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**FEDERAL COMMUNICATIONS COMMISSION**  
Washington, D.C. 20554

**FEDERAL COMMUNICATIONS COMMISSION**  
**OFFICE OF THE SECRETARY**

**ORIGINAL**

In the matter of

Application of BellSouth Corporation, )  
BellSouth Telecommunications, Inc., and )  
BellSouth Long Distance, Inc., for Provision )  
of In-Region, InterLATA Service in the )  
State of Louisiana )  
\_\_\_\_\_ )

**CC Docket**  
**No. 97-231**

**COMMENTS OF AT&T CORP.**  
**IN OPPOSITION TO BELLSOUTH'S**  
**SECTION 271 APPLICATION**

\_\_\_\_\_

**APPENDIX - VOLUME VI**

**APPENDIX TO COMMENTS OF AT&T CORP.  
IN OPPOSITION TO BELLSOUTH'S  
SECTION 271 APPLICATION FOR LOUISIANA**

<b>TAB</b>	<b>AFFIDAVIT</b>	<b>SUBJECT(S) COVERED</b>
A	William J. Baumol	Public Interest
B	Robert H. Bork	Public Interest
C	Jay M. Bradbury	Operations Support Systems
D	Jim Carroll	AT&T Entry Plans
E	Robert V. Falcone and Michael E. Leshner	Unbundled Network Elements: Combinations
F	Jordan Roderick	PCS
G	Gregory R. Follensbee	Unbundled Network Elements: Pricing
H	R. Glenn Hubbard and William H. Lehr	Public Interest
I	Patricia A. McFarland	Resale Restrictions
J	Patricia A. McFarland	Section 272 Compliance
K	Sharon Norris	Operations Support Systems: Demonstration for La. PSC
L	C. Michael Pfau	Performance Measurements
M	James A. Tamplin, Jr.	Unbundled Network Elements



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FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554

In the matter of

Application by BellSouth Corporation, )  
BellSouth Telecommunications, Inc., )  
and BellSouth Long Distance, Inc. for ) CC Docket No. 97-231  
Provision of In-Region, InterLATA )  
Services in Louisiana )

**AFFIDAVIT OF**

**GREGORY R. FOLLENSBEE**

**ON BEHALF OF**

**AT&T CORP.**

**AT&T EXHIBIT G**

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AFFIDAVIT OF GREGORY R. FOLLENSBEE

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<b>BellSouth Telecommunications, Inc.,</b>	)	
<b>and BellSouth Long Distance, Inc. for</b>	)	<b>CC Docket No. 97-231</b>
<b>Provision of In-Region, InterLATA</b>	)	
<b>Services in Louisiana</b>	)	

**AFFIDAVIT OF  
GREGORY R. FOLLENSBEE  
ON BEHALF OF AT&T CORP.**

**INTRODUCTION AND QUALIFICATIONS**

1. My name is Gregory R. Follensbee. My business address is 1200 Peachtree Street, N.E., Atlanta, Georgia 30309. I am employed by AT&T Corp. as a Director for Law & Government Affairs, in AT&T's Law & Government Affairs Southern Region. I am a Certified Public Accountant, certified to practice in the state of Florida. I graduated from Florida State University in 1972 with a Bachelor of Science degree in accounting. I was subsequently employed by the Florida Public Service Commission from 1972 until late 1983. I was at first responsible for auditing public utilities, and later in charge of the Auditing and Financial analysis group for the agency. In late 1983, I was employed by AT&T as a District Manager in Government Affairs. In 1995, I was appointed Director for Regulatory Policy in the Southern Region. In 1996, I was assigned responsibilities for presenting AT&T's cost studies and recommended prices in the region's unbundled network element cost cases, as well as critiquing

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the cost studies and prices proposed by the incumbent local exchange carriers ("ILECs") in the region.

**PURPOSE AND SUMMARY OF AFFIDAVIT**

2. The purpose of my affidavit is to address whether BellSouth has demonstrated that it is currently providing, or making available, interconnection and access to unbundled network elements ("UNEs") at forward-looking, cost-based prices as required by the Telecommunications Act of 1996 ("Act"). As I will explain in greater detail below, BellSouth has failed to show that the prices it offers are cost-based as required by Sections 252(d)(1) and (2) of the Act, and thus that it has complied with the pricing requirements of the competitive checklist in the Act. To the contrary, although BellSouth asserted that its rate proposals were based on forward-looking costs, the methodology employed by BellSouth, in fact, violated the most fundamental principles of forward-looking pricing. For that reason, the majority of the approved rates, which were based on BellSouth's flawed cost studies, far exceed any measure of true forward-looking costs.

