cost that the monthly recurring
6 charge is ultimately going to attempt to recover, that
7 BellSouth using the infrastructure percentage provided in
8 response to our discovery would recover that total
9 infrastructure charge in about 154 months; is that correct?

10 A No, it's not correct. I think you stated this is the
11 infrastructure cost that the monthly recurring charge will
12 attempt to recover, and that's the part that we don't agree
13 with. I'm not sure if the mike -- can you hear me okay? I'll
14 get real close.

15 The distinction is, is that this is an investment
16 which means it's a capitalized item. It's not a function where
17 you have a person go out into the field to install a piece of
18 equipment and as a result you have 30 minutes times the labor
19 rate and that's a one-time cost. What you have is a piece of
20 equipment that BellSouth incurs per part 32 of the accounting
21 rules. We incur depreciation, maintenance, on-going operation
22 expenses, income taxes, ad valorem. As long as this piece of
23 equipment is in our infrastructure in our accounting base, we
24 will incur these costs. So BellSouth's position is once you
25 have a capitalized piece of equipment, recurring charges are

1 appropriate to recover that.

2 And what we have done in this estimate here is we
3 approximated what -- if you want to back that recurring charge
4 to a one-time charge. But there are a lot of assumptions and a
5 lot of questions on how would you implement that. For example,
6 do you -- this was backed up based on the approximate life of
7 the equipment. Once that's done, does that mean at the end of
8 the life the equipment the party would have to pay again
9 because the equipment -- if the equipment after 12 years, 13
10 years is no longer valid, would they pay BellSouth another
11 \$648? And that's what the recurring charge alleviates. It
12 allows you to recover those costs that would properly be
13 accounted for in our books pursuant to part 32 of the rules.

14 Q Now, Mr. Shell, you incur certain costs, and those
15 are capitalized or depreciated over a period of time. And it's
16 that depreciation life that's the life of those various
17 elements that make up the infrastructure that's provided when
18 somebody says, I want an amp of power, that is depreciated over
19 a period of time. Do you believe -- is that correct?

20 A You're correct that equipment is depreciated, but
21 what we're costing out is the service, not the equipment. As
22 long as the service is provided, BellSouth has to maintain that
23 equipment. And after year 13, we're not going to just stop
24 providing service throughout that time period and subsequent --
25 and after that period we will be replacing parts, adding parts,

1 updating the equipment. Essentially, over some point in time
2 we will have replaced the whole item. So therefore, the
3 continuing recurring costs are appropriate because you're never
4 going -- as long as the service is offered, you will have costs
5 associated with it.

6 Q And you may be misconstruing where I'm going with
7 this. Just for the sake of the Commission, I want to make sure
8 it's all clear. This is not proposing a nonrecurring charge
9 for infrastructure. I'm trying to get at why BellSouth's total
10 monthly recurring charge is significantly less than Verizon's
11 and Sprint's.

12 So what I'm trying to understand is, if BellSouth and
13 Verizon provided us with two roughly equivalent infrastructure
14 nonrecurring charges and identified the percentage of the
15 monthly recurring charge proposed by those parties in this
16 proceeding and when you compare how long it will take that
17 infrastructure charge to be fully recovered, you get a very
18 widely different outcome. Do you have an opinion as to why
19 that might be?

20 A No, I really couldn't guess as to why, you know, the
21 equipment cost is greater for them. I think as all of the
22 ILECs have stated in this proceeding, it all depends on the
23 agreements that the particular ILEC has with the vendors for
24 equipment and that those agreements change. So their
25 particular costs could be greater for a battery than

1 BellSouth's. I don't know. The infrastructure costs, you'd
2 have to ask them as to why their costs are greater for a
3 certain piece of equipment.

4 Q If their cost was significantly greater and that was
5 the cause of the disparity, why wouldn't the infrastructure
6 nonrecurring charge submitted by Verizon be that much more
7 different than the one submitted by BellSouth?

8 A I couldn't guess.

9 Q Could it be the twelve-and-three-quarter years
10 representing the total time -- total time to compensate
11 BellSouth for its infrastructure charge reflects the total
12 average depreciation rate applied to those -- to that equipment
13 by BellSouth in its model?

14 A I'm not sure what your -- I think to answer your
15 question, BellSouth does use 13 years for the 377C account,
16 which is to predominately account for the power equipment which
17 is used predominantly for the switches. So that is our life,
18 if that's your question. I'm not sure if I answered it.

19 Q It is.

20 A Okay.

21 MR. WATKINS: That's all I have for Mr. Shell.

22 CHAIRMAN BAEZ: Mr. Hatch, did I understand you
23 correctly? You were deferring in total or -- okay. Go ahead.

24 CROSS EXAMINATION

25 BY MR. EARLY:

1 Q Good morning, Mr. Shell. My name is Gary Early; I
2 represent AT&T.

3 A Good morning.

4 Q I've got a few questions for you, and I think
5 primarily they are going to be related to power issues, but let
6 me kind of get some general questions out of the way. I've
7 gone through your direct testimony and looked at your
8 qualifications, and I had a couple of questions I wanted to ask
9 you about. You indicated that when you first started with
10 BellSouth you started as an equipment engineer; is that
11 correct?

12 A That's correct.

13 Q What did you do in that capacity? What were your
14 general functions?

15 A Primarily, and it's been a long time ago, but I
16 ordered equipment for the central office primarily. Initially,
17 I worked with the power equipment and operations support
18 equipment for the -- I think it was called the switching
19 control center system time equipment at the time.

20 Q Were you responsible for determining what kind of
21 equipment would be placed into a central office or into one of
22 these locations?

23 A No, no, I was not specifically responsible for that.
24 The way BellSouth is structured -- and I can't remember now if
25 it is network design. We have such a -- I think it's network

1 design may have that final call. The information flows down to
2 the various groups, and then the equipment engineering group
3 would actually place the orders with the vendors for the
4 equipment and make sure that it's installed appropriately.

5 Q Okay. So you'd get a list from the design group and
6 you would then implement?

7 A Yes. And we have to understand what we're doing
8 because, you know, ultimately we fill out what's called an
9 authorization form to get it approved by our senior management.
10 We have to be able to support the reasonableness of the
11 spending of the -- you know, outflow of the money. So we would
12 have to understand, but we did not create the forecast or
13 determine what's required.

14 Q Okay. When you were determining what kind of
15 equipment was to be ordered, and we're going to limit this to
16 power equipment, were you responsible for determining when a
17 power augment might be necessary at a particular location?

18 A No.

19 Q After your responsibilities as an equipment engineer
20 ended, I believe you went to work in the rates, costs, and
21 tariffs section?

22 A That's correct.

23 Q What did you do in that capacity? If you could just
24 briefly describe what your duties were there.

25 A I did a lot of different things. I worked with again

1 the rates of the tariff group, dealing with a myriad of
2 services from local exchange service charges, inside wire,
3 operator services, directory assistance, mobile
4 interconnection, wireless. Primarily what I did in that
5 function was to work on product teams where they design
6 services, modifications to services.

7 And as it turned out that they needed to add or
8 modify the tariff or -- in other words, because BellSouth is
9 regulated, we can't do anything without tariffs. So if a
10 product manager came up with an innovative idea or a new
11 approach, we would have to be the ultimate party that would put
12 that in the tariff form and file it with the Commission and
13 support it with our state regulatory contact. So we had to get
14 familiarity with the service requirements as well as the cost
15 support and the rates that supported the service.

16 Q And your duties in that section, that was prior to
17 the Telecom Act of '96; correct?

18 A I believe so, yes.

19 Q Okay. Were you responsible for the development of
20 rates?

21 A I was not -- some cases I did do some of the
22 development of the rate. It just depends on which of the
23 services I was working on at the time. It depends on the
24 service.

25 Q How would you go about developing a rate for a

1 particular service? And you can kind of pick an example, you
2 know, as you see fit.

3 A Well, I mean, for basic service, not basic, but a
4 nonbasic, rather than get that terminology mixed up, a service
5 that's discretionary, BellSouth will look at its costs
6 first and then determine based on the cost what is the
7 appropriate price for the market, that that would be either
8 priced others are offering or the price that we feel is one
9 that provides sufficient contribution.

10 Q And you were responsible for performing that
11 calculation?

12 A Not as a whole, but in some cases I did that. But
13 that was not my primary function. But in some cases we had to
14 provide a lot of support. Our job was interfaced with the cost
15 group and determined what the costs were and make sure the
16 product managers are pricing -- that were looking at the prices
17 for their products knew what was reasonable and what we felt
18 like we could support with the state regulatory groups. Our
19 job was interfaced with state regulatory with the state tariffs
20 that will be filed and so forth.

21 Q Okay. As I understand it, in 1995 you went to the
22 interconnection marketing unit and among those duties you
23 developed pricing strategies. Can you describe to me what goes
24 into developing a pricing strategy in the context of the
25 interconnection marketing unit?

1 A Well, interconnection was established to look mainly
2 at, like, the wholesale services like access services, wireless
3 interconnection, independent telephone companies. One of the
4 things we looked at while I was there was, you know, pricing
5 for competitive services.

6 I don't want to really go into a lot of details, but
7 we looked at competitive services and determined what various
8 competitors were offering, what our offerings were, what our
9 current costs were, what we felt like market data -- and we did
10 try to get market data to show what -- the customer's
11 willingness to pay would be; and try to develop a strategy that
12 says, this is the price in this market, this is the price that
13 this party is offering, this is what BellSouth is offering,
14 this is the cost, what would the customer be willing to pay;
15 and try to do a demand analysis associated with that to
16 determine price points that would yield revenue, the most
17 revenue, but also ensure that the customer will be willing to
18 pay it.

19 I mean, we looked at a lot of different services, but
20 I really don't want to go into a lot of detail on specific
21 services.

22 Q Sure. Okay. And you're currently in the finance
23 department with BellSouth; correct?

24 A That's correct.

25 Q Okay. As an employee in the finance department, are

1 you involved in cost methodology development?

2 A I'm involved with assisting the cost analysts that
3 actually do the day-to-day cost studies with ensuring that, you
4 know, they are doing it appropriately pursuant to TSLRIC or
5 TELRIC rules and make sure that to the extent the Commission
6 has made a decision, that any subsequent rates done pursuant to
7 internal customer requests abide by those factors and those
8 items that have been ordered. And we meet occasionally to
9 discuss the proper approach on new offerings and so forth. So
10 we do work to -- not so much the details of what they do but to
11 make sure it's consistent with what's been ordered.

12 Q So is your role then primarily in an oversight
13 capacity with these cost individuals?

14 A Yes.

15 Q And are you also in a regulatory capacity to
16 determine compliance with the various states' regulatory
17 commission orders?

18 A No, no. I'm not in regulatory. Like I said, my
19 function is to ensure I understand what's happening in
20 regulatory and interface within the cost group on the
21 regulatory issues, but not in regulatory.

22 Q Okay. Were you responsible for the development of
23 the BellSouth cost study that's being used in this proceeding?

24 A I was -- again, had oversight and worked with the
25 person in the group that did it, but I did not do it

1 personally.

2 Q What group was responsible for the development of
3 that study?

4 A When you say, "What group" --

5 Q Well, you said that you were in an oversight capacity
6 for the individual and the group that was responsible for the
7 development of the BellSouth study.

8 A The way we're structured, we have a group that's
9 called service-specific costs which has a director over that
10 group. Then there's my group and there's a director over my
11 group for economic analysis support. And then there's another
12 group that would do fundamental studies with the director over
13 it and so forth. The group that has -- the service-specific
14 costs was the group that would have done this one as well as
15 other service-specific costs and also UNE-specific costs.

16 Q Did you -- as the model was being developed, were you
17 responsible for providing the inputs into the model, into the
18 calculations that were ultimately used?

19 A When you say, "The model was being developed," you
20 mean the use of the model?

21 Q Yes.

22 A Okay. I worked with the person -- as you know, we've
23 been doing collocation cost studies for some time. So what we
24 did, we did look at what we've used before, and we looked at
25 whether it was still appropriate to use it going forward. And

1 we discussed most of them -- I can't say we looked at all of
2 the elements for this particular filing, but we did look at
3 several to make sure that this filing was the most current one.

4 Q What elements -- and when you say you kind of looked
5 at the elements to make sure that they were most current, what
6 elements did you look at?

7 A I mean, for example, space development report, we
8 looked at that one. We did have some requests for that one.
9 To my knowledge, we only had maybe five in all the region, but
10 based on actually having some requests, we modified the inputs
11 for that one. And we looked at the -- we looked at the power
12 study. We said that was still valid. We looked at several of
13 the studies. As far as the major ones, we looked at floor
14 space, and we just kind of looked generally for consistency.
15 We tried to see if there's anything that has changed in the
16 collocation process or input data that we could see that should
17 be changed as a result of this filing, which again was February
18 of last year. So it would have been, like, the end of
19 2002 when we were doing this.

20 Q Are you familiar enough with the cost study to be
21 able to testify if I were to ask you particular questions about
22 some of the inputs that would have been used in the study? Are
23 you familiar enough with it to be able to testify as to what
24 those inputs might have been and how they were considered?

25 A Yes, I've looked at the -- pretty much almost all the

1 numbers that go into it. No, I couldn't say that every single
2 input I can give you a definitive answer on, but I have looked
3 at it. And I can -- I believe, pretty sure, for most of them I
4 could.

