BellSouth Telecommunications, Inc.
Suite 2101
333 Commerce Street
Nashville, Tennessee 37201-3300

615 214-6301
Fax 615 214-7406

Guy M. Hicks
General Counsel

April 14, 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 BellSouth Telecommunications, Inc.'s response to Director Greer's data request of April 10, 2000. Copies of the enclosed are being provided to counsel of record for all parties.

Very truly yours,

Guy M. Hicks

GMH:ch
Enclosure

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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

BELLSOUTH TELECOMMUNICATIONS, INC.'S DEAVERAGING PROPOSAL

I. INTRODUCTION

Pursuant to the April 10, 2000 Notice of the Tennessee Regulatory Authority ("Authority"), BellSouth Telecommunications, Inc. ("BellSouth") respectfully submits its proposal for geographic deaveraging of the proxy prices adopted by the Authority in Dockets No. 96-01152 and 96-01271. As outlined in greater detail below, BellSouth proposes that the Authority deaverage the proxy prices for the local loop based upon established rate groups.

II. DISCUSSION

A. Which Network Elements Should Be Deaveraged?

Federal Communication Commission ("FCC") Rule 51.507(f) requires state commissions to establish different prices for unbundled network elements in at least three cost-related zones within the state to reflect geographic cost differences. 47 C.F.R. § 51.507(f). The FCC stayed the effectiveness of this rule until six months after the FCC implemented high-cost universal service support for non-rural local exchange carriers ("LECs"). With the November 2, 1999 release of the FCC's order in CC Docket No. 96-46, the stay of Rule 51.507(f) will be lifted effective May 1, 2000. As such, state commissions are required to deaverage prices for unbundled network elements to the extent they exhibit geographic cost differences.

There is no dispute that the recurring cost of an unbundled loop varies by geographic location. However, other unbundled network elements either do not display the same level of cost variation by geographic location or have price structures that already account for geographic cost differences. Thus, BellSouth believes that the recurring cost of the local loop is the only network element that should be deaveraged in this proceeding.

For example, switching does not vary significantly by geographic location. None of the factors that make the loop cost vary are present with respect to switching cost calculations. The physical characteristics of the loop and the placement costs associated with that loop vary by geographic location due to weather, terrain, and distance. However, these factors do not impact switching costs to any great degree. Another factor -- customer density -- also has little impact on switching costs since the modularity of digital switching equipment allows LECs to grow switches as demand dictates. Also, remote switch entities can be deployed to serve pockets of customers. There is one factor that does contribute to the variation in switching costs – namely, the vendor, since the two dominant switch vendors, Lucent and Nortel, have different switch architectures. The result is that the distribution between traffic-sensitive ($/Minute of Use) and non-traffic-sensitive (port) costs differs purely because of this difference in vendor architecture, not due to any geographic difference.

Additionally, switching cannot be viewed in the same manner as local loops because logically one cannot isolate one switch from the network. The switch is a part of a total integrated network. To segment individual switches based on individual cost differences ignores the interdependencies between switch entities. This is clearly a problem for remote switches that are dependent on a host switch for a number of functions including interoffice call processing, access to 911, operator functions, and features such as Caller ID.

The cost of other unbundled network elements may vary by geographic location, but these cost differences are reflected in existing rate structures without the need for deaveraging. An example is interoffice transport. The rate structure for interoffice transport is on per mile basis. Unlike the recurring cost of an unbundled loop, which does vary by geographic location, the rate structure for interoffice transport already accounts for geographic differences by eliminating length from the equation. Thus, there is no reason to include interoffice transport in the deaveraging scheme. Of course, some of the physical attributes of the interoffice route will impact the costs just as they do in the loop, e.g., the type of placement. However, because the cost is expressed on a per unit (mile) basis, these differences are negligible.

Every state commission in BellSouth's region that to date has established deaveraged rates for unbundled network elements has done so only with respect to loops (and certain combinations involving the loop). *See, e.g.,* Order Adopting Joint Stipulation for Deaveraged UNE Rates, *In re: Review of Cost Studies, Methodologies, and Cost-Based Rates for Interconnection and Unbundling of BellSouth Telecommunications Services,* Docket No. 7061-U (Ga. Public Service Comm'n April 4, 2000) (approving stipulation to deaverage recurring rates for unbundled loops and certain UNE combinations involving the loop); Order, *In re: An Inquiry Into the Development of Deaveraged Rates For Unbundled Network Elements*, Administrative Case No. 382 (Ky. Public Service Comm'n March 24, 2000) (same).

B. How Should Prices Be Deaveraged?

BellSouth proposes that the appropriate basis for deaveraging loop prices is the market conditions which exist within each of the designated geographic areas. The concept is that prices should vary when there are significant cost or market variations. While statewide averaged loop prices currently exist in Tennessee, the purpose of deaveraging is to better reflect differences that exist among the geographic areas.