3. My affidavit is divided into two sections. In the first section, I demonstrate that: (i) by BellSouth's own description, its cost studies reflected an improper embedded cost focus, (ii) as a result, there can be no reasoned finding that the more than 400 proposed rates produced by the BellSouth cost studies properly reflect forward-looking costs, (iii) the Administrative Law Judge who presided over the hearings before the Louisiana Public Service Commission ("LPSC"),

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recognized as much, rejecting BellSouth's position on virtually every costing and pricing issue and recommending that BellSouth be required to submit new cost studies, (iv) despite these facts, the LPSC, only a week after the ALJ's final recommendation, essentially rubber-stamped BellSouth's basic approach, approving rates produced from the BellSouth cost studies after changes to only a handful of the thousands of BellSouth assumptions, (v) the LPSC staff witness who sponsored these BellSouth cost study runs, Ms. Kimberly H. Dismukes, by her own admission, had time for only limited review (and, indeed, did not review many of the BellSouth studies at all), and her arbitrary adjustments, although they reduced rates somewhat, were patently inadequate to produce forward-looking rates from BellSouth's flawed cost studies. I also discuss the highly compressed nature of the proceedings and the impact of the LPSC's rush to judgment on the validity of its findings. For all of these reasons, the rates approved by the LPSC and reflected in BellSouth's SGAT cannot be said to be based on forward-looking costs as the Act requires.

4. In the second section of my affidavit, I demonstrate in more detail that a number of the individual rates approved by the LPSC plainly depart from fundamental principles of forward-looking costing. For example, BellSouth's recurring monthly loop rate of \$19.35 is, inter alia, based on a sample that deliberately excluded lower cost loop types and thus imparted an upward bias to the results and is further not geographically deaveraged as the Commission's ruling in Ameritech Michigan requires. Similarly, based upon a cost study submitted less than

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a month before the hearings before the ALJ, BellSouth's SGAT imposes a recurring charge for the switch port with limited vertical feature functionality of *more than \$10* -- as much as eight *times* higher than the port rates approved by other state commissions -- notwithstanding that all local switching functionality is included in the processors ILECs purchase as part of the switch and that providing vertical feature functionality imposes no additional costs on BellSouth. BellSouth's physical collocation rates, some of which are completely open-ended and others of which are based on costs for constructing facilities that are completely inappropriate for the purpose at hand are likewise plainly excessive. And the critical assumption underlying BellSouth's non-recurring charges -- that fully 20% of service orders would require manual intervention to provision and other related activities would likewise be handled by manual, rather than mechanized, processes -- is antithetical to the basic tenet of efficient forward-looking technology. These examples, and many more, simply underscore that the rates adopted by the LPSC and contained in BellSouth's SGAT do not comply with forward-looking costing principles.

**I. BELLSOUTH'S RATES, WHICH ARE BASED ON BELLSOUTH'S EMBEDDED COST STUDIES, DO NOT REMOTELY COMPLY WITH THE REQUIREMENT THAT RATES REFLECT FORWARD-LOOKING COSTS.**

5. Section 271(c)(2)(B)(i) of the Act mandates that a Regional Bell Operating Company ("RBOC") such as BellSouth provide "interconnection in accordance with the requirements of Sections 251(c)(2) and 252(d)(1)." Section 271(c)(2)(B)(ii) of the Act

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mandates that a Regional Operating Company provide "nondiscriminatory access to network elements in accordance with the requirements of section 251(c)(3) and 252(d)(1)." Section 271(c)(2)(B)(xiii) further mandates that a Regional Operating Company provide "reciprocal compensation arrangements in accordance with the requirements of section 252(d)(2)." Thus, as a precondition to providing interLATA services in Louisiana, BellSouth must provide interconnection and unbundled network elements at rates that are "just, reasonable and nondiscriminatory," 47 U.S.C. § 251(c)(2)&(3), and "based on the cost (determined without reference to a rate-of-return or other rate-based proceeding) of providing the interconnection or network element (whichever is applicable)," id. at § 252(d)(1)(A)(i).