5 Q Okay. Among the documents that were produced, there
6 was a document that was identified and introduced into evidence
7 today as BST Confidential Stipulation-1. It's staff
8 Exhibit 22. And it was a series of responses to a request for
9 a production of documents. And they were -- the title of the
10 documents is "Power Construction Prorate Tool." Are those some
11 of the documents that you looked at as you were analyzing the
12 inputs as to whether they might be appropriate for the cost
13 study?

14 MS. WHITE: I'm going to object to that on the basis
15 that if you're going to ask him, I'd like him to at least have
16 the document in front of him because there's so many documents
17 here I want to make sure --

18 MR. EARLY: Can I give him one as an example?

19 MS. WHITE: Sure.

20 MR. EARLY: I'll tell you what. I'm kind of new to
21 this and everything is in red folders and it's all
22 confidential. So I think we'll just deal with it when it comes
23 up in the testimony, and you can tell me then whether it's
24 something that you considered. I think it's easier probably to
25 do that than to try to pull out one example and deal with it.

1 BY MR. EARLY:

2 Q Let me ask you -- I want to go through a couple of
3 definitions so that we kind of are reading off the same page
4 and get your view on what some terms mean to you as we go
5 through this testimony. So if you could just tell me what
6 these terms mean to you when you're considering them in terms
7 of the cost study. What is an embedded cost?

8 A Embedded costs are costs that have occurred from a
9 historical perspective and that you have accounted for as
10 already having occurred.

11 Q So those are past costs that have been expended for
12 some location?

13 A Correct.

14 Q What is a prospective cost?

15 A Prospective is forward looking.

16 Q Okay. And what does the term "capacity cost" mean?

17 A Capacity cost is where you look at a piece of
18 equipment, say, a facility DS1 with 24 channels, and rather
19 than figuring out, you know, how many DS1s, you may say, well,
20 what's the capacity of a DS1? You may assume that the most you
21 could get is 21 for whatever reason on that, so your capacity
22 cost would be based on 21 over 24 or some relationship that
23 says it will hold 24 but 21 is the maximum amount that you'll
24 ever use for whatever reason, growth or maintenance or for just
25 the way it's ordered. So capacity cost is based on the cost

1 that you expect to incur based on not being able to have a
2 complete 100 percent utilization of the facility.

3 Q I've been kind of given the example of a
4 ten-passenger van, and you're, you know, likely -- when you're
5 running a ten-passenger van, the likelihood you're ever going
6 to have ten people in it all at the same is pretty slim, so you
7 kind of calculate your cost based on having nine people in it.
8 Is that a fair analogy?

9 A Yeah.

10 Q Okay. Is the concept of capacity cost, is that what
11 you look at to determine each individual user's cost of using
12 that asset?

13 A I'm not sure I followed that question. I'm not sure
14 when you say, "Each individual user's cost of using that
15 asset" --

16 Q Okay. Well, you have a capacity cost. Is that an
17 analysis of an asset that might be shared by more than one
18 company or individual?

19 A It could be used by more than one company, yes.

20 Q And so in determining what any one user is going to
21 be charged for the use of that asset, is that how you -- is the
22 capacity cost a function of determining what the charge to that
23 user is going to be?

24 A A function of the charge? The capacity cost wouldn't
25 be a function of the charge. It would be a function of what

1 your projected utilization of that piece of equipment is, and
2 you take into account all users of it. It wouldn't really
3 necessarily impact the charge. It would just be utilization of
4 all the parties. I'm not sure if I understood your question.

5 Q Okay.

6 A Okay.

7 Q One of the terms that is used, you know, obviously
8 quite a bit in this context is long-run incremental cost, LRIC.
9 What is that? If you could kind of just tell me what that
10 means to you.

11 A Long-run incremental cost is just -- it's the cost on
12 the long run which means a long enough time period for all
13 costs to be variable, and incremental, incremental cost of
14 providing that new function or that additional product, just
15 that incremental cost over a long enough time period where all
16 costs are variable. And it does not include any shared costs,
17 just all direct and no fixed costs.

18 Q So the incremental part of that, is that the cost of
19 providing -- starting from your baseline and providing one
20 extra amp -- let's do it in amp since we're talking about
21 power -- the cost of providing one additional amp at a
22 location?

23 A Yes, that's correct. It depends on what you define
24 as your cost object or your study. If your study is looking at
25 the cost of one additional amp, then your incremental cost

1 would be that cost required to add that one additional amp,
2 yes.

3 Q Now, another term that's used quite a bit is "total
4 element long-run incremental cost," TELRIC. What does the
5 total element part of that mean to you, the term the "total
6 element"?

7 A Yeah, total element came about as a result obviously
8 of the Telecom Act when the FCC established this way of pricing
9 unbundled network elements as opposed to services, which LRIC
10 and TSLRIC does. TELRIC is for elements. And so the total
11 element long-run came in as a result of that because they said
12 the cost object now is not the service but it's the element.
13 So you look at the total cost of the element, not by service
14 and divide it by the total projected demand.

15 Q Now, total projected demand, is that the number of
16 potential users?

17 A Yeah, whatever the units would be for that. It
18 depends on your units.

19 Q So in terms of power, you would be looking at the use
20 of that power. If you do a power augment, you would be looking
21 at potentially how many CLECs might ultimately take advantage
22 of that power, might draw power from that augment?

23 A You'd have to look at your amps. I mean, the units
24 there would have to be amps, not necessarily number of CLECs.

25 Q Okay. In the term "total element," does it

1 incorporate an analysis of the number of users that might use
2 that element?

3 A No, no. Again, you project your demand based on what
4 you believe the users of that element will be, their demand,
5 but you don't necessarily look at the users. It's totally
6 based on whatever the units are, whether it's amps or whatever.
7 It's the amount of usage that you expect. It really does not
8 relate to the users.

9 Q Okay. So it doesn't matter who uses it?

10 A No.

11 Q Okay. It could be a CLEC, it could be BellSouth, it
12 could be a combination of the two?

13 A Correct.

14 Q Now, TELRIC, is that only forward looking?

15 A Yes, TELRIC is forward looking.

16 Q Under TELRIC, is there an obligation to utilize --
17 when you're looking forward and trying to measure the costs
18 that are going to be put into something, are you looking at the
19 most efficient technology that's available now?

20 A Yes. You look at the technology that you can
21 reasonably expect to have in your network over that period of
22 time, yes.

23 Q And I believe you said that the cost study in this
24 case was 2003 to 2005, that was what you were looking at?

25 A That was the study period, yes.

1 Q Okay. So you're looking at technology that would be
2 available in 2003 to 2005?

3 A Well, we primarily look at technology beyond that
4 period. The study period allows us to average the data inputs
5 and so forth for demand numbers through a weighted average, but
6 we do look at investment -- technology beyond that time period.
7 We look at what we reasonably can see in the next few years,
8 not just limited to just those three.

9 Q Let me kind of focus now on the cost study. As I
10 understand it, the input in terms of power for the development
11 of that cost study was contained in Section H.1.8; is that
12 correct?

13 A That is where we had the cost per fused amp, that's
14 correct.

15 Q Now, has that -- well, as I understand the
16 first phase of this proceeding, there was a determination made
17 that power was going to be measured by amps used rather than
18 fused. Has the -- has Section H.1.8 been modified or changed
19 in any way since August of 2003?

20 A No. What BellSouth had done up front when we filed
21 our study, we filed a couple of elements, one being power, to
22 provide the Commission with the number just in case they chose
23 to go that -- and that element H.1.7.1 is already there, and
24 it's based on a cost per used amp.

25 Q Is that contained in your Exhibit WBS-3?

1 A WBS-2.

2 MR. EARLY: Let me show you -- WBS-3 is not
3 confidential; correct?

4 MS. WHITE: No, it's not.

5 BY MR. EARLY:

6 Q Mr. Hatch is going to hand you a document that was
7 contained in your direct testimony as WBS-3, and it contains a
8 number of cost elements. Are these accurate descriptions
9 generally of the elements that were used in the development of
10 the study?

11 A Yes.

12 Q So H.1.8 on Page 1 is power per fused amp?

13 A That's correct.

14 Q Okay. And which section was power per amp used?

15 A It's H.1.7.1.

16 Q Okay. Power per used amp.

17 So these constitute independent elements. As you're
18 developing this study, these and, I guess, H.1.8 and
19 H.1.7.1 were inputs into the model?

20 A They were inputs that went into the model to create
21 H.1.7.1, yes, if that's what you're saying. Yes.

22 Q Okay. And then these were incorporated -- the data
23 that came out of that was then incorporated into the cost
24 study?

25 A Yes. The cost output of -- you know, based on inputs

1 that were included in the Cost Calculator, it produced the
2 outputs of H.1.8 and also H.1.7.1.

3 Q With regard to both H.1.8 and H.1.7.1, are you
4 familiar with how those elements of the cost study were
5 developed?

6 A Yes.

7 Q Can you describe it?

8 A BellSouth -- well, as I'm sure you know, BellSouth
9 began with looking at augments, actual power construction jobs
10 that have occurred in our central offices. We gathered
11 approximately 711 of those across the region and determined an
12 average construction cost per amp. And that number was
13 inserted into the Cost Calculator to produce the monthly
14 recurring costs associated with that capitalized investment.

15 Q And you performed this analysis -- when you were
16 determining the per amp charge, was that an embedded analysis
17 or a prospective analysis?

18 A We considered it to be a prospective analysis because
19 these costs -- what we were looking at was looking at what had
20 occurred in the most recent time period. And given that our
21 rates and costs were going to be the same, we projected that
22 that would be the costs we would incur on a forward-looking
23 basis. We didn't see any changes in the actual costs
24 associated with doing a collocation augmentation from what we
25 were seeing in today's environment.

1 Q Over what period of time were these power augment
2 jobs? What period of time did they occur?

3 A Late '99, early 2000.

4 Q You didn't have any jobs that were as far back as
5 1997?

6 A No.

7 Q Okay. And it was BellSouth's view that the costs for
8 performing a power augment would not have changed from 1999,
9 2000 to the present time?

10 A No, not going into this study, filing this study. We
11 didn't believe that it would have changed, that's correct.

12 Q Are the costs associated with performing a power
13 augment pretty standard?

14 A Yes. The cost study was based on having a vendor
15 contract price that was regional. You know, while, obviously,
16 equipment costs would vary, but the cost was regional and
17 standard. So, yeah. To answer your question, yes.

18 Q Do you use a single vendor over the entire nine-state
19 region?

20 A Yes, we do.

21 Q Why would the equipment cost vary? I mean, if you're
22 using a -- well, we may have -- should have gone through this
23 earlier, but as I understand it, a central office will have
24 power coming in. There will be a bank of rectifiers that will
25 change the AC power to DC power. It will run through the

1 batteries and then into whatever piece of equipment you're
2 using. I mean, is that kind of a really unbelievably
3 simplified view of it?

4 A You did a good job with that.

5 Q Okay. So if you have a 200-amp rectifier, is there
6 going to be a difference in the cost of that rectifier if you
7 buy it for a job in Tallahassee, Florida, as opposed to a job
8 in Atlanta, Georgia?

9 A No, no. What I was referring to was the difference
10 between the rectifier versus a battery.

11 Q Okay.

12 A Some power augment jobs may require batteries, some
13 may require rectifiers. It just depends on the equipment.

14 Q Okay. Do the rectifiers come in different sizes --

15 A They do.

16 Q -- or is there kind of a standard?

17 A No, they come in different sizes.

18 Q Okay. In your view, are the costs that were expended
19 in the '99 to 2000 period that you discussed, there wasn't any
20 necessity to add -- to factor those into current values, use
21 those costs as they came off the piece of paper?

22 A No, no. Again, we projected that those would be the
23 same costs that would occur going forward.

24 Q How would you -- between, let's say, 1999 and the
25 present, how would you account for any changes -- or how did

1 you account for any changes in technology?

2 A Well, for collocation, it's -- you know, we were
3 talking in general on TELRIC before. And you could do that in
4 general for UNEs, unbundled network elements, because you have
5 a lot of different things going on providing services where you
6 use unbundled elements. Like the digital loop carrier
7 equipment could be universal versus integrated versus next
8 generation, you could have, you know, the terminology like
9 GR303 versus other things; you have switched types that vary.

10 When you come to collocation, there's not really a
11 whole lot of technology that you're talking about. You're
12 talking about cable racks, aisle framing, aisle lighting.
13 You're talking about cages. I mean, it's not a lot of high
14 tech equipment where you would expect forward looking to have
15 major changes in the equipment used. A battery will be a
16 battery tomorrow. It may be a little different, but, I mean,
17 as far as collocation, that really doesn't -- didn't really
18 impact us a lot when you're looking at collocation.

19 Q Might there be changes in the efficiency of a
20 particular piece of equipment? While you might use a
21 rectifier, does the efficiency rating for a rectifier change
22 over time? Do they become more efficient?

23 A Is your question --

24 Q Not as they are installed do they become -- but as
25 they are manufactured, is a rectifier manufactured in 1997 less

1 efficient than a rectifier manufactured in 2004?

2 A I really don't know. I'm not that technical to know
3 exactly if the rectifiers in today's environment are
4 significantly better or worse. It depends on what the criteria
5 is for the party developing the equipment. You know, the
6 criteria could be something totally different from just an
7 efficiency portion.

