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February 18, 2000

VIA HAND DELIVERY

David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37238

Re: *Contested Cost Proceeding to Establish Final Cost Based Rates for Interconnection and Unbundled Network Elements*
Docket No. 97-01262

Dear Mr. Waddell:

Enclosed are the original and thirteen copies of the Comments of BellSouth Telecommunications, Inc. Copies of the enclosed are being provided to counsel of record for all parties.

Very truly yours,

Guy M. Hicks

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Enclosure

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POSTED 2-18-00

BEFORE THE TENNESSEE REGULATORY AUTHORITY
Nashville, Tennessee

In Re: ***Contested Cost Proceeding to Establish Final Cost Based Rates for Interconnection and Unbundled Network Elements***

Docket No. 97-01262

REPLY COMMENTS OF BELLSOUTH TELECOMMUNICATIONS, INC.

I. INTRODUCTION

Pursuant to the February 4, 2000 Notice of the Prehearing Officer, BellSouth Telecommunications, Inc. ("BellSouth") respectfully submits this reply to address the comments of AT&T Communications of the South Central States, Inc. ("AT&T"). In its comments, AT&T falsely accuses BellSouth of filing revised cost studies that do "not compl[y] with" and that "contraven[e]" the November 3, 1999 Order of Tennessee Regulatory Authority ("Authority"). AT&T also urges the Authority to made additional adjustments to BellSouth's cost studies that were not required by the Authority's November 3 Order and that, if adopted, would result in an $11.05 loop rate in Tennessee, at least according to AT&T. AT&T's accusations are without merit, and its proposed adjustments are nothing more than an attempt to reduce artificially the cost of a loop in Tennessee, particularly since AT&T's own cost model determined that the forward-looking cost of an unbundled loop in this State is at least $16.12.

II. DISCUSSION

A. Integrated Digital Loop Carrier ("IDLC") Assumptions

Consistent with the Authority's November 3 Order, BellSouth's revised cost studies assumed the deployment of a mix of IDLC and universal digital loop carrier ("DLC") technology. Although IDLC is "an efficient forward looking technology," BellSouth deploys universal DLC in its network today and will continue to do so for the foreseeable future, because

universal DLC is the economic choice in many cases, such as for non-switched circuits, including many private line and data circuits.

AT&T claims that BellSouth's revised cost studies should have assumed that "*all* (100%) DLC loops are served by IDLC ...." AT&T Comments at 3 (emphasis in original). However, AT&T does not point to any language in the Authority's November 3 Order that directed BellSouth to employ a 100% IDLC assumption. Indeed, AT&T conveniently ignores that the Authority directed BellSouth to assume a mix of 70.38% IDLC and 29.62% analog terminations in calculating the cost of the switch port. November 3 Order at 23. The analog terminations in BellSouth's switching cost model reflect a mix of lines that are not on DLC (i.e., copper) and that are served on universal DLC. Thus, in order to maintain consistency between the outside plant facilities and the central office switch terminations, BellSouth had to calculate the mix of IDLC and universal DLC for use in the BellSouth loop model. This calculation resulted in a distribution of DLC loops as 87.94% IDLC and 12.06% UDLC, which is completely consistent with the Authority's November 3 Order.[1]

AT&T also argues that BellSouth's revised cost studies should be adjusted to assume that all BellSouth's IDLC loops are served by GR303. AT&T Comments at 3. This argument is flawed. First, neither the Authority's January 25, 1999 Interim Order nor the November 3 Order

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[1] This distribution was calculated as follows. First, BellSouth determined the split between the number of analog switch terminations served on copper and those served on universal DLC by utilizing data from the loop sample. This split was 32.6% universal DLC (21.28% universal DLC ÷ (21.28% universal DLC + 44% copper)) and 67.4% copper (44% copper ÷ (21.28% universal DLC + 44% copper)). Second, BellSouth multiplied the result of this calculation by the 29.62% analog switch terminations established by the Authority to arrive at the following distribution: 9.96% universal DLC (32.6% x 29.62%) and 19.96% copper (67.4% x 29.62%). Third, because the distribution between universal DLC and IDLC is an input to the BellSouth loop model, BellSouth determined the following mix based on the previous calculation and the 70.38% IDLC assumption for the switch port cost established by the Authority: 87.94% IDLC (70.38% IDLC ÷ (70.38% IDLC + 9.96% universal DLC)) and 12.06% universal DLC (9.96% universal DLC ÷ (70.38% IDLC + 9.96% universal DLC)).

