BEFORE THE TENNESSEE REGULATORY AUTHORITY AT

NASHVILLE, TENNESSEE

January 4, 2001

IN RE:	)	
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PETITION OF BELLSOUTH TELECOMMUNICATIONS, INC. TO CONVENE A CONTESTED CASE TO ESTABLISH "PERMANENT PRICES" FOR INTERCONNECTION AND UNBUNDLED NETWORK ELEMENTS	))))	**DOCKET NO. 97-01262**

THIRD INTERIM ORDER
RE: BELLSOUTH'S REVISED COST STUDIES

This matter came before the Tennessee Regulatory Authority (the "Authority" or "TRA") at a regularly scheduled Authority Conference held on August 29, 2000, for consideration of specific issues raised by BellSouth's revised cost studies filed on July 9, 2000. This is an interim Order and shall be incorporated into the Final Order as if fully rewritten therein.

BACKGROUND

Pursuant to the Authority's *Interim Order on Phase I* issued January 25, 1999 and *Order on Reconsideration and Clarification of Interim Order on Phase I* issued November 3, 1999, BellSouth Telecommunications, Inc. ("BellSouth") and AT&T of the South Central States ("AT&T") filed revised cost studies on December 1, 1999.[1] Parties in this action filed comments only as to BellSouth's revised cost studies. According to the comments filed by AT&T and MCI, BellSouth did not comply with the orders of the Authority concerning four issues in this proceeding: Integrated Digital Loop Carrier ("IDLC"), Drop length, Operations Services Support ("OSS") recovery, and vertical features.[2]

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[1] BellSouth filed its revised TELRIC Calculator Model and AT&T and MCI WorldCom ("MCI") filed their revised HAI Model 4.0. TELRIC is the acronym for Total Element Long Run Incremental Cost.
[2] *See AT&T's Comments on Revised BellSouth Cost Studies*, January 20, 2000, p.2.

On April 25, 2000, at the regularly scheduled Authority Conference, the Authority adopted BellSouth's TELRIC Calculator Model for use in deriving permanent prices for unbundled network elements ("UNE") in this proceeding. The Authority ordered BellSouth to make the following adjustments to its Model:

(1) adjust its contract burial installation labor cost to reflect a 100-foot drop length per the Authority's interim order;[3]

(2) remove OSS Electronic Interface recurring and non-recurring costs so as to recover these costs through an additive to the recurring rate for all UNEs;[4]

(3) remove the separate charges for vertical features from the recurring and non-recurring costs such that the price of the switched port includes all vertical features;[5]

(4) include any new, least cost and most efficient technology available to BellSouth and reflected in its cost studies in other states;[6]

(5) provide recurring and non-recurring costs for UNE combinations already combined in BellSouth's network. Unbundled network elements that are not already combined in BellSouth's network should be priced at the sum of unbundled network element prices after adjustments for non-recurring costs to reflect efficiencies;[7]

(6) use BellSouth's non-recurring cost model to set the non-recurring cost for those UNE combinations already combined;[8]

(7) geographically deaverage UNE prices into at least three (3) rate zones and include OSS costs in the recurring prices for UNEs.[9]

The Authority also ordered BellSouth to submit the Model with adjustments[10] and file proposed

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[3] *See Second Interim Order*, p. 8 (entered November 22, 2000).
[4] *See id. at 9.*
[5] *See id.*
[6] *See id. at 9-10.*
[7] *See id. at 10.*
[8] *See id.*
[9] *See id. at 10-12.*
[10] *See id. at 11.*

prices for UNEs based on the Model as adjusted[11] within thirty (30) days of the Authority's receipt of the transcript reflecting these decisions. The Authority ordered that any party wishing to comment on the adjustments to the Model or BellSouth's proposed prices and de-averaging proposal could do so within forty-five (45) days of the Authority's receipt of the transcript reflecting these decisions.[12]

Notwithstanding the comments of AT&T and MCI, the Authority found that BellSouth was not required to use one hundred percent (100%) IDLC deployment in its revised cost studies and that BellSouth complied with the Authority's orders on that issue.[13] With respect to the deployment of GR303, as opposed to TR008, the Authority concluded that at this time there is not enough evidence in the record to sufficiently affirm that GR303 is a more efficient and least-cost technology.[14] The Authority determined that this issue could be revisited if appropriately brought before the Authority in the event of future revisions of UNE prices.[15]

BellSouth filed its adjusted cost study on June 9, 2000. AT&T and the Tennessee Cable Television Association ("TCTA") filed comments as to the cost study on June 26, 2000. The Authority issued data requests to BellSouth on July 10 and July 27, 2000 requesting clarification and/or correction of vertical features adjustments, unbundled loop combinations, multiplexers, and deaveraging. BellSouth filed its responses to the data requests on August 1 and 2, 2000.