8 Q Well, in the BellSouth cost study, BellSouth has
9 applied an 85 percent efficiency rating for the rectifiers.
10 Now, as I understand it, when power comes into -- the AC power
11 comes into this rectifier as it's converted to DC power and
12 flows out the other side, there's a loss in that equation; is
13 that accurate?

14 A That's correct. And that does vary between the type
15 of equipment that you have, the different vendors of rectifiers
16 could cause that to be different, the load on it, the age of
17 the equipment could cause it to vary. There are significant
18 things. BellSouth uses 85 percent because that was what at the
19 time Bell Telcordia was using in their studies, and we felt
20 like it was reasonable and we have seen it used in other
21 dockets as well. In fact, I think it was in Mr. Turner's
22 exhibit that was used in Southwestern Bell, they use 85 percent
23 as well.

24 Q Okay. Do you know when the Telcordia study was
25 performed?

1 A Not off the top of my head, I don't, no.

2 Q So this 85 percent efficiency rating for a rectifier
3 that's used, that means when an amp of AC power comes into that
4 rectifier .85 of an amp of DC power is going to come out?

5 A That's correct.

6 Q Okay. So there's a loss in there of 15 percent of an
7 amp?

8 A Yeah, that's pretty much correct.

9 Q Okay. Does BellSouth ever use equipment from Tyco?
10 Is Tyco a pretty reputable brand of equipment? Do they provide
11 a pretty standard rectifier?

12 A I'm really not going to be able to answer that. I
13 don't know the type of equipment.

14 Q Okay. Under TELRIC, isn't there an obligation that
15 you basically -- I think you testified that you basically use
16 the most efficient equipment that's available at the time you
17 perform your study; isn't that correct?

18 A I said that you'd use the most efficient equipment
19 that's reasonably projected to be available in the time period,
20 yes. And again, I don't know what equipment that is currently
21 being used, but again, the efficiency varies between the type
22 you have and the length of time that the equipment is in
23 effect, as well as the amount of power on it.

24 Q Okay. Mr. Hatch is going to hand you a document that
25 was incorporated as an attachment to AT&T's response to

1 requests for production of Document Number 8 and these are
2 specifications, a couple of specification pages. The
3 first page is headed, "Tyco Electronics," as well as the second
4 page and the third page. If you look at the bottom, it's for
5 equipment from RELTEC Corporation. Now, do these documents --
6 are these specification sheets for rectifiers constructed and
7 available from Tyco Electronics lineage and RELTEC Corporation?

8 MS. WHITE: I'm going to object because I don't
9 understand how Mr. Shell could know that when it was handed out
10 by Mr. Early. And, I mean, it says what it says. I don't
11 think -- Mr. Shell doesn't work for Tyco or Electel -- I'm
12 sorry, RELTEC.

13 MR. EARLY: Can I ask another question?

14 CHAIRMAN BAEZ: Do you want to ask a clarifying
15 question, or do you want to respond to Ms. White's --

16 MR. EARLY: Well, I'll like to ask a clarifying
17 question of Mr. Shell and then that may take care of --

18 CHAIRMAN BAEZ: We'll hold your objection.

19 BY MR. EARLY:

20 Q Mr. Shell, you have worked as an electrical engineer;
21 correct?

22 A I've worked as an equipment engineer.

23 Q In your direct testimony, didn't you indicate that
24 you received your Bachelor of Science degree in electrical
25 engineering and worked as an equipment engineer at BellSouth?

1 A Right.

2 Q Have you ever seen specification sheets like this
3 before?

4 A I may have sporadically, but it's probably been years
5 since I've looked at -- you know, I look at them maybe off and
6 on, but I don't use them on a day-to-day basis. So while I can
7 read this, I'm not an expert on it. My only point on this is
8 that I'm assuming this is a document that RELTEC produced, and,
9 you know, I guess, like counsel said, this is what it says what
10 it says, but I can't add anything more to it.

11 MR. EARLY: Okay. Well, if he could just comment
12 then on what it says without providing any information as to
13 its ultimate validity. I understand he didn't generate this
14 document, but if he could just comment upon the --

15 CHAIRMAN BAEZ: You're going to ask him to read off
16 the document?

17 MR. EARLY: Yeah.

18 MS. WHITE: I'm going to maybe change my objection as
19 well as maintain it. I mean, he's asking Mr. Shell to accept
20 the veracity and validity of these documents and there's no
21 foundation. I don't know where these documents came from. I
22 don't know if they were printed out on somebody's PC or if they
23 were -- you know, actually came from a Tyco or RELTEC -- I'm
24 never going to get that name right, RELTEC document.

25 CHAIRMAN BAEZ: You got it. You got it right.

1 MS. WHITE: So, I mean, there's no foundation.
2 There's no -- I'm not going to agree that Mr. Shell can accept
3 the validity of these documents without a foundation.

4 CHAIRMAN BAEZ: Mr. Early, are you going to lay a
5 foundation for us?

6 MR. EARLY: Well, these were produced by AT&T in our
7 discovery responses, and they have been incorporated into
8 staff's exhibits. So they are in the record in this
9 proceeding. Although they may on their face be hearsay, I
10 believe that he's certainly capable of commenting on --

11 CHAIRMAN BAEZ: Well, now, you said earlier that you
12 are going to ask him essentially to read off the document.
13 We've established that he doesn't know what this document is.

14 MR. EARLY: Well, I'm going to ask him to assume that
15 that efficiency rating is accurate, and if it is, does that
16 affect the numbers that go into the cost study.

17 CHAIRMAN BAEZ: I'll let him go forward. Ms. White,
18 it is part of a stipulated exhibit.

19 BY MR. EARLY:

20 Q Mr. Shell, on the first page of this exhibit, which
21 is for a J85503C-3 rectifier, what does that show in terms of
22 the efficiency rating of that rectifier?

23 A If this is what you're referring to, the middle of
24 the page, it has efficiency, 92 percent typical with a Note 2
25 that says measured at 54 volts under full load.

1 CHAIRMAN BAEZ: Mr. Shell, can you speak directly
2 into the mike? We can't hear you.

3 THE WITNESS: Okay. I'll repeat my response. The
4 middle of the page, it says, efficiency 92 percent typical and
5 it has Note 2, and Note 2 says measured at 54 volts under full
6 load. Again, not knowing the document -- but I do know that
7 the efficiency does vary depending on the load. It depends on
8 the type and the length of time it's in service. But this does
9 say 92 percent.

10 BY MR. EARLY:

11 Q And on the final page with the RELTEC document, what
12 does that show in terms of efficiency of that rectifier? And
13 if I could just have you, I guess, really more concentrate on
14 the 200-amp rectifier as opposed to the 400-amp rectifier.

15 A The 200-amp shows 90.1 percent.

16 Q Now, if those are accurate, I want you to -- assuming
17 that those are accurate numbers and that the efficiency of
18 these rectifiers is at that level, would that serve to change
19 the efficiency rating for rectifiers that are contained in the
20 BellSouth cost study?

21 A Well, I guess hypothetically if that was true, then
22 BellSouth would need to first verify that it's true and then
23 determine, you know, which ones -- well, again, it's depending
24 on what our vendor -- our vendor again -- we have one vendor
25 throughout the region. It depends on which ones they are

1 using. If our vendor is not using this piece of equipment,
2 we'd have to probably get with them to see if they can begin
3 using this equipment. But if they have an agreement with
4 another provider to provide a certain rectifier, then we may
5 not even be able to use this one. BellSouth would look at it
6 if this is true, but I'm just saying that we need to verify
7 that it will be applicable to BellSouth.

8 Q In a forward-looking study, aren't you obligated to
9 look at the most efficient piece of equipment that's available
10 on the market?

11 A It's BellSouth's position that we should look at --
12 again, based on what I said in my summary, the forward-looking
13 study is based on -- the benchmark is a forward-looking study
14 with the existing network that actually exists. And in this
15 case what would exist is BellSouth's agreement to provide power
16 using one vendor throughout the region, and whatever that
17 vendor has to use is what our forward-looking costs would be.

18 Q So if your vendor is using an inefficient piece of
19 equipment, then your cost study would reflect the use of that
20 inefficient piece of equipment on a forward-looking basis?

21 A No. Again, it depends -- this is one component of
22 the rectifier specification. There are several other items on
23 this page that may be more critical as far as day-to-day
24 working, other rectifiers. I don't know that without -- I'm
25 not an expert on rectifiers, but you're targeting one item and

1 saying that's what would drive a company to pick a rectifier,
2 and I don't know if that's true or not. We'd have to look at
3 it to verify.

4 Q If a Model J85503C-3 rectifier from Tyco was
5 compatible with a BellSouth central office for use in a
6 BellSouth central office and it was a more efficient piece of
7 equipment than that currently used by BellSouth, doesn't TELRIC
8 require that you base your cost study on the use of that more
9 efficient piece of equipment?

10 A TELRIC, as it's stated, does say that you should use
11 the most forward-looking equipment. You have to insert that it
12 is usable in the network. And that's the part that -- I
13 couldn't really address that without looking in more detail on
14 this to verify that it is. I mean, my assumption is that
15 BellSouth would have looked at the most efficient, most
16 economical item, and that's what we'd be using. And to the
17 extent that -- you know, again, I don't know what we're using,
18 but to the extent we're not using this, there would be a valid
19 reason for it. But I'd have to verify. I can't answer that.

20 Q But you have no information other than that it was
21 used in a previous Telcordia study as to why BellSouth might
22 have used 85 percent; is that correct?

23 A And because it varies. It actually varies between
24 sites depending on the equipment again.

25 Q I believe my earlier question I asked you to assume

1 that this piece of equipment, and I described it by model
2 number, was compatible for use in a BellSouth central office.
3 Wouldn't then under TELRIC BellSouth be obligated to
4 incorporate the more efficient rating in its cost study?

5 A See, again, it gets back -- and I guess my only
6 concern -- and I know what you're saying, but my concern is
7 that you're looking at one specification of a rectifier. It
8 may be that something else on this page is much more important
9 than the efficiency that you're showing, and that would say
10 that for BellSouth's perspective, this is the rectifier we'd
11 use. So in a real world forward-looking environment, and I'm
12 just throwing this out, we may never use this because of the
13 other criteria that's more important than just this one line.
14 When you look at the other -- I mean, look at the rectifiers as
15 a whole to determine is this one that we reasonably want to use
16 in our network.

17 Q I mean, I'm trying -- is that a no?

18 A I'm saying it depends.

19 Q Okay. So you can't make a determination, again with
20 the caveat that I've given you, that this piece of equipment
21 would be compatible for use in a BellSouth central office. You
22 can't give a yes-or-no answer as to whether TELRIC requires you
23 to use the more efficient piece of equipment; correct?

24 MS. WHITE: I'm going to object. I think it's
25 argumentative. Mr. Shell is obviously uncomfortable accepting

1 Mr. Early's assumption.

2 MR. EARLY: I think this assumption is a perfectly
3 reasonably assumption. This is a rectifier that is capable of
4 being used in a BellSouth central office. I don't know how you
5 could have a more agreeable assumption than that.

6 CHAIRMAN BAEZ: My concern is that you've asked the
7 question three different times. I'm not sure if you are going
8 to get an answer.

9 MR. EARLY: As I understand the prehearing order that
10 was entered in this proceeding, a witness was, if not
11 compelled, at least asked to answer questions with a yes or no,
12 and then to the extent that they need to qualify or explain
13 their answer, that they could do so. And so far with regard to
14 this question I have yet to receive a yes or no.

15 CHAIRMAN BAEZ: Ms. White, he's got you there.

16 MR. EARLY: I mean, no is okay; yes is okay.

17 CHAIRMAN BAEZ: We're going to try this one more
18 time. Mr. Shell, Mr. Early is correct on the yes or no. So if
19 you would, please -- you can qualify any way you want, but
20 please lead off with a yes-or-no answer.

21 And, Mr. Early, we're going to try this question one
22 more time.

23 MR. EARLY: Okay.

24 CHAIRMAN BAEZ: One last time.

25 MR. EARLY: All right. Thank you.

1 BY MR. EARLY:

2 Q Mr. Shell, again, I want to make the assumption that
3 the Model J85503C-3 rectifier provided by Tyco Electronics is
4 capable of being used physically in a BellSouth central office.
5 If that rectifier is a more efficient piece of equipment than
6 the rectifier currently in use in that central office in terms
7 of developing the cost study, does BellSouth have an obligation
8 on a forward-looking basis to look at the more efficient piece
9 of equipment?

10 A I'm going to have to answer the question as no, and
11 then follow it with a depends, because your question was is it
12 capable of being used. But again, I go back to -- my only
13 concern is that we have the efficiency that you're focussing on
14 as the criteria for choosing a rectifier, and I don't know
15 sitting here if that is the main criteria for BellSouth or
16 BellSouth's vendor to choose a rectifier. So I would have to
17 answer with that.

18 Q Okay. Thank you. Let me ask you a couple of fairly
19 basic, I think, power questions. If you have an existing power
20 plant at a central office, how do you go about increasing the
21 basic serving capacity of that power plant?

22 A Are you asking for the process involved?

23 Q Yeah. What would you do as an equipment manager --
24 you know, if there's a determination made that there needs to
25 be more power, how do you go about doing that?