directed BellSouth to assume 100% deployment of GR303, and AT&T does not contend otherwise. Rather, AT&T is belatedly attempting to seek reconsideration of the Authority's January 25 Order, nearly one year after the fact. AT&T's request is untimely, and to the extent AT&T believed the Authority should have adjusted BellSouth's cost studies to reflect GR303, AT&T should have raised the issue long before now.

Second, even assuming AT&T's argument about GR303 were procedurally proper (which is not the case), AT&T's proposed adjustment ignores the existing and projected deployment of GR303 technology in BellSouth's network, even on a going-forward basis. Currently, less than one percent of BellSouth's access lines are served by GR303 across the entire region. Although AT&T contends that assuming 100% GR303 is consistent with assuming 100% digital switches, AT&T Comments at 7, BellSouth still deploys TR008 in its network and will continue to do so throughout the study period. The same cannot be said about analog switches or the deployment of copper interoffice transport facilities, notwithstanding AT&T misguided claims to the contrary.[2]

While GR303 is a newer technology, and may eventually replace TR008 someday, assuming 100% deployment of GR303 today ignores reality. Even AT&T has acknowledged that deploying GR303 would not make economic sense in all circumstances. *See* Testimony of Catherine Petzinger, *In re: Generic Proceeding to Establish Long-Term Pricing Policies for Unbundled Network Elements,* Tr. at 56-57, Docket 10692-U (Ga. Public Service Comm'n).

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[2] AT&T's claim that BellSouth "still deploys some analog switches" and its suggestion that BellSouth continues to deploy copper interoffice facilities in its network today are false. AT&T Comments at 7. BellSouth is making a concerned effort to eliminate all analog switches from its network and only utilizes fiber interoffice facilities. While some analog switches and copper interoffice facilities may exist in the network today, they are not being deployed today. That is not the case with TR008 DLC systems, which BellSouth continues to deploy today.

Although AT&T claims that assuming 100% GR303 would reduce the cost of a 2-wire loop by $0.81, AT&T Comments at 16, AT&T never identifies the inputs it changed to BellSouth's cost model to ostensibly reflect GR303 requirements. The reason AT&T did not do so is relatively straightforward – it is not possible to take into account GR303 requirements by simply changing a handful of inputs to BellSouth's cost model, as AT&T suggests. Rather, BellSouth's cost model would have to be overhauled because assuming 100% GR303 requirements would necessitate a redesign of the local network upon which BellSouth's cost model is based. There is no reason for the Authority to require BellSouth to engage in such an exercise, particularly when assuming 100% deployment of GR303 ignores the existing and projected deployment of such technology, even on a going-forward basis.[3]

B. BellSouth's Georgia Combination Cost Studies

AT&T expresses concern about BellSouth's failure to include in its revised cost studies "changes to reflect the advance of forward-looking technology" when such changes were included in cost studies BellSouth recently filed in Georgia. AT&T Comments at 11. However, the only revisions BellSouth made to its existing studies in this proceeding were those directed by the Authority November 3 Order. By contrast, the cost studies in Georgia were "new" studies that reflected updated costs where appropriate. This Authority did not direct BellSouth to update

[3] The Hatfield Model presumably reflects the deployment of 100% GR303 IDLC technology, since, according to AT&T, the Hatfield Model is the "most current and accurate means" of calculating the forward-looking cost of unbundled network elements "that an efficient provider in a competitive environment would incur to provide telecommunications services in the Tennessee market." AT&T Post-Hearing Brief at 1 & 42. Yet, the cost of a 2-wire loop using the Hatfield Model, as adjusted by the Authority, is almost $6 higher than the cost resulting from the additional adjustments to BellSouth's cost studies as advocated by AT&T. This cost disparity is fatal to AT&T's claim for further adjustments to BellSouth's cost studies.

all of the inputs to the study in its compliance filings, and it would have been inappropriate for BellSouth to have done so at this stage of the proceeding.

