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Before the
Federal Communications Commission
Washington, D.C. 20554

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JUL 1 2 2002

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of	)	
	)	
Joint Application by BellSouth Corporation, BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Alabama, Kentucky, Mississippi, North Carolina, and South Carolina	)	CC Docket No. 02-150

COMMENTS OF WORLDCOM, INC. ON THE APPLICATION BY BELLSOUTH FOR AUTHORIZATION TO PROVIDE IN-REGION, INTERLATA SERVICES IN ALABAMA, KENTUCKY, MISSISSIPPI, NORTH CAROLINA, AND SOUTH CAROLINA

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July 11, 2002

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Louisiana II Order	In re Application of BellSouth Corporation, BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc. for Provision of In-region, InterLATA Services in Louisiana, CC Docket No. 98-121, Memorandum Opinion and Order, 13 F.C.C.R. 20599, FCC No. 98-271(1998).
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Frentrup Decl.	Declaration of Chris Frentrup on Behalf of WorldCom Inc. (Tab B hereto).
Lichtenberg Decl.	Declaration of Sherry Lichtenberg on Behalf of WorldCom Inc. (Tab A hereto).

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INTRODUCTION AND EXECUTIVE SUMMARY

Emboldened by the Commission's approval of its section 271 application for Georgia and Louisiana, BellSouth now applies for section 271 authority in five more states. Not surprisingly, BellSouth's application does not include the key states of Florida and Tennessee where state commissions have yet to recommend section 271 approval. In Florida, KPMG's test reveals continuing problems with BellSouth's OSS, problems that are affecting CLECs in commercial operation. And in Tennessee, the Commission properly concluded that BellSouth's OSS is not regional, leaving BellSouth with no basis for asserting the readiness of its OSS in the states for which it is now applying. Moreover, BellSouth's prices in each of the states are far above TELRIC levels and result in a price squeeze that precludes competitors from profitably offering basic local service on a statewide basis in any of the five states.

In section I, we discuss continuing problems with BellSouth's OSS. We focus primarily on BellSouth's continued inability to effectively manage change. Although BellSouth has made improvements in its change management process, the fundamental purpose of change management – smooth implementation of changes without harm to CLECs – remains a distant goal. Indeed, BellSouth's ability to implement high quality software releases with few if any defects appears to have worsened in recent months. Despite this Commission's warning that it "share[d] the Department of Justice's concern that software releases with numerous defects inhibit smooth transitions between releases" and that it "plan[ned] to monitor BellSouth's performance in this regard," Georgia/Louisiana Order ¶ 195, BellSouth's most recent software release, Release 10.5, had approximately 20 defects. This was so despite the fact that BellSouth delayed the release for two weeks ostensibly in order to improve its quality.

The number of defects in this release was far above that of a typical industry release and the defects that did exist were important ones. As a result, in the course of its Florida test, KPMG criticized the quality of Release 10.5 and BellSouth's software testing process more generally.

BellSouth's performance is unlikely to improve in the near future, as it continues to evince a cavalier attitude towards the importance of managing change. At the end of April, for example, BellSouth announced that it would implement a significant change in July, leaving both CLECs and BellSouth with insufficient time to prepare for the change, especially given the poor quality of the documentation BellSouth provided. Nonetheless, BellSouth refused CLECs' request to postpone the change until a Fall release, leaving CLECs little choice but to accede to implementation of the change in July. BellSouth instead should have worked with CLECs to adopt a more reasonable schedule. Absent effective efforts by BellSouth to promote, rather than inhibit, smooth changes to its OSS, BellSouth's section 271 application should be denied.

BellSouth must eliminate other important OSS defects as well:

- BellSouth continues to misroute intraLATA calls as local calls, depriving WorldCom of the intraLATA revenue on these calls. Contrary to BellSouth's claim during the Georgia/Louisiana section 271 process, a major source of the problem appears to be switch translation errors and no fix has been scheduled to eliminate such errors.

- BellSouth has begun rejecting orders from CLEC customers for BellSouth long distance service in states in which BellSouth has been authorized to provide such service. Thus, a CLEC local customer, unlike a BellSouth local customer, cannot choose BellSouth for long distance service.

- BellSouth has not yet introduced its "Single C" ordering process in four of the states at issue here. For the moment, BellSouth still relies on the two service order process that it eliminated in Georgia and Louisiana. This process causes many CLEC customers to lose dial tone. While BellSouth plans to eliminate this process soon, it remains to be seen whether BellSouth is able to do so without causing other problems, such as the line loss problem that occurred in Georgia and Louisiana.