<u>FILINGS BY THE PARTIES</u>

BellSouth filing of adjusted cost studies

In connection with its June 9, 2000 filing, BellSouth stated that it had complied with the Authority's ordered adjustments but asserted that its filing should not be "construed as

[11] *See id.*
[12] *See id.*
[13] *See id. at 6-7*
[14] *See id. at 7*
[15] *See id.*

BellSouth's agreement with the results reached by the Authority."[16] BellSouth alleged that the Authority ordered "double reductions" in its expenses "by lowering BellSouth's investment numbers which indirectly lowered the expenses and by reducing BellSouth's shared and common expense factor."[17] In its June 9, 2000 filing, BellSouth made the following adjustments to its cost model.

1. **Drop length** - BellSouth adjusted the drop length to one hundred (100) feet for its contractor labor costs. This adjustment impacts loop recurring costs only and an adjusted contractor cost of $76.08 (a $ 41.17 reduction from the original cost).

2. **OSS Recovery** - BellSouth computed OSS Electronic Interface cost per UNE to be $0.19 and added this to the recurring cost of loops, ports, local channels, and combinations including these elements.[18]

3. **Vertical features** - BellSouth grouped feature costs according to the associated port and added this to the port recurring costs.

BellSouth also added new elements to the list of unbundled network elements set forth in its previously filed cost studies. These new elements consist of: multiplexers,[19] and non-recurring cost for extended loop or local channel and interoffice combination studies – Switch-

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[16] BellSouth's letter of June 9, 2000, p. 1.
[17] *See id.*
[18] BellSouth's Executive Summary Section 1, p. iv, filed June 9, 2000.
[19] Such multiplexers include: Channelization – Channel System DS1 to DS0; Interface Unit – Interface DS1 to DS0 – OCU-DP Card, Interface DS1 to DS0 - Brite Card, Interface DS1 to DS0 -Voice Grade Card; Channelization – Channel System DS3 to DS1; Interface Unit – Interface DS3 to DS1; Channelization – Channel System DS1 to DS0 – Incremental Cost – Manual Service Order vs. Electronic; and Channelization – Channel System DS3 to DS1 – Incremental Cost – Manual Service Order vs. Electronic. Unbundled Channelization (UC) provides the multiplexing capability that allows a DS1 or DS3 Unbundled Network Element or collocation cross-connect to be channelized at a BellSouth Central Office. The DS1 to DS0 Central Office Channelization system channelizes a DS1 signal into 24 DS0s; the DS3 to DS1 Channelization element channelizes a DS3 signal into 28 DS1s. (BellSouth Executive Summary Section 5, p. 7, filed June 9, 2000.)

As-Is.[20] BellSouth also presented new elements that represent point-to-point arrangements consisting of three possible UNE components (interoffice transport, local loop/local channel, and channelization).

Comments filed by the parties

In its comments filed on July 26, 2000, AT&T addressed BellSouth's argument that the rates produced by the TRA's adjustments to BellSouth's cost studies are too low. AT&T stated that BellSouth is merely attempting to obtain further reconsideration of the TRA's decisions. AT&T asserted that BellSouth's filing does not comply with the Authority's orders concerning the following issues: (1) vertical features; (2) the requirement to incorporate into Tennessee cost studies any benefits of advances in technology reflected in cost studies filed by BellSouth in other states; (3) deaveraging methodology; and (4) the Authority's adoption of the AT&T/MCI collocation model. AT&T requested that the TRA hold in abeyance BellSouth's proposed rates for loop-transport combinations until all parties have had sufficient time and opportunity to review those rates as well as the underlying cost studies.[21]

In its comments filed on July 26, 2000, the TCTA complained of the difficulty in determining whether BellSouth accurately followed the TRA's directives because BellSouth failed to reflect its own use of the OSS Systems and failed to provide sufficient documentation to support its inclusion of vertical features costs in the recurring rates for unbundled ports.

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[20] This was added for non-recurring and disconnect charges for each of the following elements:
(a) 2-wire voice grade extended loop with DS1 dedicated interoffice transport;
(b) 4-wire voice grade extender loop with DS1 dedicated interoffice transport;
(c) 4-wire 56 or 64 KBPS extended digital loop with dedicated DS1 interoffice transport;
(d) Extended 2-wire VG dedicated local channel with dedicated DS1 interoffice transport;
(e) Extended 4-wire VG dedicated local channel with dedicated DS1 interoffice transport;
(f) Extended 4-wire DS1 digital loop with dedicated DS1 interoffice transport.
This element assumes the combination is in existence and is being "Switched –As-Is."

[21] *AT&T's Comments on Revised BellSouth Cost Studies*, June 26, 2000, p. 2

FINDINGS BY THE AUTHORITY

Based upon its review of its previous orders in this docket, BellSouth's revised cost studies filed on July 9, 2000 and the comments of the parties, the Directors of the Authority unanimously made the following findings at the August 29, 2000 Authority Conference.