6. In its First Report and Order in CC Docket No. 96-98 (August 8, 1996) ("Local Competition Order"), this Commission implemented these provisions by adopting the forward-looking, total element long run incremental cost ("TELRIC") methodology for calculating network element costs. Local Competition Order at ¶¶ 690-93. The Commission found that the rates for network elements should not exceed forward-looking economic cost (including forward-looking common costs as defined by the Commission). The Commission further required that network element rates be appropriately structured -- to reflect the manner in which costs are incurred -- and geographically deaveraged to reflect significant cost differences. The Commission found that, in contrast, rates that recover embedded or opportunity costs do not comply with the Act. Id. at ¶¶ 704-11. The Commission further

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found that incumbent local exchange carriers ("LECs") should bear the burden of proving that their rates for interconnection and unbundled elements meet the statutory requirements on the ground that such incumbent LECs "have greater access to the cost information necessary to calculate the incremental cost of the unbundled elements of the network." Id. at ¶ 680.

7. In its Memorandum Opinion and Order issued on August 19, 1997 with regard to a Section 271 application of Ameritech Michigan in CC Docket No. 97-137 ("Ameritech Michigan Order"), the Commission made clear that the holding in Iowa Utilities Board v. FCC, 120 F.3d 753 (8th Cir. 1997) that the Commission's pricing standards do not bind state commissions in proceedings conducted under § 252 of the Act does not impact the applicability of those standards in proceedings under Section 271. Thus, in its Ameritech Michigan Order the Commission expressly reaffirmed its determination in the Local Competition Order that the market entry intended by Congress requires that UNE and related prices be "based on forward looking economic costs," id. at ¶ 289. See also id. at ¶ 290 (requiring that pricing requirements be "implemented through a method based on . . . TELRIC"). The Commission also confirmed that "a BOC will not be deemed to be in compliance with sections 271(c)(2)(B)(i), (ii) and (xiv) of the competitive checklist unless it has shown that its non-recurring charges reflect forward-looking economic costs." Id. at ¶ 296.

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8. The source of the nearly *four hundred* recurring and nonrecurring charges set forth in the SGAT that BellSouth has submitted in support of its application is LPSC Order No. U-22022/22093-A (consolidated) decided October 22, 1997 ("LPSC Pricing Order") (Tab 285).

9. The rates adopted in the LPSC Pricing Order are based on "revised" cost studies filed by BellSouth on July 11, 1997. BellSouth filed those studies in an existing consolidated docket that BellSouth had commenced more than a year earlier and that had been dormant for some time at BellSouth's request. The revised studies were voluminous, highly complex, and largely unable to be adjusted. As the LPSC staff's witness Dismukes explained, the many separate "studies":

are prepared in separate, unlinked, excel spreadsheets. The results of which must be manually entered into BellSouth's TELRIC calculator, loop model, or shared and common cost model. Likewise, a proprietary version of BellSouth's Switched Network Calculator (SNC) model, which is used to calculate its switching costs, does not allow the user to change key inputs. Similar problems are present in the shared and common cost model -- key inputs are locked and cannot be changed. For example, in the shared and common cost model, the TELRIC labor rates cannot be changed in the model. Instead, one has to open another excel worksheet and manually change labor rates so that the appropriate TELRIC rates will be reflected in the model. Likewise, in some instances, one cannot correctly change values through the TELRIC calculator.

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Dismukes Test. (Tab 273) at 5 (emphasis added). See also Dismukes Tr. (Tab 273) at 2930 ("The BellSouth cost studies are voluminous. . . . They have numerous assumptions on them, thousands of assumptions on them").

10. Two weeks after BellSouth filed its revised cost studies, however, the LPSC suddenly ordered that review of the new studies, opening and rebuttal testimony, hearings, briefing and the ALJ's final recommendations all be completed in less than 90 days -- in time for the LPSC's October 22, 1997 "Open Session" at which it would conduct its final review of BellSouth's 271 application. At a July 31, 1997 status conference convened to accommodate this highly compressed schedule, August 25, 1997 and September 5, 1997 were set as the filing dates for AT&T's (and other intervenors') prepared testimony and BellSouth's prepared rebuttal testimony, respectively. Report on July 31, 1997 Status Conference and Notice of Revised Procedural Schedule dated Aug. 1, 1997 (Tab 250). Obviously, little discovery was possible in these time frames. Hearings for cross-examination were held between September 8 and 16, 1997. On September 22, 1997, less than a week following the conclusion of these hearings, the LPSC Staff filed the prepared testimony of its cost consultant, Ms. Dismukes, who presented rates based on the BellSouth cost studies but admitted that she was not able even to review many of the individual cost studies or assumptions. Two days later, on September 24, 1997, hearings were continued for cross-examination of Ms. Dismukes.

