

charges.<sup>40</sup>

33. Second, *wireline* long distance carriers frequently assess high surcharges for calling card and other operator services that are comparable to, or exceed, "roamer" fees charged by PCS providers for calls originated by PCS customers outside their designated coverage areas (e.g., in Sprint PCS' case, home service areas). Therefore, for customers that travel (and must use the wireline network despite being away from their fixed wireline telephones at home or work), the cost of a short-duration interLATA long distance call may be no less and may, in fact, exceed that of a PCS call for the same distance and duration.

34. Finally, because BellSouth is currently precluded from offering wireline in-region interLATA long distance service, there does not appear to be any rationale for including interLATA minutes in the mix. Since the purpose of my analysis in the 1998 affidavit was to compare the cost to a consumer of selecting the exact same list of services/calls from both BellSouth and a PCS provider, it was obviously prudent to omit interLATA calls that BellSouth does not provide.<sup>41</sup>

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<sup>40</sup> Contrary to the Shapiro-Hayes claim that they merely substitute flat rates for per-minute charges, flat-rate long distance PCS plans (such as those cited above) do provide significant relief from long distance rates that would otherwise apply. For example, Sprint PCS presently charges 15¢ a minute (in addition to standard airtime charges) for long distance calls placed to points outside its designated local calling areas. Its Toll-Free USA plan offers a PCS customer that has signed up for, say, its Plan 2 in New Orleans 1,000 minutes of *long distance* (i.e., beyond local calling area) calling for an additional \$19.99 per month. In excess of those 1,000 included minutes, long distance charges of 10¢ a minute apply. The flat-rated portion is equivalent to almost 2¢ per minute (\$19.99/1,000) which is considerably less than either the 10¢ per minute beyond the included block of minutes or the 15¢ per minute that applies outside the Toll-Free USA plan. In the New Orleans area, PrimeCo permits calling out to anywhere in the state of Louisiana from within the designated coverage area (i.e., a form of extended area calling) at no extra long distance charge or supplemental flat monthly fee.

<sup>41</sup> It is worth reiterating that my purpose was *not* to compute the cost of the full slate of services *actually* taken by consumers under different wireline and PCS plans. Instead, it was to compare the consumer's cost of a given bundle of services/minutes under those different plans.

APPENDIX

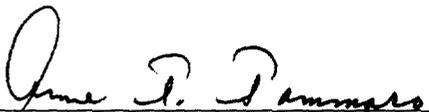
Table 6 (Revised) from 1998 Affidavit

<b>Table 6. Summary Statistics for BST Customer Wireline Usage</b>						
<b>Variable</b>	<b>Obs.</b>	<b>Mean</b>	<b>Median</b>	<b>Std. Dev.</b>	<b>Minimum</b>	<b>Maximum</b>
Local Calls	6756	271	175	334.32	0	9478
Local Minutes		1060.37	635.52	1374.38	0	30576.45
IntraLATA Toll Calls		2.21	0	6.45	0	103
IntraLATA Toll Minutes		11.20	0	56.49	0	3552.45
Features (0-5)		2.05	0	1.70	0	5
<b>Summary Statistics For BST Customers Having Positive Usage of IntraLATA Toll</b>						
Local Calls	2436	293	217	274.57	0	2693
Local Minutes		1150.07	770.42	1315.43	0	21811.63
IntraLATA Toll Calls		6.14	3	9.56	1	103
IntraLATA Toll Minutes		31.07	10.86	90.15	0.02	3552.45
Features (0-5)		2.31	2	1.66	0	5

I declare under penalty of perjury, under the laws of the United States of America, that the foregoing is true and correct to the best of my knowledge, information, and belief.

  
\_\_\_\_\_  
Aniruddha Banerjee, Ph.D.

SWORN TO AND SUBSCRIBED BEFORE ME THIS THE 26<sup>th</sup> DAY OF  
AUGUST, 1998.