C. Drop Lengths

While acknowledging that BellSouth adjusted the material prices in its cost studies to reflect a 100 foot drop length, as required by the Authority's November 3 Order, AT&T complains that BellSouth should also have made additional adjustments to its contract burial and installation costs. AT&T Comments at 12. This complaint ignores that BellSouth pays a fixed rate for the placement for drops up to 500 feet. Thus, the contract burial and installation cost BellSouth is expected to pay is unaffected by whether the drop length is 100 feet or 250 feet or even 300 feet, as originally assumed in BellSouth's cost studies. BellSouth's fixed contract rate assumption is reasonable because the incremental cost to the contractor of placing additional length of drop is negligible, since the majority of the contractor's costs are associated with travel and set up.

D. Operational Support System ("OSS") Recovery

There is no merit to AT&T's criticism of BellSouth's calculation of the OSS costs which the Authority's November 3 Order required be added to the recurring rate for all unbundled network elements. AT&T Comments at 12. While insisting that it did not "appear that BellSouth has properly capitalized its OSS costs," BellSouth followed precisely the methodology established by the Authority, which directed that all OSS costs be "recovered over the life of the Operational Support Systems using the appropriate depreciation lives [7 years]." November 3 Order at 32. This calculation is reflected on Attachment 1 of BellSouth's compliance filing, and AT&T does not and cannot point to any error in that calculation.

Equally without merit is AT&T's argument that BellSouth's cost studies should have allocated some "amount to BellSouth's operations from recovery of its OSS development costs,"

since, according to AT&T, BellSouth "benefits" from the OSS systems. AT&T Comments at 13. AT&T ignores the fact that the OSS costs at issue pertain only to the expenses associated with electronic interfaces that were developed solely for and used solely by CLECs. Moreover, the Authority directed that OSS costs be borne by "all users of the OSS systems ...." November 3 Order at 44. Because BellSouth does not use the electronic interfaces at issue (and AT&T does not contend otherwise), BellSouth was not required to include its retail operations in the OSS development cost recovery calculation.

E. Vertical Features

AT&T's claim that "vertical features are nothing more than software in the switch," AT&T Comments at 15), is belied by the Authority's November 3 Order. The Authority specifically directed BellSouth to "include feature-specific costs (e.g., the costs of specialized hardware, right-to-use fees, and the cost of administrative provisioning time associated with vertical features) in its TELRIC estimates ....." November 3 Order at 44. This is precisely what BellSouth has done. That BellSouth has calculated the "feature-specific costs" of individual vertical features is in no way inconsistent with the Authority's findings that "the price of the switch port should include all features." AT&T Comments at 14. In order to come up with the price of the switch port, one simply has to add the costs of all the vertical features to the port cost. While AT&T may be entitled "to all of the vertical features that the switches are capable of providing," AT&T must pay for the costs of those features, which BellSouth has calculated consistent with the Authority's November 3 Order.

III. CONCLUSION

AT&T's demand for yet more adjustments to BellSouth's cost studies is nothing than an attempt to improperly reduce the costs AT&T and other CLECs must pay for the use of BellSouth's facilities in Tennessee. If AT&T had its way, CLECs in this State would pay

slightly more than $11.00 for an unbundled loop, even though, by AT&T's own calculation, the forward-looking cost of an unbundled loop in Tennessee is at least $16.12.

AT&T's request for additional adjustments ignores that if rates were established using BellSouth's cost studies as already adjusted by the Authority, *the rate for a two-wire loop in Tennessee ($14.92) and a two-wire line port ($1.70) would be the lowest in BellSouth's region.* Such a result is patently unreasonable, particularly since, according to both AT&T and the Federal Communications Commission, the forward-looking cost of network elements in Tennessee are among the highest in BellSouth's region. As BellSouth stated in its original comments, and as only underscored by AT&T's latest filing, establishing rates based upon BellSouth's cost studies as adjusted by this Authority would not result in "just and reasonable" rates for network elements as required by the Telecommunications Act of 1996.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on February 18, 2000, a copy of the foregoing document was served on the parties of record as indicated:

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