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11. Although BellSouth nominally referred to its July 11 cost studies as forward-looking, it made no serious attempt to conceal the true nature of those studies. As the ALJ appointed by the LPSC stated, BellSouth contended that this Commission's Local Competition Order pricing standards are not controlling and conceded that its cost studies complied with those standards only "to some [unspecified] extent." Final Recommendation, Docket Number U-22093 (Tab 284) at 15 (October 17, 1997) ("Final Recommendation") (Tab 284). BellSouth instead took the position that " it should be allowed to recover its actual, or embedded costs." Id. at 18. Indeed, BellSouth's pricing witness Mr. Alphonso Varner testified that BellSouth's revised cost studies included all of BellSouth's actual costs, including historic or embedded costs and costs reflecting existing network architecture. Varner Reb. Test. at 3-5 (Tab 265/1); Varner Tr. (Tab 265) at 43, 91. In a quixotic attempt to square its embedded cost view with the LPSC's own "Regulations for Competition in the Local Telecommunications Market," which direct that cost studies reflect forward-looking costs, BellSouth explained that "it has performed studies in accordance with the forward-looking methodology mandated by this Commission and by the FCC, but that it has done so in a manner that will allow it to recover its actual costs." Final Recommendation (Tab 284) at 18 (emphasis added).

12. As this "explanation" confirms, BellSouth's embedded cost "lens" colored -- and irreversibly distorted -- every aspect of its cost studies. With respect to general methodology, for example, BellSouth's view was that "the TSLRIC definition, which provides that 'TSLRIC

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is based on the least cost, most efficient technology that is capable of being implemented at the time the decision to provide the service is made,' directs an analysis of available technology as of the date BellSouth placed equipment into service and not as of the date of the cost studies." Final Recommendation (Tab 284) at 19 (emphasis added). Compare Local Competition Order at ¶ 683 ("[f]orward-looking cost methodologies, like TELRIC, are intended to consider the costs that a carrier would incur in the future") (emphasis added). Similarly, BellSouth refused to base its cost proposals on a "hypothetical" network because "prices based upon such costing methods will be below BellSouth's costs to provide interconnection and unbundled elements." Final Recommendation (Tab 284) at 18 (emphasis added). And BellSouth's version of "forward-looking" costing "allows for consideration of the ILEC's existing facilities and services." Id. (Tab 284) at 19. Compare Local Competition Order ¶ 685 ("the reconstructed local network will employ the most efficient technology for reasonably foreseeable capacity requirements") (emphasis added).

13. BellSouth's specific calculations dutifully and invariably followed its underlying embedded cost theory. With regard to fill factors, for example, "BellSouth based its calculations on its actual utilization levels," rather than efficient forward-looking practices. Final Recommendation (Tab 284) at 46. Compare Local Competition Order at ¶ 682 (fill factors should reflect "the proportion of a facility that will be 'filled'") (emphasis added). "BellSouth d[id] not dispute that its depreciation rates are designed to recover past

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investments.” Final Recommendation (Tab 284) at 34 (emphasis added). Compare Local Competition Order at ¶ 686 (“properly designed depreciation schedules should account for expected declines in the value of capital goods”) (emphasis added). BellSouth’s calculation of its shared and common costs also improperly “assume[d] a business as usual view.” Final Recommendation (Tab 284) at 41-42. And BellSouth’s studies employed statewide averaged loop rates, id. at 24, in direct contravention of this Commission’s finding that the Act mandates that rates for unbundled elements “must be geographically deaveraged.” Local Competition Order at ¶ 764.

14. With regard to collocation, BellSouth took the position that cost-based pricing does not apply at all, because “Section 252(d) does not, on its face, apply to collocation.” Final Recommendation (Tab 284) at 53 (emphasis added). Compare Local Competition Order ¶ 629 (“because section 251(c)(6) requires that incumbent LECs provide physical collocation on ‘rates, terms and conditions that are just, reasonable and nondiscriminatory,’ which is identical to the standard for interconnection and unbundled elements in sections 251(c)(2) and (c)(3), collocation should be subject to the same pricing rules”).