  
\_\_\_\_\_  
NOTARY PUBLIC  
State of Massachusetts, County of Middlesex

My Commission Expires:

July 7, 2000



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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

In the Matter of )  
)  
Application by BellSouth Corporation, )  
BellSouth Telecommunications, Inc., ) CC Docket No. 98-121  
and BellSouth Long Distance, Inc., for )  
Provision of In-Region, InterLATA )  
Services in Louisiana )

REPLY AFFIDAVIT OF D. DAONNE CALDWELL  
ON BEHALF OF BELL SOUTH

STATE OF Georgia  
COUNTY OF Fulton

I, D. Daonne Caldwell, being first duly sworn upon oath, do hereby  
depose and state as follows:

***Qualifications***

1. My name is D. Daonne Caldwell. I am a Director-Cost Matters in  
the Finance Department at BellSouth Telecommunications, Inc. (BellSouth). My  
business address is 675 W. Peachtree St. NE, BSC 30B49, Atlanta, Georgia  
30375.

2. I have been employed by BellSouth since 1976. Between 1976 and  
1983, I held the position of Outside Plant Planning Engineer in the Network  
Department. In 1983, I transferred to BellSouth Services, Inc. where I was  
responsible for the Centralized Results System Database. In 1984, I moved to the  
Pricing and Economics Department where I developed methodology for service

cost studies until 1986, when I accepted a rotational assignment with Bell Communications Research, Inc. (Bellcore). While at Bellcore, I was responsible for development and instruction of the Service Cost Studies Curriculum including courses such as "Concepts of Service Cost Studies", "Network Service Costs", "Nonrecurring Costs", and "Cost Studies for New Technologies". In 1990, I returned to BellSouth to a position in the Cost Matters organization, which is now a part of the Finance Department, where I was responsible for managing the development of cost studies for transport facilities, both loop and interoffice. Since mid-1996, my time has been dedicated to reviewing BellSouth's cost methodology and cost study results. As the Cost witness in the Local Arbitration Dockets and General Cost Dockets, I have been principally responsible for the cost studies for network interconnection, unbundled network elements and local transport and termination.

3. I attended the University of Mississippi, graduating with a Master of Science Degree in Mathematics. I have attended numerous Bellcore courses and outside seminars relating to service cost studies and economic principles.

***Purpose***

4. The purpose of my affidavit is to describe how, in cost studies submitted to the Louisiana Public Service Commission (LPSC), BellSouth developed costs to support its rates for unbundled network elements, interconnection, and collocation in accordance with the Telecommunications Act of 1996 (Act). Specifically, I will refute allegations made by other parties as to

the credibility of the study methodology and results as well as the LPSC's ultimate findings regarding cost-based rates.

5. My affidavit will demonstrate that BellSouth's costs for interconnection, unbundled network elements, and collocation were developed in accordance with 47 U.S.C. Section 251(c)(3) and 252(d)(1). The relevant elements include local loop transmission from the central office to the customer's premises, unbundled from switching or other services; local transport from the trunk side of a wireline switch, unbundled from switching or other services and local switching unbundled from transport, local loop transmission, or other services.

6. Permanent cost-based rates were established by the LPSC in Order No. U-22022/22093-A (Consolidated) dated October 24, 1997. (Appendix C-3 Tab 293 submitted with BellSouth 271 Application). This order states on page 5 the following: "The 'Stand Alone' rates of Commission consultant, Kimberly Dismukes, as set forth on Attachment 'A' hereto, are hereby adopted. These permanent, cost-based rates shall replace the interim rates in BellSouth's SGAT and are approved rates for BellSouth's Interconnection/UNE tariff."

7. Ms. Dismukes, the LPSC staff consultant, stated in her testimony filed in the LPSC's docket on September 22, 1997 the following: "The purpose of my testimony is to evaluate the cost studies presented by BellSouth and to provide the Commission with alternative TSLRIC/TELRIC cost estimates. This included evaluating BellSouth's studies to ensure compliance with the Telecommunications Act of 1996 and the LPSC's local competition regulations."

(Appendix C-3 Tab 281 submitted with BellSouth 271 Application in CC Docket 97-231, Testimony of Kimberly H. Dismukes, p. 2) In order to achieve this purpose, Ms. Dismukes conducted an independent impartial review of the cost studies filed by AT&T and BellSouth in Docket U-22022/22093.