In addition to these specific systems issues, the findings of the Tennessee Regulatory Authority demonstrate the irrelevance of any evidence of OSS readiness from outside the individual states for which BellSouth is now applying. After considering the basis for this Commission's conclusion that BellSouth's OSS is regional, the Tennessee Authority gathered additional evidence which showed that this Commission's earlier conclusion, on the basis of inferior evidence, was incorrect. As a result, BellSouth cannot demonstrate the readiness of its OSS in the individual states for which it is now applying based on evidence from other states such as Georgia. But no third party tests have been conducted in the states for which BellSouth is now applying, and BellSouth has only very limited commercial experience in these states. BellSouth therefore has not shown its OSS is ready and must be denied section 271 authorization on that basis.

As discussed in part II, BellSouth's application must also be rejected because its unbundled network element ("UNE") rates are based on fundamental methodological errors that render those rates far above reasonable TELRIC rates. BellSouth's OSS rates, for example, are more than double the rate in Louisiana on average and roughly 50 times the rate in Georgia for four of the five application states. Similarly, BellSouth's Daily Usage File charges are much higher in Alabama and South Carolina than in other BellSouth states. There is no justification that the rates for either OSS or DUF should be substantially higher in some BellSouth states than in others given BellSouth's claims that its systems are regional. Moreover, BellSouth should not in fact be charging separate fees for either OSS or DUF at all, as it is already recovering the costs of OSS and DUF as part of its common cost factor.

BellSouth's loop and switching charges are also too high. The non-loop rates in South Carolina exceed those in either Georgia or Louisiana. They also are not deaveraged based on cost. And while the rates in the other application states are less than those in Georgia after benchmarking analysis is applied, WorldCom maintains that the Commission should not have approved the Georgia rates and that, on this record, it should find the rates in the other BellSouth states to be too high. Each is the product of two fundamental TELRIC errors, which we will show, the Commission wrongly deemed irrelevant in approving the Georgia/Louisiana application. First, BellSouth models different networks to price UNEs used for different purposes. This results in excessive prices because each of the separate networks models demand that could more efficiently be served through a different technology than the one being modeled. Second, BellSouth applies "loading" factors to the material cost of loops and switches to determine their cost as installed. But application of these factors wrongly presumes that installed cost is proportional to material cost, i.e., that the cost of installing a 2400-pair cable is 20 times more than the cost of installing a 25 pair cable, thus substantially inflating the installed cost of a loop in densely populated areas where larger cable sizes can be used. The average installed cost using BellSouth's loading factors is also approximately 15% higher than the installed cost if properly modeled.

Finally, we explain in parts III and IV, that BellSouth's application is contrary to the public interest. In Part III, we describe the price squeeze that results in each of the application states as a result of BellSouth's excessive UNE rates. While WorldCom has recently entered each of these states, it has only been able to do so using its premium Neighborhood products and only in parts of the states. In Part IV, we explain that South Carolina may lack an enforceable performance plan, leaving CLECs with little remedy against backsliding.

BellSouth must resolve these issues before its application can be approved.

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BellSouth's application suffers from both OSS and pricing deficiencies that must be resolved before BellSouth may properly receive in-region interLATA relief. As WorldCom begins to expand service throughout the BellSouth region, it is critical that these issues are resolved in order for residential competition to continue to expand.

I. BELLSOUTH MUST RESOLVE ONGOING OSS DEFICIENCIES

In some respects BellSouth's OSS has improved in recent months but in others it has gotten worse. WorldCom continues to believe that BellSouth's OSS is not yet ready and in important respects denies competitors a meaningful opportunity to compete. Most important, BellSouth's change management process still does not achieve its primary goal of effectively managing change. In addition, BellSouth continues to misroute intraLATA calls, continues to use a two "service order" process that results in loss of dial tone, and, where it has been authorized to provide long distance service, refuses to accept orders for BellSouth long distance service from customers who desire CLEC local service. Finally, there is new, strong evidence that BellSouth's OSS is not truly regional. In the absence of regional OSS, BellSouth has not made a sufficient showing that its OSS is ready in any of the individual states for which it has applied for section 271 authority.

A. BellSouth's Change Management Process Must Be Improved

One of the concerns expressed by the Commission in approving BellSouth's section 271 application for Georgia and Louisiana was with the quality of BellSouth's software releases. Although the Commission ultimately concluded that BellSouth performed "adequate internal testing before releasing software," it nonetheless explained that it "share[d] the Department of Justice's concern that software releases with numerous defects inhibit smooth transitions between releases and we plan to monitor BellSouth's performance in this regard." Georgia/Louisiana Order ¶ 195.

Such monitoring reveals a deterioration in BellSouth's performance that warrants rejection of its section 271 application here. Despite the Commission's stricture and BellSouth's understanding that it needed to focus on release quality, BellSouth's only software release since approval of BellSouth's Georgia/Louisiana section 271 application, Release 10.5, was riddled with defects. Indeed, within 12 days of the Release, BellSouth announced a staggering 25 defects. BellSouth has acknowledged that 14 of these defects were attributable to Release 10.5 and it is likely the other defects were related to that Release as well. BellSouth later announced two additional defects that it attributed to Release 10.5, as well as other defects that appear related to the release. Lichtenberg Decl. ¶ 8.