1 A You'd have to issue what's called a job authorization
2 which fills the paperwork to again get approval from senior
3 management in the network department to get the budget approved
4 to purchase the equipment. And then you'd have to, once that's
5 assigned, get a telephone equipment order issued, which goes to
6 the vendor, which authorizes them to order the equipment, go to
7 the site, install it, test it, and make sure it's working
8 appropriately. I mean, that's the general flow. I'm not
9 sure --

10 Q Well, is there a particular piece of equipment that
11 governs the capacity of a power plant?

12 A There's several pieces of equipment. I think you
13 mentioned the rectifier is one. It comes in varying sizes.
14 There's also the batteries. You have also an engine, a
15 generator which is required in case the AC goes out. You have
16 power bus bars to carry some of the power, and you have battery
17 distribution fuse bays. There's several components with
18 different capacities that may be required.

19 Q If you have a 2400-amp power plant, how do you derive
20 that number, 2400? Is there one piece of equipment in
21 particular that gives you that kind of baseline number for the
22 capacity of a power plant?

23 A I don't know if it would be one piece of equipment.
24 It's more of what power requirements that either BellSouth or
25 BellSouth and the CLEC requires. I mean, if you're asking what

1 determines how much power you need, it depends on what the
2 amount projected for the parties involved would need, if that
3 answers your question.

4 Q Well, let me ask you this. You have a 2400-amp power
5 plant. Doesn't that mean you have 2400 amps' worth of
6 rectifiers in that power plant?

7 A You would have whatever the incremental amount is.
8 In other words, you've heard the term "lumpy." You have lumpy
9 investment in capacity associated with the equipment. I don't
10 remember the exact capacities of rectifiers, but, for example,
11 you could have a 5000, 25,000, 30,000. So you may need 24,000,
12 but you may have to get 25,000 or, you know, you may decide to
13 use 35,000. So the lumpy investment would say that you may
14 need a certain amount, but because it only comes in certain
15 increments, you have to get something a little bit larger to
16 accommodate that, as well as an incremental growth.

17 Q Rectifiers come in 200-amp units; right?

18 A Right, 200-amp.

19 Q So if you have --

20 A And other.

21 Q Okay. So aren't you -- when you say you have a
22 2400-amp power plant, that's the capacity of that power plant,
23 doesn't that mean that you have some string, whatever sizes,
24 400, whatever you're stringing together, but that you have
25 24 amps of rectifier capacity? Isn't that where that number

1 derives from?

2 A Well --

3 CHAIRMAN BAEZ: Mr. Shell, yes or no first.

4 THE WITNESS: Oh, okay. Sorry. Excuse me. Let me
5 just think for a minute. Let me say, yes, with the caveat that
6 with the rectifiers, if what you're saying is that the power
7 comes through the rectifier, it goes through the battery, then
8 goes to the equipment, so therefore, you need 2400 amps of
9 rectifier to do that. But then you also need to have what's
10 called the N plus 1. You'd have an extra rectifier --

11 Q So a spare.

12 A -- technical specification plus with recharge
13 capability. So, yeah, you could have 2400, but you have to
14 have a little more because of the requirements, technical
15 requirements.

16 Q You have a spare rectifier in case one of them --

17 A And for recharge, yes.

18 Q -- whatever, they blow up or whatever they do.

19 A Right.

20 Q All right. Now, you also have batteries. So you
21 come off the rectifiers and now you have a group of batteries.
22 What is the purpose of the batteries?

23 A It gives you reserve capacity for power. In other
24 words, if the power goes out, the engine alternator takes a
25 while to kick in. The battery gives you that time to keep the

1 central office functioning until the battery kicks in. So the
2 charges from the rectifier keeps the battery working until it's
3 needed.

4 Q So let's say you have enough batteries, you're coming
5 off of your rectifier, you have enough batteries to run
6 whatever you're running in that central office for three and a
7 half hours. Assume that.

8 A Okay.

9 Q If you add more batteries, that just buys you more
10 time, doesn't it? If the power goes out, you're buying time
11 with batteries?

12 A Yeah, I think that makes sense.

13 Q Okay. Does BellSouth consider the power plant a
14 shared asset?

15 A Can you define "shared asset"?

16 Q Well, we talked earlier about -- some of the
17 definitions that we talked about included capacity cost, and
18 that was kind of an analysis of an asset that's shared among a
19 number of different people, and it could be CLECs or it could
20 be BellSouth. Do you recall that discussion?

21 A Yes. We were talking about the example, DS1
22 facility.

23 Q Right. So is a power plant, is that what you would
24 consider to be a shared asset, an asset that might be shared by
25 both BellSouth and CLECs using that central office?

1 A I would say that -- let me try to answer this yes or
2 no. Yes, it's shared. I would not put it in the same category
3 as what we typically use for a DS1, which is, you know, we've
4 got a pipe, that's a pipe. But with a power plant, you have
5 multiple components of it. So you could be sharing a portion
6 of a -- a string of battery portion over a string of
7 rectifiers, a portion of the power bus bar, a portion of a
8 BDFB. It's a little more difficult to do a capacity cost
9 scenario with a power plant compared to just a pipe where you
10 know what you have is a set 24 channels in DS1.

11 Q But by definition, doesn't everybody who uses the
12 central office have to use that power plant?

13 A To the extent they need power, that's correct.

14 Q So you could have a pipe that might only be used by
15 one or two users of a central office, but anybody who needs
16 power in that central office is using that power plant; is that
17 correct?

18 A Yes, they have to use that power plant.

19 Q Now, let me assume you have a central office. You've
20 got plenty of floor space, but your power plant is at full
21 capacity; you're maxed out. So what do you do in that
22 situation if another CLEC comes in and says, I want to
23 collocate on this piece of floor?

24 A Let me make sure I understand you. So you're saying
25 we have a power plant. In that specific area where it is,

1 there's no more space.

2 Q That central office, from a power perspective, is
3 maxed out, but you have plenty of floor space. So a CLEC comes
4 in and says, hey, I want to use this piece of floor to run my
5 equipment. What does BellSouth do in that situation? Can you
6 increase the size of your power plant to accommodate that CLEC?

7 A We'd have to, yes. Pursuant to the rules -- I'm
8 sorry I didn't understand your question at first. If you're
9 asking if you -- we -- plenty of space, the power capacity is
10 out, what we do is have to augment the power plant. Yes.

11 Q Now, let me ask you to assume in that situation you
12 have a CLEC that comes in; you're maxed. You don't have a
13 spare amp, and a CLEC comes in and says, I need to draw
14 22 amps. My equipment is going to draw 22 amps. Would you, as
15 BellSouth, come in in that situation and install an additional
16 rectifier to give that minimum 22-amp capacity?

17 A It depends on which component is -- I mean, that
18 would be one of them, but you may have to -- depending on what
19 else is required, you may have to add batteries, possibly. It
20 may be another BDFB to distribute the power out to the
21 collocation space. I would agree that probably the rectifier
22 would be one item. Again, you've got a minimum capacity of
23 maybe -- I think maybe the lowest is 50 amps. I'm not exactly
24 sure for the rectifier, but there is a minimum capacity for it
25 as well.

1 Q Okay. So if somebody comes in and -- well, let me
2 ask you this. Now, if you have plenty of floor space, you know
3 you've got tons of floor space in this central office, would
4 BellSouth typically in that case try to increase the capacity
5 of the power plant to look forward as to other expected users
6 of that central office and provide that capacity at one time?

7 A We would provision more than just -- I mean, number
8 one, in answer to your question, yes, we would. But again,
9 just to go further beyond that is that we would hopefully never
10 get in a situation where we are maxed out. What we try to do
11 is at a certain point when we're at a certain utilization, we
12 begin ordering more capacity because we don't want to get to
13 the point where we may have a blackout because we don't have
14 sufficient power in case a spike occurs someplace or something.

15 What I'm saying is we don't want to get to the point
16 where we can't provide power to our customers as well. So we
17 would never hopefully be at a situation that you had -- you're
18 hypothetical question, you know, question earlier, we would
19 hopefully never get in that position. We would purchase power
20 that would meet our needs as well as a CLEC.

21 Q So BellSouth, as a rule, to the extent you can -- I
22 mean, I'm kind of asking you this in just kind of a rule. As a
23 rule, BellSouth tries to kind of look forward, look ahead to
24 see what power draws might be expected from that central office
25 and to kind of plan ahead to meet it before it actually occurs;

1 is that fair?

2 A That's just day-to-day business. Yes, that's
3 correct.

4 Q Now, let me ask you to kind of go back to my
5 assumption though, and assume that, you know, for whatever
6 reason you've got a central office that's really straining. I
7 mean, it's about maxed out, and you have a CLEC that comes in
8 and asks for 22 amps. I've got to have 22 amps. And so you
9 come in, BellSouth says, okay, we're going to install 200 amps
10 more of power. We're going to put in a 200-amp rectifier.
11 We're going to do whatever we need to do with the batteries and
12 all the other equipment, but that you've decided to upgrade
13 that power plant by an increment of 200 amps. Are you with me?

14 A Right.

15 Q Okay. In calculating the cost that's going to be
16 charged to that CLEC for that amp, for those 22 amps of power,
17 do you take -- and let me assume that this 22-amp rectifier
18 costs you 10,000 bucks. It's a nice round number. I don't
19 know what they really cost, but it's easy to divide by. So you
20 have a 200-amp rectifier that costs \$10,000. In determining
21 the cost per amp charged to the CLEC, are you going to take
22 \$10,000 divided by the 32 (sic) amps that the CLEC has
23 requested and charge them that amount per amp, or are you going
24 to take \$10,000 divided by 200 amps that you've installed and
25 charge them per amp on that calculation?

1 A Okay. Let me just -- well, I can't say yes. Let me
2 just try to clarify before I answer that one. You're saying
3 charging, but I think you mean develop your cost. Is that
4 what --

5 Q Yes. Yeah. I'm sorry.

6 A Okay. I want to make sure I follow. Okay. We're
7 going to charge you based on 22 amps based on the order of the
8 Commission.

9 Q How do you develop that cost?

10 A Okay. To develop the cost, what -- and to go back to
11 what BellSouth did, BellSouth used again 711 jobs. Some of the
12 jobs probably fit into the category you described where we had
13 a request for additional power, and as a result of that request
14 an augment was done. And we not only augmented for the CLEC
15 request, but we augmented for future requests for the CLEC as
16 well as BellSouth. And we used that total investment divided
17 by the total amps to get an average augmentation investment per
18 amp for that scenario.

19 But there are other scenarios where BellSouth
20 included in its cost study where the CLEC requested 20, 50 amps
21 or whatever. We had that in the CO capacity available. So the
22 cost was zero for that one. So we had both sides of that.
23 What we try to do is look at the augments that were occurring
24 and to develop an average based on several -- 711 jobs.

25 Q But in determining that cost and incorporating that

1 into whatever structure you're going to do, do you take that
2 \$10,000 cost that you've expended for bringing that power plant
3 up by 200 amps and divide it by the 22 amps requested or the
4 200 amps provided?

5 A I'm trying to -- excuse me. This thing is sometimes
6 loud, sometimes soft. I'm trying to remember what -- the study
7 right now on that particular question. I have to look at
8 something to verify your question on that -- your answer on
9 that one.

10 Sorry. The microphone keeps -- the sensitivity
11 changes on me. I believe what I did on that one, we divided by
12 the amount that the CLEC requested because that's what
13 initially drove the request.

14 Q Okay. So you have a CLEC that's requested 22 amps
15 and your cost per amp that you're going to calculate for that
16 is 10,000 divided by 22?

17 A In that scenario, yes.

18 Q Well, what happens when the other 178 amps get used?
19 How do you cost that out?

20 A In that scenario --

21 Q I mean, are they not charged to anybody or --

22 A Well, let me go back to clarify. You say charge, but
23 we're talking about cost development. BellSouth in that
24 scenario -- like I said before, we have some jobs that required
25 a lot and you divide it by that number. But other jobs --

1 like, for example, someone else came in and needed 50 amps of
2 that. There was zero charge on that one. So what we're saying
3 is by doing 711 jobs, we're doing an average. In some cases
4 the cost for that construction may have been slightly higher
5 than it should have been; other cases it was zero. So by doing
6 711, we developed an average across many jobs. It shows on an
7 augmentation basis what amount of cost would apply.

8 And this all goes back to the FCC's order -- the FCC
9 order, Paragraph 51 which says, initially it told BellSouth and
10 all ILECs that you can prorate -- you can augment power, but
11 what you have to do is prorate it so that the first collocator
12 doesn't pay everything. So in the scenario you were saying,
13 the first collocator wasn't going to pay \$10,000. By us
14 prorating over several jobs, we spread that cost out over all
15 the parties that came in for 22 amps, 50 amps, up to 200. And
16 that's what we've done in our augmentation. We've done it on a
17 much broader schedule -- methodology by doing it over 711 job,
18 but we, in essence, are prorating the augmentation based on the
19 FCC's order that allows us to do that.

20 Q So in the situation that I've given you where
21 somebody has come in and ordered 22 amps, you're basing your
22 cost on however many amps you've provided divided by 22, and
23 that's the cost for however many amps you've provided divided
24 by 22?

25 A Yes, in that scenario. And again, it's the cost

1 development, not the charge. So the cost development for the
2 subsequent providers would be zero so that eventually the
3 average would turn out to be what it is, the 10,000 over 200.