8. The result of Ms. Dismukes analysis was a set of proposed rates that she developed using BellSouth's cost studies and models with modifications in several areas. The items she modified were: (1) annual cost factors; (2) annual expense factors; (3) pole and trench sharing; (4) fill factors; (5) labor rates; (6) shared and common cost calculations and assumptions; (7) drop wire assumptions; (8) vertical features; (9) nonrecurring costs; and (10) the Residual Recovery Requirement. (Dismukes Testimony, p. 10)

9. As background for my replies to comments, I will describe the basis for BellSouth's original cost studies and the fundamental methodology used to determine the costs. I will also explain the modifications to the studies made by Ms. Dismukes.

***Costs for Network Interconnection, Unbundled Network Elements, Local Transport and Termination, and Collocation - General Methodology.***

10. The Act in 47 U.S.C. Section 252 (d)(1) requires that prices for interconnection and unbundled network elements be "based upon the cost" of providing these elements, products and services, and "may include a reasonable profit." The Federal Communications Commission's First Report and Order on Local Competition CC Docket 96-98 (Order), beginning on page 15812, prescribed a methodology for identifying the appropriate cost on which these

prices should be based. This methodology is the sum of the Total Element Long Run Incremental Cost (TELRIC) and a reasonable allocation of forward-looking common cost.

11. The Act in 47 U.S.C. Section 252 (d)(2) requires that the charges for local transport and termination recover the “costs” of transporting and terminating “calls that originate on the network facilities of the other carrier.” The Order in Paragraph 1056 specified these costs were to be determined in the same manner as the costs for network interconnection, unbundled network elements and collocation.

12. After passage of the Act, and in anticipation of the Commission’s pricing regulations, BellSouth performed cost studies designed to determine the forward-looking economic costs of providing services to Competitive Local Exchange Companies (CLECs). Following the issuance of the Commission’s Local Competition First Report and Order and its accompanying regulations on August 8, 1996, BellSouth revised its studies to ensure that they conformed to the rules and principles enumerated in the Commission’s Order. Although the Eighth Circuit Court of Appeals later vacated the Commission’s pricing rules, those rules were nonetheless observed in the BellSouth cost studies. The exclusion of historical costs was one of the underlying principles set forth in the Order. To reflect its view that these costs should be recovered while facilitating the rate setting process, BellSouth chose to identify historical costs for loops and ports (the Residual Recovery Requirement) under a separate study. The Residual Recovery Requirement identifies the shortfall between the forward-looking

TELRIC economic costs and the actual costs of providing unbundled network elements. Ms. Dismukes recommended that the Residual Recovery Requirement not be included in the prices. (Dismukes Testimony, p. 47 - 48) Therefore, the rates adopted by the LPSC include only TELRIC plus a reasonable allocation of forward-looking common costs.

13. The studies conducted for these elements were forward-looking, long run, incremental cost studies considering the "total quantity of the facilities" as was required by 47 C.F.R. Section 51.505(b). Certain historical data, such as investments and expenses by account, field reporting code, Cost Pool, and/or Cost Sub-Pool, were used in the development of factors in order to predict future relationships based on forward-looking investments and expenses. However, the investments, expenses and the costs developed from these relationships were forward-looking. BellSouth did not include the cost associated with older technology such as analog end office switches or analog carrier systems.

14. The technology chosen for these studies was based on the most efficient technology currently available, given existing wire center locations as required by former 47 C.F.R. Section 51.505(b)(1). For example, in the Operator Services studies, forward-looking digital switch technology was utilized for Host and Remote switches at existing wire center locations.