Geographic differences and end-user markets should be used as the criteria to assign the existing local exchange rate groups into zones. Rate group costs tend to follow the zoning methodology. Typically, on a loop cost basis, Zone 1 rate groups have costs less than 100% of the statewide average cost, Zone 2 costs are between 100% and 150% of the average and Zone 3 represents costs greater than 150% of the statewide average. BellSouth proposes that the existing local exchange rate groups be mapped into the following three zones:

Primary Metropolitan Areas – (e.g., Nashville, Knoxville)

Rate Groups Four and Five (4, 5) = Zone 1

Secondary Metropolitan Areas – (e.g., Clarksville, Jackson)

Rate Group Three (3) = Zone 2

Non-metropolitan Areas – (e.g., Columbia, Cumberland City)

Rate Groups One and Two (1, 2) = Zone 3

Once the existing rate groups are mapped to each of the three zones, it is necessary to determine the ratio of the average monthly cost per loop in each zone to the state average. This process can be accomplished by using the FCC's Hybrid Cost Proxy Model ("HCPM") and the national inputs as proposed by the FCC for this analysis. In its Ninth Report and Order; Forward-Looking Mechanism for High Cost Support for Non-Rural Carriers (Dockets 96-45 and 97-160), the FCC selected the HCPM as the "model of choice" for use in determining high cost universal service support. In its Tenth Report and order in those same dockets, the FCC further defined input values for use in the HCPM.[1]

[1] Use of the HCPM should not be construed as BellSouth's endorsement of the model, its output results, or the input values, particularly with respect to determining the cost of unbundled network elements. However, use of the HCPM with FCC-ordered input values should be the least contentious method of deaveraging statewide loop rates in Tennessee and thus, should expedite the process, particularly since deaveraged rates must be in place by May 1, 2000.

By using HCPM, BellSouth determined the following ratios:

Zone 1 (Rate Groups 4, 5) 88.42% of statewide average

Zone 2 (Rate Group 3) 115.48% of statewide average

Zone 3 (Rate Groups 1, 2) 151.00% of statewide average

These ratios are then applied to the proxy loop price ($18.00) approved by the Authority in Dockets No. 96-01152 and 96-01271, which results in the following deaveraged proxy prices:

	Proxy* Statewide Rate	Zone 1	Zone 2	Zone 3
Unbundled Loop (Recurring Rates)		88.42%	115.48%	151.00%
2-wire analog voice grade loop -	**$ 18.00**	$ 15.92	$ 20.79	$ 27.18
4-wire analog voice grade loop	**$ 18.00**	$ 15.92	$ 20.79	$ 27.18
2-wire ISDN digital grade loop	**$ 18.00**	$ 15.92	$ 20.79	$ 27.18
Zone Make-up				
Zone 1 (RG4-5) = Nashville, Knoxville				
Zone 2 (RG3) = Clarksville, Jackson				
Zone 3 (RG1-2) = Columbia, Cumberland City				
***Statewide rates from orders in Dockets No. 96-01152 and 96-01271. (AT&T and MCI Arbitrations)**				

The FCC's geographic deaveraging rule gives the Authority discretion in defining geographic areas within the State of Tennessee to reflect geographic cost differences. *See* 47 CFR § 51.507(f)(1) (in establishing geographically-deaveraged rates, state commissions "may use existing density-related zone pricing plans" or "other such cost-related zone plans established pursuant to state law"). In exercising its discretion under the Telecommunications Act of 1996, the Authority must always "remain focused on the long term interests" of the citizens of Tennessee. *See MCI Telecommunications Corp. v. BellSouth Telecommunications, Inc.*, 40 F. Supp. 2d 416, 424 (E.D. Ky. 1999) (affirming Kentucky Commission's refusal to establish geographically deaveraged rates prior to Rule 51.507(f) taking effect, holding that the Kentucky Commission's "effort to prevent new entrants from seeking the lowest possible overhead to serve the most lucrative customers" was lawful).

BellSouth's proposal that rates be geographically deaveraged based upon established rate groups is consistent with this public interest approach. Deaveraging based upon rate groups would provide more competitive choices to a greater number of customers, including those in rural areas, by recognizing the relationship between retail telephone rates in Tennessee and the cost of unbundled network elements. At least one federal district court has recognized such a relationship when it upheld the Kentucky Commission's decision to defer the consideration of deaveraged costs to subsequent universal service proceedings. *See Id.* Other state commissions have as well in establishing deaveraged loop rates based upon existing rate groups. *See, e.g., in re: Sprint Communications Companies, L.P.'s Petition for Arbitration of Interconnection Rates, Terms, Conditions and Related Arrangements With GTE Midwest, Inc.*, 176 P.U.R. 4th 285 (MO Pub. Service Comm'n, Jan. 15, 1997) (finding it appropriate "to set geographically deaveraged interim rates for unbundled loops, with the rates deaveraged into four zones based upon GTE's existing rate groups").