4 Q If BellSouth decided for whatever reason to come in
5 in that situation and provide additional amps, provide 2400
6 additional amps -- you want to kind of look forward for some
7 growth -- and you say, well, we've gotten a request for
8 22 amps, but let's go ahead and put 2400 in because it seems
9 like the right thing to do right now, which would be an
10 expensive job, I take it, you're taking the cost of that entire
11 22 amps -- I mean, that entire 2400 amps that you're increasing
12 that central office by and then dividing that by 22 to come up
13 with your cost per amp?

14 A For that particular item in the sample of 711 jobs,
15 that's what we did. But again, subsequent to that order, you
16 would expect other providers to come in to ask for power and
17 that cost would be zero. I mean, what BellSouth is doing --
18 the first CLEC came in; they utilized BellSouth's existing
19 capacity. BellSouth, you know, if you did the cost study would
20 not -- the cost would not have shown anything but zero.
21 They're utilizing capacity we have already built into the
22 infrastructure. So what we're saying is that on some sides,
23 yes, you will have the situation where we may have put in more
24 than they asked for; the other side, the CLEC comes in, they
25 ask for power, the study sample that did the averages showed

1 zero. So, in essence, what we've done by using 711 jobs, we've
2 averaged out the average incremental cost on a prorated basis
3 based on what the FCC says. We didn't do it on one CO basis,
4 we did it on 711 jobs, which is much more, you know, accurate.

5 Q Okay. Are some of those jobs -- I mean, 711 jobs, is
6 that 711 central offices, or might you have multiple jobs in a
7 single central office that go into that calculation?

8 A I believe they are central offices. I don't recall
9 seeing more than one central office CLLI code. I can't say
10 that for sure, but I'm pretty sure that it's just separate
11 central offices.

12 Q Okay. Let me talk a little bit and kind of go to
13 your cost study. And you've talked about the 711 jobs that you
14 used in developing the inputs for your cost study; correct?

15 A Can I go back?

16 Q Sure.

17 A I just recall in looking at -- thinking back on the
18 study, we do have several jobs in one central office. I take
19 that back because if you look at my Exhibit WBS-4, you'll see
20 that there is a cost shown for one CLLI code and then an amp.
21 Then you have upon it several more requests for amps with no
22 cost. So, in fact, that does show that up front, the cost
23 study shows one job going in for a requested amp, but then
24 subsequently other jobs going with no costs associated with it.
25 So it does involve more than one request per office.

1 Q Okay. Are there any that are just one job per
2 office? I mean, is there a range?

3 A There could be -- yeah, there would be a range. Yes,
4 there would be a range. Yes.

5 Q Okay. Now, with regard to the cost study, is that
6 study -- and again, you've referred to the 711 jobs, and that
7 711 jobs constitutes the inputs, the cost inputs that go into
8 your cost study; is that accurate?

9 A Yes. That created the investment per amp used in the
10 cost study.

11 Q Is the cost study a census study or a sample study?

12 A I'm not sure I know the difference.

13 Q Well, census, you took all jobs that were performed
14 by BellSouth over a period of time and every one, you performed
15 a census. You've counted them up, one to "X," however many is
16 at the end. Sample study would be you just took a sample, you
17 took some portion. Was this a census study or a sample study?

18 A I believe it's more appropriate to label it a sample
19 study because they took several jobs based on the ones they
20 could get in the time period that was given to them.

21 Q And in fact, in the study didn't you have some
22 states, entire states that were not represented in that study?

23 A That's correct. You have some states with very
24 little demand for collocation and very little information
25 available.

1 Q Okay. Well, it also didn't include Georgia; correct?

2 A Right. Georgia, particularly at the time, they were
3 extremely -- the way this process worked was the power manager
4 at the headquarters had to request this from the state field
5 people. And at the time Georgia was extremely -- what he told
6 me was Georgia was extremely busy trying to get actual jobs
7 completed, and they could not spare anyone to perform that
8 specific study. So Georgia did not have any data points.

9 Q But Georgia is pretty big in terms of collocation,
10 isn't it?

11 A Yes.

12 Q Okay. Now, who developed -- or who chose the samples
13 to be used in the cost study?

14 A The field power engineers.

15 Q Did you have a statistician come in and design or
16 oversee the selection of the samples?

17 A No. We just assumed that 711 jobs was a sufficient
18 enough sample to represent the population. I mean, I've
19 compared the 200 as somewhat of a bogey for most statistical
20 examples. We just felt like 711 was sufficient. And again,
21 this goes back to the FCC allowing us to prorate, which really,
22 in essence, says, if you have a central office installation,
23 AT&T requests power, BellSouth does not want to -- or cannot
24 charge AT&T \$20,000 for that augment. We have to in some way
25 allocate that cost, you know, between Covad, MCI, and other

1 providers so that one party doesn't pay it. And all BellSouth
2 is saying what we've done is essentially taken that and
3 expended it and did 711 actual augmentation jobs to try to
4 figure out what is a good way of allocating a cost per amp.

5 Q Do you know how many total jobs were performed during
6 the study period in the BellSouth nine-state region?

7 A No, I do not.

8 Q So you don't know what percentage that 711 is to the
9 whole of all jobs?

10 A No, I do not.

11 Q When the power engineers were selecting jobs to go
12 into the study, do you know what reasons they used to select
13 one particular job over another?

14 A My understanding was just jobs that were completed
15 and available.

16 Q So they just took them off the shelf as they came off
17 the shelf, or did they randomly select, or did they select only
18 jobs within a certain period of time? I mean, do you know that
19 answer to that question?

20 A Just my understanding was they took jobs that were
21 completed; I don't know what time period. I know they -- it
22 was again '99 to 2000 when they did the study, but they pulled
23 it off of a system that BellSouth has, which is the BellSouth
24 construction management system that has actual construction
25 costs for the power jobs. They pulled it off of that. My

1 understanding was they used available jobs that had existing
2 completed cost data with it.

3 Q Do you know if the power engineers were instructed to
4 select a sample that would have been a statistically reliable
5 representation of the universe of all jobs that were done by
6 BellSouth?

7 A I don't know if the power manager was told to look at
8 it from that perspective. The headquarter's power manager
9 again assumed that 711 was sufficient quantity to be
10 representative.

11 Q Okay. And those 711 jobs were drawn from five of the
12 nine BellSouth states; correct?

13 A I haven't counted the numbers, but that's about
14 right, I guess.

15 Q Okay. Now, you indicated before that BellSouth uses
16 a single vendor for the entire nine-state region. Does this
17 vendor typically use the same equipment in Florida as the
18 vendor would use in Georgia?

19 A I don't know. I don't know that for sure.

20 Q Is there anything inherently different in a central
21 office in Florida in terms of configuration or how power comes
22 in than a central office in Georgia?

23 A I wouldn't think so.

24 Q Okay. Would you expect -- given that you have a
25 single vendor who does all your work, would you expect that the

1 cost per amp for a job done in Kentucky would be equivalent to
2 the cost per amp of a job done in Alabama?

3 A I would expect the vendors costs on a comparable --
4 let me answer your question, I guess. In answer to your
5 question, I would say, yes, with the caveat that the job and
6 the work being done are comparable, the same. You could have
7 different functions being done which obviously would give you
8 different costs.

9 Q Would you expect -- and again, in terms of the cost
10 per amp, would you generally -- because, you know, a bigger job
11 you can have more amps and it's going to cost more, a smaller
12 job -- a 400-amp rectifier is going to cost more, but you're
13 going to get more power, and a 200-amp is correspondingly
14 smaller and less power. In terms of breaking that down to a
15 cost per single amp, would you expect generally the cost
16 between states to be roughly equivalent?

17 A I would say roughly equivalent for the same
18 equipment. Again, it depends on exactly what's being ordered.

19 Q Okay. Let me ask you to --

20 CHAIRMAN BAEZ: Mr. Early.

21 MR. EARLY: Yes, sir.

22 CHAIRMAN BAEZ: How much more cross do you have,
23 estimated?

24 MR. EARLY: That much.

25 CHAIRMAN BAEZ: I'm sorry I wasn't looking. How much

1 is it?

2 MR. EARLY: I've got probably a half an hour would be
3 my guess.

4 CHAIRMAN BAEZ: We're going to -- if you'll just hold
5 your thought, we'll break for five minutes real quick, and then
6 we'll finish this witness before we break for lunch.

7 (Brief recess.)

8 CHAIRMAN BAEZ: We'll go back on the record.
9 Mr. Early, we interrupted you. If you can proceed.

10 MR. EARLY: Thank you.

11 BY MR. EARLY:

12 Q Mr. Shell, let me kind of go back to a question I
13 had, and I'm not sure I -- I want to make sure that I
14 understand it and obviously want to make sure the Commissioners
15 understand it as well.

16 In the situation again where you have the \$10,000
17 job, the 200-amp rectifier, the 22 amps that have been ordered
18 by a CLEC, you are -- BellSouth, I believe you testified,
19 develops its rate per amp based on the full charge for the
20 augment divided by the number of amps that were ordered by the
21 initial CLEC; is that correct? 10,000 divided by 22 in my
22 example.

23 A Yes, the cost developed for that particular job was
24 based on that. And again, there are several other jobs for
25 that location or other locations where you would have a request

1 for 20 or 30 amps with zero cost because the CLEC is taking
2 advantage of what's already been provided in the network. So
3 our methodology for doing that is that we are prorating the
4 cost so that a single carrier does not pay the total amount.
5 And that's not the rate, it's the cost for that particular job
6 that's averaged over 711 jobs.

7 Q But when you develop your -- and I think you said the
8 next guy in line. You've got the guy that you've developed a
9 rate based on 22 divided by 10,000, and the next guy in line
10 comes in and he basically has no cost; is that correct?

11 A Yes. The 10,000 divided by 200, yes.

12 Q But he's still paying a rate that was developed by
13 dividing the total cost of the augment by a fewer number of
14 customers that would be ultimately using it, isn't he?

15 A I'm not sure I follow that.

16 Q Your rate is based on 10,000 divided by 22.

17 A The rate is based on a compilation of 711 jobs. That
18 one particular example would be that way, but again, there
19 would be several additional examples where it would be zero
20 when they request 20, 30, 40, or 50 amps. So that's just one
21 of many samples that go into the job. And again, it goes back
22 to the philosophy of we're prorating. We're going beyond the
23 central office where you'd come into a central office and say,
24 I want 100 amps and we have to augment. The first party we're
25 not going to charge them all of that. We're going to prorate

1 it. And our methodology of prorating is using this 711 jobs to
2 do that.

3 Q But in terms of the -- we talked about the definition
4 of the term "increment" in TELRIC, and isn't the increment the
5 cost of providing that one additional amp of power?

6 A Yes. Increment is the cost of providing the one
7 additional amp. And what BellSouth has projected as that cost
8 is the number based on our sample. We're saying that pursuant
9 to FCC that allows us to recover the cost of augmentations of
10 power on a prorated basis, we are -- determined this proration
11 on 711 jobs. If you did it individually, somebody would pay a
12 whole lot, somebody would be paying nothing. We're prorating
13 over 711 jobs, and we're projecting that that is a valid
14 incremental cost per amp.

15 Q But when you develop that rate per amp, you're
16 developing it based on a large cost divided by a small number
17 of amps to be used, so don't you get a bigger number in that
18 situation that then is going to be applied by everybody else
19 who comes and utilizes those additional 178 amps of power?

20 A No, no. I mean, if you look at what happens in the
21 scenario, when it's all done completely -- for example, say,
22 you had two CLECs coming into a central office. They order
23 50 amps of power and it costs \$100. The first one uses
24 25 amps. In that case, you know, the cost is \$100. The next
25 one comes in and gets 25 amps, we don't charge anything. So

1 essentially what you have is \$100 divided by 50. So either way
2 you look at it, you are getting that incremental cost of the
3 added amps by the total cost when you prorate the whole thing
4 all the way out. The concept is we're prorating multiple jobs
5 so we could come up with the actual cost per amp.

6 Q I'm not sure I understood kind of the first part of
7 that. So you have an office. Were you saying 100 amps, \$100?
8 I mean, is that what you were --

9 A I'm choosing simple numbers.

10 Q I mean, as an example.

11 A I'm just using simple numbers to say that it's -- the
12 party asks for 50 amps.

13 Q Well, I mean, I want to go back to the example you
14 used. Was that kind of --

15 A That was it.

16 Q Because it means it divides easily, which is good for
17 me.

18 A That was the example. 50 amps requested, \$100 was
19 the cost.

20 Q Okay.

21 A Okay. The first party -- excuse me. Back up. They
22 ask for 25 amps; we provided 50 amps. We gave them 25 amps of
23 power; that costs us \$100. So that was \$100 over 25. But the
24 next party got zero cost with 25 amps. So what you have is the
25 total cost of 100, the total amps of 50; you still come up with

1 the same 100 over 50. All we're doing is prorating that cost
2 as opposed to billing this one guy 100 over 25, \$4, and the
3 other one zero.