15. The Commission's Order (para. 682, p. 15847) provides for deriving per-unit costs "by dividing total costs associated with the element by a reasonable projection of the actual usage of the element." Rather than use scenarios that depend upon the business plans of competitors and their relative success in the

marketplace, BellSouth has elected to use current patterns of use until there is some actual basis to determine which scenario is the most successful and how that scenario affects utilization of each element. Ms. Dismukes recommended that the utilization or fill factors be adjusted to levels she felt were more appropriate. Her recommendation was based on decisions by the California and Texas Commissions as well as data BellSouth had provided in cost studies filed in June 1996. (Dismukes Testimony, p. 30)

16. The forward-looking cost of capital used in these studies reflects a conservative estimate of the risk characteristics of the increasingly competitive environment BellSouth is confronting. The cost of capital recommended by BellSouth was 11.25%, while Ms. Dismukes recommended a cost of capital of 10.15% that she felt was "more Louisiana-specific." (Dismukes Testimony, p. 11) Therefore, the cost of capital included in the cost studies that support the rates adopted by the LPSC complies with former 47 C.F.R. Section 51.505(b)(2).

17. With respect to depreciation, BellSouth selected "economic depreciation rates" as required in vacated 47 C.F.R. Section 51.505(b)(3). Ms. Dismukes adjusted the depreciation lives based on her own analysis. (Dismukes Testimony, pp. 12-19)

18. Common Costs were identified using BellSouth's most recent historical costs as a basis for projecting its forward-looking common costs. The historical costs were adjusted to exclude retail costs and a portion of executive, planning and general and administrative costs that arguably could be attributed to retail operations.

19. To recover common costs, a ratio (allocator) was developed. Two steps were required in this calculation. First, summing the directly assigned wholesale common costs and the allocated wholesale common costs developed total wholesale common costs. Secondly, dividing the total wholesale common costs by the total wholesale costs excluding the common portion developed the common cost allocator.

20. Ms. Dismukes accepted BellSouth's methodology for calculating common costs, with adjustments she outlined in her testimony. Ms. Dismukes' common cost factor was 4.73%, whereas BellSouth's factor was 5.39%. (Dismukes Testimony, p. 38)

21. 47 C.F.R. Section 51.505(d)(1) formerly specified that embedded costs are not part of the costs of unbundled network elements. BellSouth followed this standard in developing the TSLRIC and TELRIC economic costs presented to the Louisiana Public Service Commission.

22. The studies for these elements do not include retail costs (e.g. marketing and sales) associated with providing retail telecommunications services to subscribers who are not telecommunications carriers in compliance with vacated 47 C.F.R. Section 51.505(d)(2). In compliance with vacated 47 C.F.R. Section 51.505(d)(3), opportunity costs have not been included in the costs of unbundled elements.

23. Revenue to subsidize other services has not been included in the costs of these elements in compliance with former 47 C.F.R. Section 51.505(d)(4).

24. BellSouth complied with 47 C.F.R. Section 51.511(a) by apportioning the cost over a reasonable projection of the sum of the total number of units of the element that BellSouth is likely to provide. Because of the uncertainty involved in determining future demand for unbundled elements, BellSouth took the reasonable approach of utilizing recent usage figures in projecting "the sum of the total number of units."

25. The units chosen correspond to the discrete number of elements for flat-rate services, or the unit of measurement of the usage of the element for usage-based services as was required by 47 C.F.R. Section 51.511(b).

***Response to Criticism of Cost Development***

26. Several parties have alleged BellSouth violated the principles that form the basis of TELRIC methodology, thus invalidating the cost results. I will address each topic and explain why their allegations are invalid even assuming that the FCC's rules rather than the LPSC's pricing order are controlling.

***A. Forward-looking Costs***

27. AT&T's witness, Mr. Follensbee, asserts that BellSouth costs "reflect an improper backward-looking cost focus." (Follensbee Affidavit, ¶ 2-3) MCI witness, Mr. Wood, also parrots the same refrain by stating that BellSouth's cost studies "guarantee BellSouth recovery of historic and embedded costs." (Wood Declaration, ¶ 58) Let me again emphasize that the TELRIC studies BellSouth filed with the Louisiana Commission employed forward-looking, most efficient network design for a narrowband, voice grade network designed to

provision elements on an unbundled basis. This design is consistent with the guidelines set forth by this Commission for TELRIC studies.

28. Forward-looking economic cost development doesn't preclude the consideration of all historic costs. All that is required is that the costs used in the study be representative of future costs. This is the foundation of the BellSouth methodology.