15. BellSouth’s nonrecurring charges reflected excessive and unnecessary work activities and a remarkable assumption that fully 20 % of service order and related provisioning would be rejected by BellSouth’s operations support systems and have to be done

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through backward-looking -- and extremely costly -- manual, and not forward-looking electronic, processes. Final Recommendation at 44. Compare Local Competition Order ¶ 523 ("Obviously, an incumbent that provisions network resources electronically does not discharge its obligations under § 251(c)(3) by offering competing providers access that involves human intervention").

16. But BellSouth's embedded cost approach found perhaps its most creative -- and anticompetitive -- application with respect to nontraffic sensitive switching costs. There, BellSouth somehow combined an LPSC ruling that vertical features are separate network elements, BellSouth's position that there are additional costs associated with local switch features, and "1996 historical data" which the LPSC staff properly recognized "is not relevant to this proceeding" to produce a proposed 2-wire port charge with limited vertical features of almost \$12 -- six times higher than the high end of the Commission's port proxy range (*and three to ten times as high rates approved in most other states and nearly double the rate approved in the next highest state*). Final Recommendation at 50 (Tab 284). Compare First Order on Reconsideration, CC Docket No. 96-98 (September 27, 1996) ¶ 8.

17. In short, every aspect of BellSouth's cost studies suffered from embedded cost, historical network design and other fatal flaws. As a result, those studies produced extraordinarily high "costs." For example, for the loop and port alone BellSouth sought more

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than \$37 in fixed monthly recurring charges -- with only partial vertical feature functionality. This \$37 figure excludes the enormous nonrecurring, collocation and other charges that BellSouth would assess to make those elements "operational." But BellSouth did not stop there. Because its embedded cost approach to "forward-looking" costing did not quite push rates over the embedded cost finish line, BellSouth simply added another \$2 that BellSouth labeled a "residual recovery requirement," providing further proof that BellSouth's UNE prices are designed to ensure that competition based on UNEs has no effect on its revenues. The label "forward-looking" costs used by BellSouth is just that -- a label completely lacking in substance.

18. On October 17, 1997, following the submission of post-hearing briefs on September 29, 1997, the ALJ issued her Final Recommendation. In her 66-page, point-by-point analysis the ALJ flatly rejected BellSouth's position on virtually every costing and pricing issue. See, e.g., Final Recommendation at 57 (Tab 284) ("We concur with the conclusions of the Michigan Commission, the FCC, intervenors, and Commission Staff, that forward-looking costs should not reflect a company's embedded facilities costs"); id. at 58 n.94 ("We specifically reject BellSouth's argument that the TSLRIC definition . . . directs an analysis of the technology available at the time BellSouth placed individual facilities or equipment into service as opposed to the date of the cost studies"); id. at 26 ("we reject the use of statewide average rates"); id. at 39 ("we find that BellSouth's proposed depreciation rates do

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not reflect forward-looking costs, and are inadequate for the purposes of this proceeding"); id. at 55 ("we conclude that rates for collocation are subject to the same pricing standards applicable to interconnection and unbundling"). Accordingly, the ALJ recommended that the LPSC order BellSouth to conduct additional cost studies consistent with forward-looking principles, to revise its tariff to reflect certain limited adjustments that LPSC cost consultant Kimberly Dismukes proposed with respect to the few aspects of the BellSouth cost studies that she was able to review, or to reflect the results of the cost studies submitted by AT&T and MCI, and to make clear that most of the tariffed rates based on BellSouth's cost studies, even as revised, were to serve as interim rates only, subject to revision upon determinations of permanent, cost-based rates.

19. Five days later -- without one word of analysis or comment -- the LPSC, in a ruling subsequently reflected in a five page order (of which all but one paragraph was devoted to procedural background), scrapped the ALJ's recommendations in their entirety. LPSC Pricing Order (Tab 285). Without analysis or comment or a single mention of the cost studies, cost models and rate submitted by AT&T and MCI, the LPSC approved the four hundred recurring and non-recurring charges proposed by BellSouth, with only the limited adjustments proposed by cost consultant Dismukes, deeming them "permanent" and "cost-based rates." Id. at 4. Merely by adjusting certain inputs to the BellSouth cost studies, the LPSC found, "Ms. Dismukes developed costs using the TSLRIC methodology adopted by the [LPSC] allowing for

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the recovery of shared and common costs (the TELRIC methodology)." Id. The LPSC did not address any of the ALJ's cost findings or conclusions, much less explain why it chose to disregard them.