4 Q Okay. But you're developing a rate; right?

5 A We're developing a cost per amp.

6 Q So you're developing the rate based on \$100 divided
7 by 25, which is \$4 an amp; correct?

8 A And also zero divided by 25.

9 Q But doesn't the second guy in line, isn't he paying
10 the rate that you've developed already for that augment?

11 A No. Again, I'm going back to the difference between
12 the cost versus the charge. All we're doing in these projects,
13 this 711 projects is developing the cost. This has nothing do
14 with what anybody is getting charged. That's totally out of
15 the picture. It's just a way of costing -- developing a cost
16 per amp. Nobody is charged yet. Only when the total cost per
17 amp is derived will the charge be applied, and that charge will
18 be based on a proration of all those jobs.

19 Q All right. Now, you indicated that kind of because
20 there's such -- there's this kind of big number, this 711 is
21 enough, in your view, to kind of, I guess, kind of chop off the
22 hills and fill in the valleys and you kind of get a --
23 basically a roughly equivalent charge per amp?

24 A Correct.

25 Q Okay. Can you quantify that? I mean, is it

1 within -- you know, are you talking within 10 percent?

2 A We would say it's within 10 percent, yes, easily.

3 Q Okay. Let me ask you to take a look -- excuse me one
4 second. I want to provide you with a document that's a
5 confidential document that was provided. I believe it is Staff
6 22, BellSouth confidential document -- BellSouth Confidential
7 Stipulation-1, Staff Exhibit 22. This is a part of POD 32.

8 I just kind of want to go through this and see if I
9 understand how these amp charges in here are working. If I
10 could just have you go to the very first one, which is
11 RCMDKYMA. I'm not all that sure what RCMD city is. I assume
12 that is Kentucky and MA is the identification of the central
13 office that's in whatever city RCMD is.

14 A Yes, that's correct.

15 Q Now, I'd ask you to take a look at the second page of
16 that document, CLEC Number 1 data. Now, that CLEC ordered a
17 particular number of amps, a particular number of fuses at a
18 particular fuse size, ordered basically, this is what I want;
19 is that correct?

20 A Yes, that looks correct.

21 Q Okay. And the number that shows up in the ninth
22 column is prorated share power plant construction. Can you
23 tell me what that number is? Not what the number is, but what
24 that number represents.

25 A Okay. Give me just a minute. I've seen this before.

1 It's been a while since I've looked at it. I have to reorient
2 myself.

3 If I'm remembering correctly, and it's actually been
4 a while since I've looked at this, I believe what this
5 represents is, I guess like it's stated here, the prorated
6 amount of this total cost that's going to this CLEC.

7 Q Okay. And this CLEC ordered the number of amps that
8 are contained in Column 4, the number of fuses in Column 5, and
9 the fuse sizes in Column 6, okay?

10 A Okay.

11 Q Now, let me ask you to go to the next document in
12 that stack, which is LSVL, and I'm going to assume that's
13 Louisville, LSVLKYVS. And if I could ask you to go to the
14 sheet CLEC Number 2 data, which is the third page in that
15 sheet. This instance on Column 4, we have a CLEC that has
16 ordered a particular number of amps, which is the same number
17 of amps as we discussed in the previous one, a particular
18 number of fuses, which is the same number of fuses at a
19 particular fuse size, which is the same fuse size, and yet the
20 prorated shared power plant construction to that CLEC is about
21 a third of what it was for the previous one.

22 If you're using the same vendors and the same
23 equipment and everything is going to be kind of equivalent, how
24 is it that the prorated share of power plant construction
25 charged to that CLEC is a third of what it was in this other

1 city?

2 A Well, I'm just looking at this. This really doesn't
3 tell you the itemization of the equipment -- the total
4 equipment that was provided on the job. I'm just trying to
5 see --

6 Q But your costs are based on amps; right? They have
7 all asked for the same number of amps, shouldn't they all have
8 an equivalent cost that's assigned to that CLEC for that job?

9 A The thing I don't know for sure looking at this is
10 that the first one, the RCMD example, which has 10,000, I guess
11 I shouldn't say, has a certain number approximately associated
12 with the share versus the other one which is significantly
13 less. The first one could have included additional equipment
14 required. I don't know if this has just what was requested or
15 everything that was required on the job. That's what I'm not
16 sure about.

17 In other words, I don't know if there was anything
18 else required or initially put in on this project that's not
19 listed here on this sheet other than rectifiers -- other than
20 the BDFB, two fuses, and 60 amps.

21 Q Well, if the CLEC is paying a recurring charge based
22 on amp of DC power, shouldn't that all kind of -- all of these
23 costs that are assigned to a CLEC for the construction of the
24 power plant be rolled into that per amp of DC power charge?

25 A All I'm saying is you're looking at -- I think your

1 question is based on the fact that both of these show two
2 fuse -- the request being two fuses, 60 amps and therefore the
3 numbers should be the same. What I was saying was I don't know
4 if there are other equipment items included in the first one
5 that caused the prorated share to be greater or not.

6 Q But in terms of what a CLEC is paying per amp, why
7 should what particular piece of equipment went into providing
8 that amp make such a dramatic difference in the charge back to
9 that CLEC?

10 A Well, again --

11 Q Aren't you trying to set a rate based on 711 things,
12 and they're all supposed to kind of come out about the same?

13 A Yes, when you do the average. What I'm trying is if
14 this one required -- and it doesn't say this -- additional
15 equipment that's not here, then that would -- then that \$10,000
16 would be based on something that's not shown is all I'm saying.

17 Q Would that be a nonrecurring charge that's charged to
18 that CLEC?

19 A No. In this case this is a cost that BellSouth
20 incurs whenever the vendor would do the work. So I'm saying
21 there could be additional vendor costs not shown here. I mean,
22 it shows \$10,000, but I don't know if it shows in detail all of
23 the work and equipment that was actually installed in this
24 particular CO. That's all I'm saying.

25 Q Well, the last column in all of these things is total

1 charged to CLEC. This is a charge that's going to the CLEC;
2 correct?

3 MS. WHITE: Mr. Shell, remember, too, that the
4 numbers are confidential and should not be stated out loud.

5 THE WITNESS: Okay. Yes. Thank you.

6 MS. WHITE: Thank you.

7 A What I was pointing to though is -- again, I haven't
8 looked at this in a while. But, for example, if you look on
9 the front page of RC -- the one labeled RCMDKY --

10 Q Right.

11 A -- versus the other one, the LS, the one that I call
12 RC for short, it has a total plant construction cost for that
13 CO that's greater than the one for the other one.

14 Q Right.

15 A So my assumption based on that, which I feel pretty
16 comfortable about, is that the proration on this one is based
17 on the total costs required to augment that CO which is greater
18 than the cost for the second one. So, I mean, even though this
19 one page for this CLEC shows this, that CLEC is probably taking
20 advantage of some other equipment that was required.

21 For example, if you have a central office that has
22 significant capacity of everything except BDFBs, all you have
23 to do is add a BDFB. The second party needs a BDFB and they
24 don't have enough capacity of a rectifier or in this case,
25 yeah, a rectifier, you may have to add a rectifier before you

1 can add the BDFB. And it looks like the first one is adding
2 equipment in addition to the -- more equipment than the first
3 one is what's causing the proration to be greater.

4 Q Okay. When you're setting the rate that's going to
5 be charged to a CLEC, is it done central office by central
6 office? Is the rate at the RCMDKYMA central office going to be
7 based on what's in that central office, and the rate in the
8 Louisville, Kentucky -- the next one, is that going to be based
9 on what's in that central office, or do you try and establish
10 this over a broad range?

11 A We're developing a broad -- again, a sample based on
12 specific jobs, prorating over across all of these so that no
13 particular area is really being charged to anybody, but a total
14 sample average of all of these are what we use to develop our
15 investment per amp that goes into the cost study.

16 Q Well, then again, getting back to my initial
17 question. You have two CLECs that are ordering the exact power
18 draw. They both want to draw that many amps of power and yet
19 one is being charged triple what the other one is being
20 charged. How can that be?

21 A Again, they're not getting charged. You're mixing
22 again charging with cost development. This has nothing to do
23 with it. What we're doing is developing a cost. And evidently
24 on the first job, in order to provide the 60 amps, they needed
25 more equipment -- it looks like rectifiers -- which made the

1 total cost significantly greater. The other one didn't need to
2 do that. So the cost development for these two jobs were
3 different because they needed different equipment. But the
4 charge is based on an average of all the jobs put together, not
5 any particular job.

6 Q Well, then how do you explain the last column that
7 says, "Total charged to CLEC"?

8 COMMISSIONER DEASON: Let me ask a question. Was
9 that an actual charge or just is that the proration to the CLEC
10 for purposes of the study to determine the proration overall?

11 THE WITNESS: These numbers here were used for
12 proration for the cost study, not an actual charge.

13 But let me answer your question. This data may have
14 come from an agreement where some CLECs had ICB arrangements.
15 So this may have been a scenario where the CLEC had an ICB and
16 maybe the charge that would apply in that scenario would have
17 been that, but this is not the charge we apply. It's not what
18 we're proposing in this docket. This is only used for the cost
19 development for prorating the costs. It's not a charge we
20 apply.

21 BY MR. EARLY:

22 Q So that is -- is it your testimony then -- and let me
23 ask you this directly then. In all of these -- and you can
24 look at all of them and they all have a bottom line at the
25 end -- where it says, "Total charged to CLEC," is it your

1 testimony that that is not a charge that was directly charged
2 to the CLEC ordering the power as reflected on that page of
3 data?

4 A Again, I'm not exactly sure what was done with this.
5 This could have been used for a CLEC that had ICB. So it might
6 have been something that was going to be charged to them, but
7 for this cost development, we're not using that total charged
8 column. We're not going to charge a CLEC this. We now have a
9 recurring charge. This data came from maybe a time period when
10 there was an opportunity or the agreement that said, ICB, that
11 this would apply, but it doesn't apply now. We would not use
12 these to charge a CLEC.

13 Q Let me ask you then to look again -- we'll start with
14 the -- okay. Let's go to Louisville KYVS, the second one that
15 I gave you, LSVLKYVS. Now, on the first page, you have total
16 not yet allocated to CLECs, and then on the individual data
17 sheets you have total charged to CLEC and in that case you have
18 three pages. Now, if you take the total plant construction
19 cost minus the total charged to CLEC on those next three pages,
20 don't you come up with the total not yet allocated to CLECs
21 number?

22 A I haven't done the math, but \$21 subtracting
23 approximately --

24 Q Don't say numbers. Your lawyers are going to get all
25 over you.

1 A Sorry about that. Okay.

2 Q I won't, she will.

3 A I would say you're approximately correct, I would
4 say.

5 Q That appears to be correct?

6 A Yeah, that appears to be close.

7 COMMISSIONER DEASON: Let me ask a question because
8 I've gone through these numbers in my head and I may be
9 incorrect, but I thought that if you added up the prorated
10 share column for each of the three plus the yet to be allocated
11 amount on the first page, that would equal the total plant
12 construction cost on the first page; is that correct?

13 Let's go over that again. If you add up the prorated
14 share on the three pages plus the yet to be allocated amount on
15 the first page, that that would equal the total plant
16 construction cost on the first page.

17 THE WITNESS: I'm doing the math now just to verify
18 that. Neither one of the numbers are coming out exact based on
19 me doing it up here.

20 COMMISSIONER DEASON: Doesn't it come to within one
21 dollar?

22 THE WITNESS: It comes close. For example -- let me
23 just do it again.

24 MR. EARLY: For a lawyer, it would be on the money,
25 for an engineer --

1 THE WITNESS: Okay. If you do what you stated, which
2 was add the prorated share power plant construction for select
3 1, 2, and 3 and the not yet allocated, it gives you, yeah,
4 within a dollar.

5 COMMISSIONER DEASON: Within one dollar?

6 THE WITNESS: Within a dollar.

7 COMMISSIONER DEASON: I think it's a rounding.

8 THE WITNESS: Yeah.

9 BY MR. EARLY:

10 Q Let me ask you to take a look at the -- I think not
11 the next one but the one after that, which is LSVLKYSM. I
12 think it's the fourth one in your stack. Are you there?

13 A Yes.

14 Q Okay. Again, on CLEC Number 5 data, we have the CLEC
15 ordering the same number of amps, the same fuse size, the same
16 number of fuses, but I have a question on this. On the
17 first page under power plant, the first page entitled, "Power
18 Plant Data," it says, "Total not yet allocated to the CLECs" on
19 the bottom, and there's a number with parentheses around it.
20 What does that parentheses mean?

21 A I apologize. I'm trying to remember. I can't
22 remember what that represents.

23 Q Well, let me see if I can work you through it then.
24 If you take the total charged to CLEC for each of the one, two,
25 three, four, five CLECs that have ordered power and you add

1 those numbers up, don't you come out with a number that is this
2 number more than the actual plant construction cost?

3 A I mean, I'll take your word for it, and make sure I
4 follow what you're saying. That if you sum the numbers, CLEC
5 1 through 5 is greater than the total not yet allocated. Is
6 that what you're saying? I just want to clarify.

7 Q No. You have total plant construction costs and you
8 have total not yet allocated to CLECs, which has a parentheses
9 around it. If you add up those five CLEC individual pages,
10 don't you come up with a number that is total not yet allocated
11 to CLECs more than total plant construction? Doesn't that
12 parentheses mean that's a negative number?

13 A Yes, it does.

14 Q So in that situation, BellSouth has actually -- total
15 charged to CLECs is actually more than the cost of plant
16 construction, isn't it?