29. BellSouth's study approach uses existing wire center locations, as established by the Commission Order, and existing cable routes, sizes, and types of placement as the best indication of the future characteristics of the network. For example, cable routes today follow streets and roads. There is no reason to believe that will not be the least cost route for the future. While there may be some exceptions, the existing type of placement (aerial, buried, or underground) was chosen because it is most efficient and future cable placements along the same route are not likely to change. BellSouth's approach provides the best estimate of what a forward-looking, efficient network would cost to provide service in the BellSouth region. (BellSouth Rebuttal Panel Testimony LPSC Docket U-22022/22093, pp. 11-12; Appendix C-3, Tab 273 submitted with BellSouth's 271 Application)

30. Mr. Follensbee distorts BellSouth's view of TSLRIC methodology in an attempt to prove BellSouth's methods produce backward-looking costs. He begins with the statement; "TSLRIC is based on the least cost, most efficient technology that is capable of being implemented at the time the decision to provide service is made." (Follensbee Affidavit, ¶ 10) He then draws the

conclusion that "at the time the decision is made" implies "as of the date the equipment is placed into service." This is incorrect. Indeed, BellSouth's interpretation of the definition first requires an analysis of BellSouth-approved equipment technically capable of providing the service (unbundled network elements), in many cases disregarding the technology currently deployed. For example, BellSouth considered only digital switches instead of the analog switches, actually deployed in the network. The reference to time in the quotation refers to the time the decision is made to offer the service (unbundled element) and usually corresponds to the date of the study, not to the time equipment is placed in service. This interpretation is consistent with one of the principles outlined in Ms. Dismukes' testimony; "Technology used in a long run incremental cost study should be the least-cost most efficient technology that is currently available for purchase." (Dismukes Direct Testimony LPSC Docket U-22022/22093, p.7)

31. Mr. Wood asserts that BellSouth's redesign effort, utilized in developing loop costs, does not reflect an efficient, forward-looking carrier. He states that technologies of choice and the relative costs of assets have changed since BellSouth's loop database was created. (Wood Declaration, ¶ 68) BellSouth recognized both of these facts. First, BellSouth's loop study only considered technology that will appropriately reflect a forward-looking deployment. BellSouth network guidelines and technical service descriptions were reviewed. Also, network subject matter experts analyzed all design assumptions used. Additionally, only forward-looking, discounted material prices, attainable by

BellSouth, are included in the calculations. The material prices are supported by the contracts BellSouth has in place with equipment vendors.

32. The development of the Residual Recovery Requirement cannot be used to paint the entire cost methodology employed by BellSouth as embedded. The Residual Recovery Requirement was developed, in a study separate from the TELRIC study, solely to determine the short-fall between costs resulting from a theoretical network based on economic principles and the actual costs incurred by the provider of service, BellSouth. As previously stated, the rates adopted by the LPSC do not include the Residual Recovery Requirement.

33. Also, let me emphasize again that the rates adopted by the LPSC were based on the costs developed by the staff consultant using BellSouth's models and cost studies. She obviously felt that the BellSouth studies, with her modifications, correctly determined the costs of an efficient forward-looking network since she proposed them to the Commission. Her adjustments indicate those areas where she concluded that the study input should be more forward-looking and include items previously discussed, as well as structure sharing, expense factors, and labor rates. However, she did not modify assumptions about underlying network technologies, basic design, study methodology, or the models themselves.

***B. Loop***

34. Affiants have voiced several concerns with the loop study. In particular, they discuss BellSouth's inclusion of Universal Digital Loop Carrier

(UDLC), utilization (fill factors), and the sample. I will address each of their concerns.

