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April 19, 2000

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Re: PETITION TO CONVENE A CONTESTED CASE PROCEEDING TO ESTABLISH PERMANENT PRICES FOR INTERCONNECTION AND UNBUNDLED NETWORK ELEMENTS
Doc. No. 97-01262

Dear Mr. Waddell:

Enclosed for filing, please find the original and thirteen (13) copies of the Comments of the Tennessee Cable Telecommunications Association.

If you have any questions or concerns with regard to this filing, please do not hesitate to contact me.

Sincerely yours,

FARRIS, MATHEWS, BRANAN
BOBANGO & HELLEN, P.L.C.

Charles B. Welch, Jr.

Charles B. Welch, Jr.

cc: Carolyn Marek
Stacey Burks

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE: **PETITION TO CONVENE A CONTESTED CASE PROCEEDING TO ESTABLISH PERMANENT PRICES FOR INTERCONNECTION AND UNBUNDLED NETWORK ELEMENTS**	**DOCKET NO. 97-01262**

COMMENTS OF THE
TENNESSEE CABLE TELECOMMUNICATIONS ASSOCIATION

The Tennessee Cable Telecommunications Association ("TCTA"), by and through counsel, respectfully submits its comments regarding the April 14, 2000 proposals of BellSouth Telecommunications, Inc. ("BellSouth") and AT&T to establish interim, deaveraged rates for unbundled network elements.

The Tennessee Regulatory Authority ("TRA") initiated this phase of the docket in response to the Federal Communications Commission's ("FCC") order that state commissions deaverage rates for unbundled network elements. ("UNEs") Specifically, Rule 51.507(f) of the FCC's rules and regulations requires state regulatory authorities to establish "different rates for elements in at least three geographic areas within the state to reflect geographic cost differences." As explained in the FCC's Ninth Report and Order and Eighteenth Order on Reconsideration in CC Docket No. 96-45 (paragraph 120), Rule 51.507(f) has not been in effect since May 7, 1999. Rule 51.507(f)'s stay was lifted pursuant to the FCC's Order in CC Docket 96-45, wherein the FCC discussed how the federal program would provide non-rural local exchange carriers with high-cost universal service support. Thus, in order to comply with the FCC's order, the TRA must establish deaveraged rates for UNEs in at least three geographic zones on or before May 1, 2000.

Generally, the BellSouth and AT&T proposals to implement deaveraged rates for the unbundled loop are based upon reasonable methodologies. Both carriers adopt cost results from a forward-looking, economic cost model. They use these results as a proxy to determine a loop's monthly-average cost on a wire-center basis. The companies' proposals then assign the loop-cost wire center results to one of three geographic zones. The average monthly cost-per-loop in each zone is both calculated and compared to the estimated statewide cost-per-loop average as determined by the cost proxy model. The proposed geographic deaveraged rates for the unbundled loops are derived by applying the resulting ratio for each zone to the existing statewide average UNE rates established by the arbitrators in Docket Nos. 96-01152 and 96-01271.

BellSouth's and AT&T's approaches to calculate interim, deaveraged UNE rates differ in two key areas: (1) their assignments of wire centers to geographic zones; and (2) their calculations of the cost-proxy model results which are used to estimate the wire centers' average-monthly-loop cost. BellSouth assigns wire centers to geographic zones based upon the company's existing rate-group plans. However, AT&T assigns wire centers to geographic zones based upon wire centers' relative average-loop cost. In regard to the second difference, BellSouth uses the FCC's Hybrid Cost Proxy Model ("HCPM") to estimate the average-monthly-loop cost, whereas AT&T proposed UNE rates are based upon the cost output of the Hatfield Model.

BellSouth's proposal is based upon its belief 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." (BellSouth Telecommunications Inc.'s Deaveraging Proposal, page 3.) The rate group approach proposed by BellSouth, however, is based on considerations that may be meaningless in assessing geographic cost differences within the State of Tennessee. "Market conditions" is a relative term that parties may view differently. BellSouth's perception of Tennessee market conditions should not control the manner in which rates for unbundled loops are geographically deaveraged. While state regulatory authorities retain some discretion in establishing rates for unbundled network elements, the FCC's rules presented in Part 51 emphasize forward-looking, cost-based rates. Ultimately, BellSouth's rate-group approach is likely to blur the distinction in costs between the low-cost wire centers and high-cost wire centers because both low-cost wire centers and high-cost wire centers could be located in the same geographic zone.

The assignment of wire centers to a geographic zone should be founded on the principle that wire centers having similar cost characteristics should be grouped together. AT&T's assignment of the wire centers to three geographic zones is consistent with this principle, and will likely result in reasonable, deaveraged rates for the unbundled loop on an interim basis.

AT&T's approach to assign wire centers to geographic zones may be reasonable, but its decision to use the monthly loop-cost-results generated by the Hatfield Model is flawed. The company has already sponsored the cost results of the Hatfield Model in this proceeding, and has acknowledged that the arbitrators in Docket Nos. 96-01152 and 96-01271 rejected this model's rates. A more objective platform upon which to establish reasonable, interim rates for deaveraged unbundled loops is to use the cost results generated by the FCC's HCPM. The HCPM is a neutral cost proxy model that the Authority can use to determine the geographic cost differences according to wire center.

In conclusion, the Authority's timely action establishes reasonable, geographically deaveraged rates for unbundled network elements during an interim period and avoids the necessity of seeking a waiver of the FCC's deaveraging rule. Consequently, the Authority is afforded the opportunity to conduct a more comprehensive investigation into the pricing of UNEs on a deaveraged basis. In subsequent UNE proceedings, the Authority will benefit from more detailed analysis of BellSouth's UNE cost studies, including UNE combinations, as well as other parties' direct case presentations. The Authority should express that the implementation of interim UNE rates do not bind or limit its ability to conduct either future UNE or universal service examinations. Furthermore, the Authority should clarify that its adoption of interim UNE rates does not permanently resolve issues related to UNE rates in this docket or any other proceeding.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I Charles B. Welch, Jr., hereby certify that I have served a copy of the foregoing **COMMENTS OF THE TENNESSEE CABLE TELECOMMUNICATIONS ASSOCIATION** on the parties listed below, by depositing copy of same in the U.S. Mail, postage prepaid or by hand delivery, as designated below, this the 19th day of April, 2000.

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