1. Drop lengths, OSS Recovery and vertical features

The Authority finds that BellSouth has complied with the Authority's directives (1) in adjusting contract burial installation labor costs to reflect a 100-foot drop length and (2) in removing OSS Electronic Interface recurring and non-recurring costs, thereby recovering these costs through an additive to the recurring rate for all UNEs. The Authority questions however, the validity of BellSouth's removal of the separate charges for vertical features from the recurring and non-recurring costs by adding the sum of all additional vertical feature costs to the recurring cost of the various port elements. Switch vertical features may be incorporated within the unbundled switch port element as long as BellSouth can demonstrate that such vertical features are vital to the port element and BellSouth otherwise follows the Authority's previous directives. For these reasons the Authority orders BellSouth to submit detailed studies clearly showing all port element adjustments and to clarify to which port element the adjustment was applied.

2. Technological advances reflected in BellSouth's cost studies in other states

The Authority finds that BellSouth failed to include in its revised cost studies in Tennessee those technological advances that were reflected in BellSouth's cost studies filed in Georgia. By failing to address this issue in its June 9, 2000 filing, BellSouth defeats the purpose of using a forward-looking cost methodology like TELRIC to set UNE rates. TELRIC-based rates must reflect the forward-looking costs for an incumbent local exchange carrier ("ILEC") to furnish to a competitor those portions or capacities of the ILEC's facilities and equipment that the competitor will use, including any system or component upgrade that the ILEC chooses to increase its own efficiency.[22] As such, consistent with the Authority's decisions on April 25, 2000, the Authority orders BellSouth to comply with the Authority's previous decisions and include in Tennessee cost studies any new technology that has been included in similar cost studies that BellSouth has filed in other states.

3. UNE combination rates

In its June 9, 2000 filing, BellSouth included recurring and non-recurring costs for UNE combinations. BellSouth also filed additional UNEs that are required to provide loop/interoffice and local channel/interoffice combinations. BellSouth's new filing requires that additional time be provided to the other parties to review and comment upon the rates proposed by BellSouth.

4. AT&T/MCI Collocation Model

The Authority's decision on April 25, 2000 to adopt BellSouth's TELRIC Calculator Model did not alter or modify the Authority's previous decision to adopt the AT&T/MCI collocation cost model. The Authority affirmed its earlier decision, as reflected in its *Interim Order on Phase I* issued January 25, 1999, that the rates for physical collocation are the rates calculated by the AT&T/MCI collocation cost model.

5. Geographic Deaveraging

After reviewing the action taken by the Directors on April 25, 2000, the cost studies filed by BellSouth in June thereafter, and the comments of the parties, the Authority ordered BellSouth to continue using the interim methodology to deaverage loop rates while the Authority continues to examine a more appropriate methodology to permanently deaverage loop rates.

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[22] *Iowa Utils. Bd. v. FCC,* 219 F.3d 744, 751 (8th Cir. 2000).

CONCLUSION

At the August 29, 2000 Authority Conference, the Directors unanimously adopted the above-stated findings and ordered BellSouth: (1) to continue using the interim methodology to deaverage loop rates as reflected by the Authority's *Second Interim Order*;[23] (2) to submit detailed studies showing all adjustments made in compliance with the Authority's April 25, 2000 ruling as to vertical features; and (3) to include in its Tennessee cost studies any new technology available to it in other states and provide a schedule for deploying such technology in Tennessee.

In addition, as a result of the comments of the parties, the Authority clarified that its action on April 25, 2000 in adopting BellSouth's cost model for UNE rates did not alter or modify the Authority's earlier decision to use the AT&T/MCI cost model for collocation rates. Finally, due to the fact that in its most recent filing, BellSouth filed proposed prices for additional UNE combinations, the parties shall have the opportunity to file comments regarding those prices within thirty (30) days after receipt of the transcript of the August 29, 2000 Authority Conference. BellSouth shall have fifteen (15) days after the date for filing comments or forty-five (45) days from the date of receipt of the transcript of the August 29, 2000 Authority Conference to file its reply to those comments. The parties should include in their filings comments regarding BellSouth's deployment of new technology as it relates to this docket.

IT IS THEREFORE ORDERED THAT:

1. BellSouth shall submit detailed studies showing all adjustments related to vertical features in accordance with the Authority's directives as set forth in this Order;

2. BellSouth shall adjust its cost studies filed in Tennessee to reflect any new technology available to it in other states and provide information about BellSouth's expected

[23] This reflects the Authority's April 25th decision regarding geographic deaveraging of loop rates.

deployment of such technology in Tennessee in accordance with the Authority's directives as set forth in this Order;

3. Any party wishing to comment on BellSouth's proposed prices for UNE combinations shall do so no later than thirty (30) days after the Authority's receipt of the official transcript reflecting these decisions;

4. BellSouth shall file reply comments no later than fifteen (15) days after the date for the filing of the comments by the parties;

5. The rates for physical collocation shall be calculated using the AT&T/MCI collocation cost model previously adopted by the Authority;

6. BellSouth shall continue using the interim methodology to geographically deaverage loop rates as ordered by the Authority in its *Second Interim Order* while the Authority continues to examine a more appropriate methodology to permanently deaverage loop rates.

Sara Kyle, Chairman

H. Lynn Greer, Jr., Director

Melvin J. Malone, Director

ATTEST:

K. David Waddell, Executive Secretary