17 A I think if I recall correctly what this represents is
18 the situation that we talked about earlier where at this
19 particular point in time in this CO we had placed equipment in.
20 The first party was allocated a certain amount and the total
21 proration hadn't occurred. So the additional power equipment
22 added has not come back to even out in this particular
23 situation. Do you follow what I'm saying?

24 In other words, if you had the case of again the 25
25 amps requested, 50 amps provided, \$100, you're in a case where

1 you had the 25 amps there, whereas you don't have the second
2 party in yet. So this actual cost scenario will show that the
3 second 25 amp request hadn't come in, and it hadn't washed out
4 in this particular office at the time the study was done.

5 Q But you have five CLECs that are in there that have
6 ordered power and the amount that's been charged to those
7 individual CLECs is already greater than the amount of
8 constructing the power plant. I'm not sure I understand how
9 you can have -- and whoever comes in afterwards is going to be
10 charged a rate for DC amps; right? I mean, they're going to
11 have to pay for the power; correct? They're not going to get
12 it for free.

13 A And again, I'm getting confused with the charging
14 versus cost. We only used this for cost development. We
15 didn't use this to charge a CLEC in what we're using it for.
16 So we didn't charge anybody any of this data here. What we did
17 again -- what I'm assuming happened here is that this is the
18 scenario where we provisioned the power and the cost, and it
19 had not washed out yet in this scenario.

20 Q Okay. Well, I want to make sure then I understand
21 your testimony because you said this wasn't a charge that
22 was -- it wasn't a cost that was charged to the CLEC. So was
23 it your testimony that total charged to CLEC is not an actual
24 amount of money that BellSouth charged a CLEC for ordering this
25 amount of power in that central office, that that was not a

1 charge either recurring or nonrecurring that was charged to
2 that individual CLEC? Is that your testimony?

3 A No. My testimony is that when we used this --

4 Q I need a yes or no on that one.

5 A I thought I said no.

6 Q Okay.

7 A No. My testimony is that I am not -- we used --
8 well, let me back up on that. My answer is I don't know. I
9 mean, I'm not sure how to get that in. The thing is I don't
10 know. We used this for cost development purposes. How it was
11 used prior to that I don't know. There could again be the
12 situation where ICB scenarios existed were this was actually
13 used for a billing mechanism, but when I saw it, when we used
14 it, it was just used for cost development. And we in the
15 current environment and going forward for this docket, we're
16 not proposing charging this. So I'm not sure what it was there
17 for initially. We're only looking at it for cost development
18 purposes.

19 Q I'm going to ask you -- I've got one more question,
20 and then I'm going to stop on this, I think, but I just need to
21 understand. Incremental means the cost to providing an
22 additional amp of power; right? That's what the term
23 "increment" in TELRIC means? And so in this case somebody came
24 in and said, I need this many amps of power. Here's a couple
25 of CLECs that have come in and they said, I need this many amps

1 of power, I need this many amps of power, I need this many amps
2 of power, here's what I need. And so BellSouth said, well, in
3 order for us to provide that power, we're going to have to do a
4 plant construction, and it's going to cost us this much money
5 to do it. And yet the amount that BellSouth is then allocating
6 to that amount that you know what that amount is, the amount
7 that they are allocating either in terms of an actual charge or
8 in terms of developing your rate or in terms of developing some
9 future charge is now greater than the amount already that you
10 have invested in that new plant incremental plant construction;
11 is that correct?

12 A Again, you're referring back to the LSVLKYSM?

13 Q Yes.

14 A Again --

15 Q I need a yes or no on that one, too.

16 A Okay. Repeat the question. I'm not sure what
17 exactly --

18 Q Okay. We've got -- the term "incremental" in TELRIC
19 means the amount of money that it costs to provide that one
20 additional amp of power. And in this case we have one, two,
21 three, four, five CLECs that have come in and said, we need
22 power and here's how much we need. And in order to provide
23 that power, BellSouth said, well, we've got to do an augment,
24 and here's how much this augment is going to cost. And those
25 are real dollars; right? Okay. And so when BellSouth

1 apportioned the cost of that augment, the cost of that
2 additional increment necessary to get that power to the CLECs
3 asking for that power, BellSouth has allocated this number more
4 than the actual plant -- total plant construction cost, hasn't
5 it?

6 A If I'm understanding your question correctly, you're
7 saying in developing the costs, BellSouth has used this number
8 which allocated more than the power plant costs.

9 Q Correct.

10 A I believe the answer to that would be yes, that in
11 doing our costs -- and this gets back to the proration scenario
12 I think I stated earlier. I believe this is a situation where
13 we had projected a demand, the CLEC requested so many amps,
14 BellSouth provided that and some incremental more because
15 BellSouth and CLECs' projected growth. And when that was done,
16 we prorated that cost as the CLECs come in. And in this
17 situation I believe what it's saying is that it hasn't washed
18 out. So the answer to your question is yes.

19 Q Well, in terms of proration, don't you prorate a cost
20 so that everybody who comes in gets a little piece of it, and
21 at the end, the last guy in is paying the last little piece to
22 get you up to 100 percent? Isn't that what proration means?

23 A Yes, that's what it means.

24 Q But in this case you have gotten five CLECs in and
25 yet the prorated cost that you've charged them is over

1 10 percent -- well, roughly 10 percent more than the cost you
2 have invested into that augment, isn't it? Isn't that
3 accurate?

4 I guess my question is, when the next guy comes in,
5 are you going to -- how are you going to account for that? How
6 are you going to get the CLECs that are already in who are
7 paying a rate based on one charge based on having paid more
8 than the amount of the investment? How does that work? I
9 don't understand it.

10 A Again, I haven't looked at this in a while, but, you
11 know, this scenario could be the situation where we're
12 allocating the expense based on the power plant construction
13 that has occurred. And to the extent they're using power plant
14 that we have already inputted and had working in our CO, then
15 this could be saying that we're allocating a certain amount of
16 the costs associated with something that was put in already
17 previously, not necessarily on this particular request, which
18 is what's leading it to that. Without looking at it in detail,
19 I couldn't tell you. But I agree with you that proration does
20 imply that you get back to a whole.

21 Q Okay. Let's kind of go away from Kentucky and look
22 at Florida. But let me make sure I understand. Now, when you
23 guys are developing these rates in terms of this cost study,
24 you're using all the states; right? You're using data from at
25 least the states that you have data points for?

1 A Correct.

2 Q So Alabama information is in there, North Carolina
3 information is in there, Florida information is in there,
4 Kentucky information is in there, and you kind of use all of
5 these numbers; right?

6 A Correct.

7 Q Okay. Mr. Shell, again, these are documents that
8 were contained in the same discovery request, the responses to
9 request for production of documents Number 32 that is Staff
10 Exhibit 22 and BellSouth Confidential Stipulation-3.

11 Now, if I can just go to the very top one and let me
12 ask you about that. We've got a total plant construction cost.
13 There's a number of pieces of equipment, rectifiers and
14 batteries and BDFBs put in. And yet as I understand it, this
15 thing with the parentheses means that the amount already
16 charged to the CLECs for this particular augment job is already
17 well more than double the total plant construction cost; isn't
18 that correct?

19 A Well, I'm not sure it's more than double. Are you
20 saying the 18 --

21 Q The number in total not yet allocated to CLECs is --
22 well, yeah, I'm sorry, not more than double, is already more
23 than the total plant construction by -- I don't know what
24 percent that is, but --

25 A Yeah, it's greater.

1 Q -- 20 percent maybe?

2 A Again, I apologize for not really understanding what
3 this represents. I need to find out what exactly this negative
4 in this column represents.

5 Q Well, I think it represents -- if you go and take a
6 look at the -- here, we have a number of CLECs, but one, two,
7 three, four, five, six, seven --

8 MS. WHITE: I'm sorry. I'm going to object. I think
9 Mr. Early is starting to testify here.

10 CHAIRMAN BAEZ: Mr. Early, were you about to testify,
11 sir?

12 MR. EARLY: No.

13 CHAIRMAN BAEZ: Okay.

14 MR. EARLY: I'm just trying to figure out --

15 CHAIRMAN BAEZ: Then please be careful with that.

16 MR. EARLY: Okay.

17 CHAIRMAN BAEZ: Thank you.

18 BY MR. EARLY:

19 Q I think we have 12 CLECs here. Yes, 12 CLECs. And
20 for each CLEC is it accurate to say that there is a total
21 charged to CLEC reflected on each one of those 12 data pages?

22 A Yes. And there's also a prorated share as well.

23 Q Okay. And if you add up for each of those 12 data
24 pages, the number that's shown in total charged to CLEC, don't
25 you get the number from Page 1 that is total not yet allocated

1 to CLECs plus total plant construction?

2 A Okay. You're saying the same math we used earlier?
3 I'd have to check it, but if you've already done the math, I
4 accept it, subject to check.

5 Q Okay. Let me have you take a look at the fourth
6 document in that stack.

7 CHAIRMAN BAEZ: Mr. Early.

8 Q This is the LYHNFLOH, which I assume is Lynn Haven,
9 Florida. And we have a number again in a parentheses, and yet
10 if you go to the column entitled, "Total plant construction,"
11 there's nothing. There was no plant construction required
12 here. So can you explain in that situation what it means when
13 you have prorated share power plant construction with a number
14 and total charged to CLEC with a number?

15 A You know, actually, I think -- I'm looking at my
16 Exhibit WBS-4. And what it's showing is that we showed zero
17 costs for that but we showed the amps. So this is actually a
18 scenario where the CLEC was able to utilize the existing
19 capacity of the central office power without actually paying a
20 charge.

21 Q In the column entitled, "Prorated share power plant
22 construction," if there was no power plant construction
23 required for the incremental amps that that CLEC was being
24 used, why was there a charge there? I'm looking at CLEC Number
25 1 data.

1 A Again, we're using this as a cost document. As far
2 as the charging, I don't know if they charged this or not, but
3 what I'm seeing based on this one is that BellSouth didn't do
4 any power construction plant, so therefore, our total plant
5 construction cost is zero. However, there was \$400
6 approximately worth of power capacity that was being used, so
7 therefore, the amount not allocated or the amount not allocated
8 here is -- I believe that's why it's negative because it's
9 already -- I mean, there's nothing to allocate.

10 Q CLEC Number 1 data, where it says "CLEC Number 1
11 data," that's not a negative number; correct? That's a
12 positive "X" number of dollars in the prorated share of power
13 plant construction; correct?

14 A Yes. I'm sorry. I didn't know it was a question.
15 Yes, that's a positive number.

16 Q So if the cost of providing that incremental amp of
17 power was zero, why is there this additional "X" number of
18 dollars charged to that CLEC for the prorated share of power
19 plant construction?

20 A Are you on Page --

21 Q I'm on CLEC Number 1 data.

22 A Okay. What I'm saying is there is an actual cost for
23 it regardless whether BellSouth had provisioned it or not
24 provisioned it. But, you know, in looking at this scenario, I
25 believe when it says negative total not yet allocated, which

1 means based on the total power plant construction for this job,
2 that there's nothing to allocate it against, so therefore, it's
3 negative.

4 And I believe based on that scenario, going back to
5 the previous ones, to the extent BellSouth had existing
6 capacity, say, in the rectifier, the batteries and so forth and
7 we only added, say, \$100,000 of power plant construction but
8 yet by the time we provisioned all the collocators they were
9 using part of the capacity we already had in existence, so
10 therefore, the amount not yet allocated would be negative
11 because you've allocated all of the amounts you added for that
12 specific request, and now you've gone into allocating what
13 BellSouth already had in its network. I believe that's what
14 this negative number in this scenario means based on looking at
15 this one you just showed me.

16 Q Well, how about the positive number then on CLEC
17 Number 1 data? Because that is a positive number.

18 A Well, there is a cost. I mean, I've got two
19 different things. We have a cost on this page, CLEC 1 data,
20 and we have over here a column labeled "Total not yet
21 allocated," which are different.

22 Q And again, as with Kentucky, is it your testimony
23 that the total charged to CLEC on these Florida documents were
24 not nonrecurring charges that were actually charged to a CLEC?
25 Is that your testimony?

1 A I think as I said before, no or I don't know is the
2 answer, because I don't know how this actually was used. And I
3 only looked at this from the standpoint of the costs that were
4 incurred at the time, not necessarily how this was applied to
5 anyone or if it was applied. So I really don't know.

6 Q Can I get you to go to eight more documents down?
7 It's power plant data for ORLDFLCL, which I assume is Orlando.
8 Can you confirm again that the number in total not yet
9 allocated to CLECs is a sizable percentage which is a negative
10 number? Can you confirm that that number is, in fact, a
11 negative number?

12 A Yes, I can confirm that is negative. Yes.

13 Q So if you go through the individual CLEC data sheets
14 and add together total charged to CLEC, you will come up with
15 total plant construction cost plus this negative number;
16 correct?

17 A That's correct. And again, based on the previous one
18 you showed me, I feel fairly certain that what this represents
19 is the fact that the CLEC has now not only utilized the power
20 capacity in the construction that was implemented on this
21 particular job in the CO, but they also used the capacity
22 BellSouth has in its central office already set up, and that's
23 why you get the negative allocation associated with it.

24 Q Well, the fact that we have construction going on and
25 I think if you add up -- if you have a number of amps that have

1 been requested, that's what caused BellSouth to undergo this
2 power plant augment, isn't it? Isn't that why a power plant
3 augment was performed?