35. Several of the witnesses state that BellSouth's TELRIC unbundled loop costs reflect outdated technology, Universal Digital Loop Carrier (UDLC), and thus are not forward-looking. This is absolutely incorrect. These assumptions are premised mainly on other parties' assertions that an unbundled loop and unbundled port should be a combined offering. However, because the loop and port are to be offered as stand-alone Unbundled Network Elements (UNEs), the loops must terminate on the main distributing frame (MDF) at the voice grade level. UDLC provides the only way in which unbundled loops that are served by digital loop carrier can be connected to a CLEC switch. When the technology the other parties are advocating, Integrated Digital Loop Carrier (IDLC) is used, the voice grade circuits are multiplexed into DS1 signals which terminate directly into the BellSouth switch. In order to deliver individual voice grade circuits to the CLEC switch, the individual circuits must be de-multiplexed from the DS1 by a central office channel bank or terminal. (BellSouth Rebuttal Panel Testimony LPSC Docket U-22022/22093, p. 18; Appendix C-3, Tab 273 submitted with BellSouth's 271 Application)

36. BellSouth has investigated several alternatives to provisioning an unbundled loop where the existing loop facility currently served by IDLC. Two technically feasible alternatives have been identified: (1) reassign the loop from an integrated carrier system and use a physical copper pair, or (2) in the case of Next Generation Digital Loop Carrier (NGDLC) systems, "groom" the integrated

loops to form a Virtual Remote Terminal (RT) set-up for inward voice. (Affidavit of Keith Milner on Behalf of BellSouth, Appendix A, Tab 14, ¶¶ 54-55.) However, the cost of these methods may not be significantly lower than the existing UDLC-based cost due to the additional equipment required to isolate the voice grade circuit. Also, technical limitations on the number of circuits that can be reassigned and limits on the availability of the facilities may restrict these alternatives. Accordingly, savings from use of IDLC have not been assumed.

37. Parties have also questioned the fill (utilization) factors employed by BellSouth in the development of costs. Mr. Follensbee states that BellSouth has based the utilization calculation on “actual utilization levels, rather than efficient forward-looking practices.” (Follensbee Affidavit, ¶ 11) Also, Mr. Wood attempts with considerable effort to prove BellSouth inappropriately calculated and applied fill factors. (Wood Declaration, ¶¶ 98-114) As I discussed previously, (¶ 13) BellSouth used actual company records as a starting point, making adjustments as necessary to reflect forward-looking projections. However, there are no indications that most utilization levels should vary substantially over time. One must be cognizant of the fact that the utilization factors reflect the use of the total network, not just an isolated cable or switch, a point Mr. Wood ignores in his discussion. This postulate, i.e. that fill refers to the total network, anticipates both churn and growth. For example, as one cable route nears exhaustion, another may just be placed in service. This situation will continue in the future. Thus, overall the utilization level will remain fairly constant. As Mr. Baeza explained in his direct testimony filed in LPSC Dockets

U-22022/U-22093 (Appendix C-3, Tab 275, p. 11 submitted with BellSouth 271 Application), BellSouth has “planned our networks to serve our customers efficiently and effectively and that fact is reflected in our utilization factors.”

38. BellSouth’s fill factors represent our best estimate of projected actual usage anticipated over the future study period. Mr. Wood argues the fill factors should be calculated as  $(\text{Projected Future Lines})/(\text{Total Lines i.e. Current and Future Demand})$ . This is essentially BellSouth’s methodology. BellSouth has taken actual fill,  $(\text{Current Working})/(\text{Current Total})$ , and projected that these ratios are not anticipated to change in the future. Therefore, this equates to Mr. Wood’s  $(\text{Future Working})/(\text{Future Total})$ . (Panel Rebuttal Testimony, p.43)

39. Both AT&T and MCI state that BellSouth’s loop sample is invalid since it did not include ESSX Service® and multi-line business loops. (Follensbee Affidavit, ¶¶ 34; Wood Declaration, ¶¶ 75-79) BellSouth used residence and business class of service loops because these are the types of loops CLECs will purchase as unbundled voice grade loops. ESSX Service® is an offering predominately made to large businesses where each station in the ESSX Service® arrangement is connected from the customer location to the central office. Thus, ESSX Service® lines are purchased in bulk to a single location. To include ESSX Service® loops in the sample would distort the results since very few ESSX Service® lines are expected to be served via 2-wire analog unbundled loops. In serving multiple lines at a single location, as is the case with an ESSX Service® arrangement, it is more economical to provision those lines via a DS1,