The Authority should decline any invitation to deaverage loop rates based upon wire centers, which will only ensure lower loop rates in the metropolitan areas at the expense of competition in rural areas. Deaveraging based upon wire centers poses other difficulties as well. For example, it could result in a competing local exchange carrier ("CLEC") having to pay different loop rates in order to serve customers that live across the street from one another simply because the customers are served from different wire centers. This could result in the dissimilar treatment of customers who are similarly situated in all respects (except for the location of their serving wire center).

CLECs understandably desire to obtain as low a loop rate as possible in those areas where they are competing, which, for the overwhelming part, has been the metropolitan areas in Tennessee. However, this desire does not outweigh the Authority's obligation to "promote

competition" and "secure lower prices and higher quality services" for all Tennessee telecommunications consumers, including those who live in rural areas in the State. H. Rep. No. 104-204, 1 (July 24, 1995). Deaveraging rates for unbundled network elements by rate groups is consistent with that obligation, which cannot be said about deaveraging based upon wire centers.

III. CONCLUSION

Utilizing local exchange rate groups to deaverage loop prices meets the requirements set forth by the FCC and provides consistency between the structure of BellSouth's retail, resale and prices for unbundled network elements. As such, end-users with similar calling areas and located in the same geographic region will be in the same deaveraged zone for loop pricing purposes. Furthermore, using existing rate groups as the basis for establishing pricing zones results in a more balanced pricing structure for unbundled network elements. Accordingly, the Authority should adopt BellSouth's proposal to deaverage the proxy price for the local loop based upon established rate groups.

Respectfully submitted this 14th day of April, 2000.

BellSouth Telecommunications, Inc.

Guy M. Hicks
333 Commerce Street, Suite 2101
Nashville, TN 37201-3300
615/214-6301

R. Douglas Lackey
Bennett L. Ross
675 W. Peachtree St., NE., Suite 4300
Atlanta, GA 30375

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CERTIFICATE OF SERVICE

I hereby certify that on April 14, 2000, a copy of the foregoing document was served on the parties of record as indicated:

[✓] Hand [ ] Mail [ ] Facsimile [ ] Overnight	Richard Collier, Esquire Tennessee Regulatory Authority 460 James Robertson Parkway Nashville, TN 37243-0500
[ ] Hand [✓] Mail [ ] Facsimile [ ] Overnight	Henry Walker, Esquire Boult, Cummings, et al. 414 Union Ave., #1600 P. O. Box 198062 Nashville, TN 39219-8062
[ ] Hand [✓] Mail [ ] Facsimile [ ] Overnight	Dana Shaffer, Esquire NEXTLINK 105 Malloy Street, #300 Nashville, TN 37201
[ ] Hand [✓] Mail [ ] Facsimile [ ] Overnight	Erick Soriano Kelley, Drye & Warren 1200 19th St., NW, #500 Washington, DC 20036
[ ] Hand [✓] Mail [ ] Facsimile [ ] Overnight	James Wright, Esq. United Telephone - Southeast 14111 Capitol Blvd. Wake Forest, NC 27587
[ ] Hand [✓] Mail [ ] Facsimile [ ] Overnight	Jon Hastings, Esquire Boult, Cummings, et al. 414 Union St., #1600 Nashville, TN 37219
[ ] Hand [✓] Mail [ ] Facsimile [ ] Overnight	Val Sanford, Esquire Gullett, Sanford, Robinson & Martin 230 Fourth Ave., N., 3d Fl. Nashville, TN 37219-8888

[ ] Hand
[✓] Mail
[ ] Facsimile
[ ] Overnight

Vincent Williams, Esquire
Office of the Attorney General
Consumer Advocate Division
426 Fifth Ave., N., 2nd Fl.
Nashville, TN 37243-0500

[ ] Hand
[✓] Mail
[ ] Facsimile
[ ] Overnight

Don Baltimore, Esquire
Farrar & Bates
211 Seventh Ave., N., #320
Nashville, TN 37219-1823

[ ] Hand
[✓] Mail
[ ] Facsimile
[ ] Overnight

Charles B. Welch, Esquire
Farris, Mathews, et al.
205 Capitol Blvd, #303
Nashville, TN 37219

[ ] Hand
[✓] Mail
[ ] Facsimile
[ ] Overnight

Kenneth Bryant, Esquire
Trabue, Sturdivant & DeWitt
511 Union St., #2500
Nashville, TN 37219-1738

[ ] Hand
[✓] Mail
[ ] Facsimile
[ ] Overnight

William C. Carriger, Esquire
Strang, Fletcher, et al.
One Union Square, #400
Chattanooga, TN 37402

[ ] Hand
[✓] Mail
[ ] Facsimile
[ ] Overnight

James P. Lamoureux
AT&T
1200 Peachtree St., NE, #4068
Atlanta, GA 30367