20. There is no conceivable basis for the LPSC's finding. Although the LPSC attempted to cloak its reliance on BellSouth's embedded cost studies by nominally approving the "cost-based rates presented by Ms. Dismukes," id., the reality is that, Ms. Dismukes proposals came from the BellSouth cost studies with only modest adjustments. As the LPSC Staff counsel (on whose behalf Ms. Dismukes presented her testimony) frankly acknowledged, "we spent more time on certain issues and less time on other issues and where we did not spend a significant amount of time, the staff used BellSouth's numbers as default, meaning we didn't say they were good or we didn't say they were bad. We just said, we don't have time to do an in depth analysis of what these numbers are. We're going to go with them." Transcript of LPSC, October 22, 1997 Open Session ("Open Session Transcript") at 87.

21. This alone merits a finding that BellSouth has not met its burden of demonstrating that it is providing access to network elements at nondiscriminatory rates that reflect forward-looking costs. As explained above, all of BellSouth's cost studies, and hence all of the proposed rates supported by those studies, were infected with BellSouth's embedded cost focus. That is precisely why when asked whether she "believe[d] the Commission should

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accept the TSLRIC/TELRIC studies filed by BellSouth," Ms. Dismukes answered unequivocally "[n]o." Dismukes Test. (Tab 273) at 8-9. Indeed, limiting herself to just her "major areas of disagreement" with the BellSouth studies, Ms. Dismukes listed "the development of annual cost factors (depreciation, cost of capital, and taxes), the development of annual expense factors, pole and trench sharing, fill factors, labor rate calculations, shared and common cost calculations and assumptions, drop wire assumptions, vertical features, assumptions used to develop nonrecurring costs and the residual recovery requirement." Id. at 10.

22. Yet despite the substantial core of disagreement, Ms. Dismukes conceded that she did not even specifically review large portions of the BellSouth cost studies, including those infected by errors she identified. Rather, Ms. Dismukes focused almost entirely on inputs like annual charge factors and labor rates. Although her adjustments to these "generic" inputs produced modest (10-30%) reductions to virtually all of BellSouth's rates, Ms. Dismukes simply ignored the equally important -- and equally defective -- assumptions specific to the individual BellSouth cost studies. For example, Ms. Dismukes did not address any specific evidence of collocation costs. As explained below, the BellSouth proposals far exceed any notion of forward-looking costs in an area that is of considerable importance given BellSouth's recent demands that new entrants physically collocate in every single one of BellSouth's wire centers if they wish to provide service through loops and ports.

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23. In the same vein, Ms. Dismukes explained her OSS pricing proposal as follows:  
“Basically what I did . . . is I followed the BellSouth methodology. . . . In essence I'm relying on BellSouth's subject matter experts to derive that number.” Dismukes Tr. (Tab 273) at 2940.  
Similarly, when asked why two prices for certain directory assistance services shown in her exhibit were different, Ms. Dismukes responded:

A: I cannot answer that question. That is basically the way that BellSouth's model ran.

I accepted their methodology with respect to directory assistance services. I did not, as I explained before, go into that particular cost study, and verify and evaluate every assumption that they made.

Q: Again that is one of those timing issues that we have discussed? Would you like an opportunity to review that in more detail?

A: Yes.

Id. at 2930-2932. As Ms. Dismukes acknowledged, BellSouth's poles and conduit, virtual collocation and number portability proposals similarly escaped review by her. See Dismukes Test. (Tab 273) at 2920 (poles and conduit, virtual collocation); id. at 2929-2932 (directory assistance); id. at 2940 (operational support systems); id. at 2943-44 (interim number portability). Nor did Ms. Dismukes address BellSouth's proposed prices for signaling and AIN. In short, other than her “generic” annual cost factor adjustments (e.g., depreciation and cost of capital), which affected all rates, Ms. Dismukes made no attempt whatever to review or adjust many of BellSouth's cost studies or individual rate assumptions and proposals.