4 A Yes, that's correct. And we mentioned one other
5 point, too, which may be key to this docket is that the number
6 in parentheses really was not used in the study. What was used
7 are the numbers that are on the CLEC data sheets.

8 Q If you add them up, they come up to this number;
9 right?

10 A They come up with the number as you stated before,
11 yes. Well, all I'm saying is that this number in the
12 parentheses was really not germane to the study. It was just
13 there based on the calculation that was done, the numbers that
14 were used. And I'm trying to verify for the Orlando CO that it
15 just used the numbers on the data sheet, which would have been
16 valid if I'm correct in stating that what has happened in this
17 office and anytime you have a negative is that they have gone
18 beyond using the power plant construction that was put in and
19 using existing capacity in BellSouth's network and that's why
20 it's negative.

21 And if I can, I think I was -- I don't want to speak
22 out of turn, but I was reviewing the numbers. And I did verify
23 for the Orlando office what the numbers that are actually used,
24 and I won't say the number, are the total power plant
25 construction and the requested DC amp shown in the

1 CLEC-specific sheets. So those numbers -- the other number is
2 just there. Someone wanted to see it for some reason, but
3 again, what that represents is the fact that there was a
4 certain amount of power plant construction for this CLEC
5 request, and over and beyond that, they are now using other
6 power plant dollars. So that's why the negative amount there.
7 It's related directly to this number, not to -- that's why the
8 abnormal proration, like you said, should come to no greater
9 than zero.

10 Q So you are using the number off of the CLEC data
11 sheets?

12 A As far as the requested amps.

13 Q Oh, as far as the requested amps. And not the
14 dollars?

15 A Not the dollars.

16 Q Why are the dollars there?

17 A Again, we're using the sheet that was there for the
18 purposes -- we're only using it from a cost development
19 standpoint. So I don't know what other use they had of this.

20 Q Okay. Well, let me ask you a very specific question
21 about this one. With regard to CLEC Number 12.

22 A Excuse me? CLEC number?

23 Q Twelve. The CLEC that ordered that amount of power
24 was AT&T Communications of the Southern States; correct?

25 A That's correct.

1 Q Okay. Is it your testimony that AT&T Communications
2 of the Southern States was not charged a nonrecurring charge of
3 the dollar amount reflected in the column entitled, "Total
4 charged to CLEC"?

5 MS. WHITE: Okay. I'm going to object because I know
6 that Mr. Shell has said on at least five or six occasions that
7 he does not know whether the CLECs were actually charged those
8 amounts in that column.

9 MR. EARLY: Well, I think if he doesn't know that
10 piece of information, then I think it reflects on the data
11 that's contained in this cost study and how rates are being set
12 pursuant to the cost study.

13 MS. WHITE: Well, then you can make that argument in
14 your brief.

15 CHAIRMAN BAEZ: Hold on.

16 MS. WHITE: I'm sorry.

17 CHAIRMAN BAEZ: Hold on, Ms. White. The question has
18 been asked, and Mr. Shell has answered that he doesn't know
19 what the ultimate use of those columns were. Do you agree with
20 that?

21 MR. EARLY: I believe he has said that as a general
22 proposition he does not know whether those are charges that
23 were actually billed to a CLEC. I think that's accurate.

24 CHAIRMAN BAEZ: That is correct.

25 MR. EARLY: And I was just trying to get him on --

1 and those have always been fairly generic questions. This is
2 one where it deals with AT&T and the Southern States as to a
3 specific -- if his answer is no, then I'll be done with that.
4 If I can just ask him that question as to that specific CLEC.

5 CHAIRMAN BAEZ: As to that specific CLEC I'll allow
6 it. And we'll move on from that line as well, Mr. Early.

7 MR. EARLY: Okay.

8 BY MR. EARLY:

9 Q Mr. Shell, again, as to AT&T Communications of the
10 Southern States for the job reflected in CLEC Number 12 data
11 for central office ORLDFLCL, do you know whether that total
12 charged to CLEC was actually a charge against AT&T of the
13 Southern States?

14 A I do not know that. What I do know is that is a cost
15 that we incurred. Whether it was charged, I don't know. But
16 just let me make one more point, is that we did not use -- what
17 we used again for the cost study was the total power plant
18 construction for that CO as well as the requested amps total
19 for all the COs.

20 Q Mr. Shell, I'm handing out documents.

21 MR. EARLY: And this, as I understand it, Nancy, this
22 is a nonconfidential document, WBS-4?

23 MS. WHITE: Yes, that's fine. Nonconfidential.

24 BY MR. EARLY:

25 Q I just kind of want to figure out what this is. And

1 the first page of this document shows a figure -- well, this
2 isn't confidential. Okay. It shows a total power plant
3 construction cost for the BellSouth region, and I assume that
4 these are the 711 projects?

5 A That's correct.

6 Q Okay. For those 711 projects, you have a total plant
7 construction cost of \$16,154,045, and total CLEC requested DC
8 amps of 37,656, for a plant construction cost per amp of \$429;
9 is that correct?

10 A That's correct.

11 Q Okay. Now, if I could -- could I have you go to the
12 next page, which is Alabama? Alabama shows a total power
13 construction cost per amp for Alabama of \$49.27. Why is that
14 number so divergent from the region-wide number?

15 A Because it depends on the equipment being ordered at
16 the site, how much of it has been ordered and what type. You
17 could get a rectifier with a cost requirement versus a battery.
18 It may just be modern. It just depends on what is requested.
19 And that's why we chose to get as many data points as possible
20 to balance out the total.

21 Q If I can have you go to Page 18. That page just
22 reflects -- Page 18 of WBS-4. That page just reflects that
23 Georgia data was not included in the study; correct?

24 A I don't think I have Page 18.

25 MS. WHITE: If I may, I think it's just misfiled. If

1 you look at the sixth page, that's page 18. I think it just
2 got mixed up in the copying.

3 MR. EARLY: Yeah, I think you're right.

4 THE WITNESS: Yes. I see it now.

5 BY MR. EARLY:

6 Q Yeah, Page 18 actually in this case comes between
7 Page 5 and 6. Sorry about that.

8 A Got it. Okay.

9 Q But that just reflects that Georgia data was not
10 incorporated into the overall cost study; correct?

11 A Correct.

12 Q Florida is on Page 6, real Page 6, and it reflects a
13 power construction cost per amp of \$527.29 for Florida;
14 correct?

15 A That's correct.

16 MR. EARLY: Just give me one second.

17 CHAIRMAN BAEZ: Mr. Early.

18 MR. EARLY: Yes.

19 CHAIRMAN BAEZ: If you've got a lot of cross left,
20 it's a good time to find a breaking point.

21 MR. EARLY: I think I am pretty much to the end.

22 BY MR. EARLY:

23 Q Let me ask you one question about -- you indicated in
24 some of your testimony that Paragraph 51 of the FCC order
25 authorized BellSouth to recover costs related to the

1 construction of power plants as a space preparation cost; is
2 that accurate?

3 A That's correct.

4 Q All right. Let me hand you a copy of what I believe
5 to be the paragraph that you're referring to. This is
6 FCC 99-48, First Report and Order and Further Notice of
7 Proposed Rulemaking, released March 31, 1999. And under the
8 section on Page 4789 entitled, "Space Preparation Cost
9 Allocation," is that the Paragraph 51 that you're referring to?

10 A Yes, it is.

11 Q Okay. So on the fifth line -- well, starting on the
12 fourth line, it says, if an incumbent LEC implements cageless
13 collocation arrangements in a particular central office that
14 requires air conditioning and power upgrades, the incumbent may
15 not require the first collocating party to pay the entire cost
16 of preparation. Does the term "power upgrades" as used in that
17 paragraph, in your mind, include augments to the power plant
18 for the central office?

19 A Yes.

20 Q So it's something more than the wall units and the
21 switches, the little light switches and stuff like that that
22 you would use in preparing a space for use by a person; is that
23 correct?

24 A Yes.

25 Q Now, do you know if the Florida Public Service

1 Commission has ever taken any position with regard to whether
2 power plant costs are to be considered in the cost of space
3 preparation?

4 A In a previous arbitration, they accepted our costs
5 similar to what we're providing to now. We've updated somewhat
6 with factors, but I can't speak for the Commission as to
7 whether they, you know, specifically accepted it. I can't
8 refer to an order or anything off the top of my head that
9 references it.

10 Q Okay. Well, let me hand you a document and have you
11 just take a look at it and see if that causes you to give any
12 further thought as to whether or not these costs are
13 recoverable as space preparation costs. This is an order
14 entered in -- and I've just given you the excerpt, but it's in
15 Docket Number 960757-TP, order issued April 29, 1998. And if I
16 can refer you to Page 153 of that order, which is Page 2 of the
17 document I just gave you, there's a section entitled, "Power."
18 Do you see that?

19 A Yes. Yes, I do.

20 Q And there's a discussion of power. And if you go to
21 Page 155, which is the last page -- and if you need to read the
22 rest of it, that's fine.

23 A I may. But you can go ahead and ask the question if
24 you'd like.

25 Q There's the sentence in the very last paragraph prior

1 to the conclusion that says, "Power plant investment shall not
2 be included in any space preparation charge assessed to a
3 collocator." Do you see that sentence?

4 A Not yet.

5 Q Okay.

6 A Where is it in the sentence?

7 Q It's in the paragraph immediately prior to the
8 paragraph headed "Conclusion," and it's seven lines down
9 starting with "Therefore."

10 A Okay. I'm with you. Okay. What this is referring
11 to is at this point in time we had the individual case basis,
12 ICB, arrangements. And to me, what this paragraph is saying is
13 up front it's basically validating that it's appropriate to
14 apply these charges on a recurring basis, and that we say as
15 power plant expansions are more appropriately recovered in
16 recurring because they will benefit both BellSouth and future
17 collocators.

18 And then it goes on to say, "Therefore, power plant
19 investment shall not be included in any space prep charge."
20 And I can go back and look at what they're referring to, but
21 I'm pretty sure they're referring to our -- one time when we
22 did our ICBs, we had a space prep nonrecurring one-time fee.
23 And I think what this is saying is, you know, forget the
24 one-time nonrecurring fee, it's more appropriate to have it all
25 included in a recurring power charge as opposed to a one-time

1 ICB space prep charge.

2 Q Okay. Let me ask you one question about that and I
3 think I'm done. DC power is charged or is billed to CLECs by a
4 recurring charge --

5 A That's the way BellSouth does it, yes.

6 Q -- per amp, and that's what this order -- that's what
7 this PSC order says you should do; correct?

8 A I think it said that it's more appropriately
9 recovered in recurring charge. I didn't really definitively
10 say --

11 Q It's not a space preparation charge, it's a per
12 amp --

13 A Yes. So it would be more appropriate, yes.

14 Q So when you referred to FCC Paragraph 51 in your
15 testimony as being -- as influencing somehow the cost study,
16 how did FCC 51 -- FCC Paragraph 51 in the exhibit I gave you,
17 how does that bear into the reflection or into the calculation
18 of the per amp cost in your cost study? Because you referred
19 to it several times.

20 A Yeah, it had a big influence. At the time this order
21 came out, there was a lot of debate on going to the FCC and the
22 Commission regarding intervals and having nonrecurring charges
23 that were considered barriers to entry.

24 So what BellSouth did, you know, we began developing
25 standard rates. Before then we didn't have it. And given this

1 order, it gave us the ability -- and we were already prorating
2 power costs as well as augment costs. We said, to develop a
3 standard rate, let's just prorate, get all the data we've done
4 previously for all these augments and instead of prorating by
5 CO, let's do a total 711 jobs, as many as we can get to develop
6 this cost. So that FCC order, again pushing the intervals,
7 pushing the lower nonrecurring charges led us to do this. And
8 based on the fact we were doing it already and that's what they
9 wanted us -- in other words, not have a one charge that would
10 be so much greater for one party and someone else not pay, we
11 chose to use this method of augments to using the data we had
12 and just develop a one set standard rate fee so that it would
13 be decisive and no questions about what the charge would be.
14 So this was very instrumental in really leading us to our
15 methodology.

16 MR. EARLY: I have no further questions of Mr. Shell.
17 Thank you very much.

18 CHAIRMAN BAEZ: Thank you, Mr. Early. We're going to
19 break for an hour and be back here at 2:15.

20 (Lunch recess.)

21 (Transcript continues in sequence with Volume 3.)

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1 STATE OF FLORIDA)
 :
2 COUNTY OF LEON)

CERTIFICATE OF REPORTER

3
4 I, TRICIA DeMARTE, RPR, Official Commission Reporter,
do hereby certify that the foregoing proceeding was heard at
5 the time and place herein stated.

6 IT IS FURTHER CERTIFIED that I stenographically
reported the said proceedings; that the same has been
7 transcribed under my direct supervision; and that this
transcript constitutes a true transcription of my notes of said
8 proceedings.

9 I FURTHER CERTIFY that I am not a relative, employee,
attorney or counsel of any of the parties, nor am I a relative
10 or employee of any of the parties' attorneys or counsel
connected with the action, nor am I financially interested in
11 the action.

12 DATED THIS 9th DAY OF FEBRUARY, 2004.

13 *Tricia DeMarte*

14 _____
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