DS3 or higher capacity service. (BellSouth Panel Rebuttal LPSC Docket U-22022/22093, pp.37-38)

***C. Vertical Features***

40. Both AT&T and MCI contend that vertical features are part of the port. (Follensbee Affidavit, ¶ 30, Wood Declaration, ¶ 132) The port costs developed by BellSouth include only the cost of the physical termination on the switch. This would be equivalent to just the disk drive on your personal computer: the point of access, not the total processing capability. AT&T claims that the costs associated with the processor, admittedly one of the major components of feature costs, should be allocated over the number of lines in the switch and be combined with the port costs. This proposal violates one of the guidelines of economic cost theory, i.e.; cost should be determined based on cost causality. The processor is used to set-up and maintain calls and to provide feature operations on those calls. All of the processor functions are usage sensitive activities, i.e.; the cost is caused by usage. If one were to agree with the AT&T/MCI approach, that is, that the processor exhaust is a function of line capacity, then there would be no cost causative relationship for any service except ports. This in turn would encourage high demand for switch features because, if rates were set at these costs, there would be no charge for using those features. This arrangement and associated demand would ultimately exhaust switch capacity based on usage. Thus, BellSouth appropriately represented the cost causative relationship in its studies to be one based on feature usage.

41. AT&T and MCI also virtually ignore other costs associated with switch features. Features must be activated in order to function, i.e.; there is labor involved to complete the switch translations. Additionally, some features require hardware, e.g., conference circuits, CLASS modem cards, announcement circuits, or scan points. Another major component of feature costs is the right-to-use (RTU) fees BellSouth must pay to the vendors. These RTU fees constitute approximately 40% of the feature costs applicable to a 2-wire analog port as presented to the Louisiana Commission.

42. AT&T implies that Ms. Dismukes recommended to the Commission that BellSouth's Vertical Features study be rejected. That is not true. In fact, she proposed rates generated by the BellSouth model using her inputs. Ms. Dismukes indicated in her testimony that she was "still assessing" the Vertical Features study. (Dismukes Testimony, pp. 44-46) Subsequently, Ms. Dismukes indicated during her cross-examination, that she had made an extensive examination of BellSouth's feature study. (LPSC Hearing Volume Number 9, pp. 2895, 2904, 2918) Thus, after filing her testimony she continued her analysis and updated her findings, actually proposing a higher feature cost than she did in her written testimony. (LPSC Hearing Volume Number 9) The Louisiana Public Service Commission adopted this higher feature cost.

43. BellSouth has accurately portrayed the switch functionalities in its list of vertical features. These feature costs were appropriately based on usage characteristics. While the feature costs have been listed separately in the cost

development, the rate has been set to include both the port and features, as directed by the Louisiana Public Service Commission.

***D. Nonrecurring Costs***

44. AT&T asserts that BellSouth's time estimates are "based on time estimates and other information gathered in the early 1990's," implying that BellSouth's nonrecurring costs do not reflect forward-looking economic costs. (Follensbee Affidavit, ¶ 45) AT&T is incorrect. At the conception of the study process an intense effort was made to update inputs into the studies to reflect a forward-looking environment. This included the inputs into the nonrecurring cost development. Cost analysts met with appropriate subject matter experts, who in turn reviewed the current practices, determined anticipated savings from process improvement, and, for each UNE, provided a forward-looking, yet achievable, time estimate. Thus, the input from BellSouth's subject matter experts is forward-looking to the extent that BellSouth anticipates the work force can meet these time estimates. The time estimates provided related specifically to the work required to provision UNEs for CLECs.