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24. That reflected no lack of effort on the part of Ms. Dismukes or the LPSC Staff, but was an inevitable result of the complexity and closed nature of the BellSouth cost studies and the LPSC's rush to judgment. Although Ms. Dismukes found fault with every aspect of the BellSouth cost studies she had time to review, the unalterable characteristics of BellSouth's cost models and the LPSC's severe time constraints precluded her from making most of the adjustments required to cure these faults. But these facts do not explain why the LPSC gave no credence to the expert opinion and testimony of AT&T and MCI, which included extensive analysis and recommendations for adjustments to the BellSouth cost studies, which were adopted by the ALJ and would have resulted in lower rates for the vast majority of the proposed charges.

25. Thus, where, as in most cases, embedded costs could not be rooted out simply by denying a proposed charge altogether,<sup>1</sup> Ms. Dismukes was unable to transform the anticompetitive BellSouth proposals into forward-looking rates. In many cases, she frankly conceded that there was simply no time to correct clear errors. See Dismukes Test. (Tab 273) at 3110 ("I didn't always achieve the desired goal of being able to, for example, in the operational support system area, I did not have an alternative recommendation to that of BellSouth"). In other cases, she failed to act based on the LPSC Staff's fundamentally flawed views of the requirements of the Act. For example, Ms. Dismukes elected to take no position at all on

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<sup>1</sup> Like the ALJ, Ms. Dismukes summarily dismissed the most arbitrary of BellSouth's proposals, the "residual recovery charge," as "plainly a method by which BellSouth seeks to recover the embedded cost of the local loop." Final Recommendation (Tab 284) at 20.

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BellSouth's averaged loop rates apparently because the LPSC Staff decided to ignore the Commission's geographic deaveraging mandate based on its view that: "There should not be geographic deaveraging of wholesale rates without geographic deaveraging of retail rates. There should be no geographic deaveraging outside the context of a universal service fund proceeding." LPSC Open Session Transcript at 85-86.

26. And even where Ms. Dismukes elected to make adjustments, those adjustments were, by her own admission, severely constrained by the lack of time adequately to review and modify the BellSouth cost studies. Indeed, Ms. Dismukes' efforts were so severely constrained that the ALJ and even Ms. Dismukes' client, the LPSC Staff, were unable to support her proposals as permanent cost-based prices. See, e.g., Final Recommendation (Tab 284) at 39 (recommending the use of the results of certain of Ms. Dismukes adjustments "[i]n the meantime" pending further proceedings) (emphasis added); LPSC Open Session Transcript at 88 (Comments of Staff counsel) ("With regard to vertical features, staff does not oppose conducting further proceedings to true these numbers up in the future") (emphasis added).

27. For example, Ms. Dismukes admitted that BellSouth's history-based depreciation proposal "is analogous to assigning the cost of 'stranded investment' to CLECS," see Final Recommendation (Tab 284) at 36, and agreed that it was necessary to eliminate from those studies "factors that are not valid for purposes of determining the price of unbundled network

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elements that a CLEC will purchase from BellSouth.” Dismukes Test. (Tab 273) at 12 (emphasis added). Ms. Dismukes concluded that, “[i]deally, it would have been preferable for BellSouth to have conducted a depreciation study reflecting the lives and salvage values for the network that it has reflected in its TELRIC/TSLRIC cost studies.” Id. at 16. However, acknowledging that “such a [depreciation] study does not exist,” id. (emphasis added), Ms. Dismukes instead proposed an arbitrary and ad hoc approach that on its face fails to produce forward-looking depreciation lives for facilities placed in the relevant Louisiana wire centers and related areas. Indeed, the approach she used was designed always to produce the shortest possible lives under the alternatives available to her. Where BellSouth's lives were within the Commission-prescribed ranges, which are not Louisiana specific, Ms. Dismukes used those lives. Where the BellSouth lives were not within the Commission's ranges, Ms. Dismukes adopted the Commission's lives for BellSouth's Louisiana operations, but only if those lives were shorter than the low end of the Commission's ranges of lives. Where the lives approved by the Commission for Louisiana were higher than the low end of the Commission's ranges, Ms. Dismukes used the low end of the range. Id. at 17-18.

28. Ms. Dismukes treatment of non-recurring costs was even more arbitrary. As noted above, BellSouth based its cost studies and proposals on the assumption that fully 20% of the orders it receives from new entrants would have to be handled manually, rather than electronically, thereby increasing non-recurring charges by an order of magnitude. As the