45. MCI witness, Mr. Wood, claims BellSouth's nonrecurring costs are inflated because they include "unjustifiable manual labor costs." (Wood Declaration, ¶ 115) In the Louisiana docket, AT&T/MCI presented a nonrecurring model that assumed that the provisioning of unbundled network elements could be accomplished with little or no human intervention. However, the technology and support systems required to achieve such a level of seamless order flow are currently unattainable. This underlying, erroneous premise

explains Mr. Wood's unjustifiable comments. For instance, Mr. Wood uses BellSouth's 3 hours for xDSL service inquiry as an example of "inflated" time estimates. Mr. Wood fails to acknowledge that xDSL is a complicated, designed service. The three hours accounts for an engineer receiving the order, reviewing the requirements, investigating the cable records, marking the outside plant facilities, determining the loss of the circuit, responding to the service center and closing out the order. This is more than conducting an "inquiry to simply find out if facilities are available" as Mr. Wood states. (Wood Declaration, ¶ 118)

46. Further, in an attempt to discredit the 20% new connect assumption used in the calculation of the 2-wire analog loop nonrecurring costs, Mr. Wood misinterprets BellSouth's 4.8% projected loop growth rate. (Wood Declaration, ¶ 122) The 4.8% is the net of inward and outward movement, not the percent of new cable placements. Thus, Mr. Wood's adjustment is inappropriate.

47. Parties have questioned BellSouth's use of a 20% fall-out rate in order processing, stating that this reflects an embedded input. BellSouth's fall-out rate is based on actual experience with electronic ordering. The 20% fall-out rate was estimated after consulting with subject matter experts who had experience with orders from Interexchange Carriers (IXCs) for access service. In the early stages of electronic ordering by the IXCs (beginning in 1984) there was a fall-out rate in excess of 30%. Over time (after more than 10 years of experience), that rate has fallen to 10%. Over a three-year period, it is anticipated that the error rate for UNE orders will follow a similar pattern and the average over the three-year study period will be approximately 20%.

48. Additionally, the statement that a 1-2% fall-out rate has been achieved by other ILECs is misleading. This level of accuracy has been attained only for resale; not ordering of UNEs which involves not only a transfer of responsibility but also coordination of number portability and the physical movement of the loop from its connection to the BellSouth switch.

49. As part of the nonrecurring cost development, BellSouth included the cost of disconnect, appropriately discounted to account for the fact that the disconnect will occur in the future. This has been a standard practice in most cost studies conducted to support general tariff filings and thus was adopted for these studies. However, if CLECs feel strongly that this cost should be paid only upon disconnect, BellSouth would be willing to enter into such an arrangement. In fact, the LPSC established a separate rate for disconnects which would be charged at the time of disconnect.

***D. Directory Assistance Database Service***

50. The rates AT&T quotes for Directory Assistance Database Service equals the adjusted costs recommended by Ms. Dismukes. (AT&T Comments, at 63) The only revisions Ms Dismukes made to the study submitted by BellSouth were those I outlined in paragraph 8 of this affidavit. (Not all of the items listed there are applicable. Only adjustments to the annual cost factors, labor rates and the shared and common factor apply.) She did not adjust the methodology. Additionally, AT&T misrepresents the two rates, \$.0443 per listing and the \$90.54 per customer, as being associated only with the magnetic tape, the tape preparation and the mailing of the tape. These are the costs reflected in the

per listing cost. BellSouth developed the costs associated with producing and shipping a magnetic tape containing directory listings and recovered them over the average number of requested directory listings. However, the \$90.54 per customer reflects the ongoing costs associated with the administration, maintenance and operation of this database offering. These costs are required in addition to those incurred in the preparation and mailing of a tape.

***E. Collocation***

51. AT&T witness, Mr. Follensbee, states that BellSouth's collocation rates are not based on forward-looking economic costs. (Follensbee Affidavit, ¶ 38). However, this is not true. BellSouth filed a forward-looking cost study for both Physical and Virtual Collocation following the same general methodology discussed throughout this affidavit. The rates adopted by the LPSC are based on these cost studies with modifications prepared by Ms. Dismukes.

***F. Interim Number Portability***

52. MCI implies that the BellSouth cost studies for interim number portability (INP) incorrectly attribute the entire cost to the CLEC. (Wood Declaration, ¶ 156) This is incorrect. The INP cost studies are based on the same principles and cost methodology discussed above. These studies and methodology were adopted by the LPSC along with the modifications proposed by Ms. Dismukes.

***Conclusion***