This is far more defects than exist in a typical release in the telecommunications industry. Recent Verizon releases, for example, had almost no defects. Internally, WorldCom considers one of its own releases to be of extremely poor quality if it has more than 10 defects. The 16 to

BellSouth's Change Management Process Does Not Yet Work.

5. During the course of the section 271 proceedings for Georgia and Louisiana, WorldCom explained the deficiencies of BellSouth's change management process. One of the deficiencies on which we focused was the inadequate internal testing of BellSouth releases and the resultant poor quality of those releases. We described the defects in BellSouth's release for migration by telephone number functionality last November; the defects in its release for parsed customer service records in January, and the defects in its release of its "single C" ordering process in March – each of which led to substantial problems for CLECs. The migrate by TN release, for example, led to a huge spike in rejects and the single C release lead to a huge decrease in the accuracy of line loss reports.

6. In Florida, KPMG opened Exception 157 because "BellSouth did not completely test code changes for Releases 10.2 and 10.3 prior to these releases going into production." KPMG identified 31 defect change requests for release 10.3, for example. KPMG found that "BellSouth's incomplete internal software testing may affect a CLEC's ability to efficiently execute transactions with BellSouth, resulting in CLEC customer dissatisfaction."

7. If anything, BellSouth's performance has been even worse since the Commission approved the Georgia/Louisiana application. Release 10.5 is the only release BellSouth has made since approval of that application. BellSouth was scheduled to implement release 10.5 on May 18 – May 19. BellSouth then delayed the release until May 31 because it found there were too many software errors to implement the release on the intended date.

8. Even after this delay, when BellSouth implemented Release 10.5 on May 31, the release contained an astounding number of defects. Between May 31 and June 11, BellSouth released notification for 25 defects. After WorldCom sent BellSouth a chart listing these defects, BellSouth acknowledged that 13 of them were attributable to Release 10.5 (for most of the others, including all of the documentation defects, BellSouth did not attribute the defects to a particular release). Subsequently, BellSouth announced two additional systems defects that it attributed to Release 10.5, as well as 8 additional defects that it did not attribute to any specific release, as well as additional documentation defects. Many of these defects are likely attributable to Release 10.5 as well, bringing the total number of defects for the release to at least 15 and probably closer to 30.
9. This is far from a typical release in the telecommunications industry. In the Verizon region, for example, a typical release has at most one or two systems defects. We do not believe there were any tickets opened with respect to recent Verizon releases. And internally, we consider a release of extremely poor quality if there are more than 10 errors. That is exactly why KPMG opened Exception 157 in Florida after releases 10.2 and 10.3. KPMG similarly found release 10.5 to be of poor quality and left Exception 157 open. KPMG found that for release 10.5, "there were significant defects in the software when releases were placed into the production environment."
10. Many of the defects in Release 10.5 were important. For example, immediately after implementation of Release 10.5, BellSouth began rejecting all CLEC to CLEC migration orders. BellSouth rejected *all* orders through its TAG interface for versions 7.6 or below. BellSouth also rejected orders for new lines at locations where there is QuickService (working service on the premises or warm dial tone). And BellSouth rejected all

supplemental orders with a building, pier or wing as part of the address. Such orders are quite common as many addresses contain a building name. Finally, BellSouth began erroneously rejecting certain other orders.

11. Although many of these defects were corrected within the first week after the Release, these defects still caused significant problems in the interim. Other defects were not even scheduled to be fixed until August 25 or even later. For example, there is no date yet planned for fixing the defect based on which BellSouth will incorrectly return an error message on supplemental orders that contain building, pier, or wing information.

12. BellSouth's failure to take adequate steps to ensure the quality of its releases is apparent not only from the defects in Releases 10.5 and earlier releases but also in BellSouth's planning for Release 10.6. On April 26, BellSouth announced major changes that it intended to implement in Release 10.6 which was then scheduled for July. When CLECs requested a delay to the Fall, BellSouth refused to accommodate them.

13. The particular changes I am discussing are those designed in part to fix a major defect to which WorldCom pointed during the Georgia and Louisiana 271 proceedings. There we complained about the fact that BellSouth was incorrectly treating some intraLATA calls of CLEC customers as local calls and had not identified a root cause or implement a fix for many months. On April 26, BellSouth scheduled a fix for this problem, as well as other problems.

14. Rather than characterizing its fix as a correction to an existing defect, BellSouth mischaracterized it as based on a regulatory mandate. BellSouth stated that it intended to implement the fix in July as part of Release 10.6. The problem is that the change appeared to be a major one that could not be completed successfully in that time frame.

The documentation BellSouth provided pertaining to this release contained few of the details necessary for CLECs to understand the scope of the change or what coding changes would be needed on their side of the interfaces. It appeared, however, that the coding changes required would be too substantial for CLECs to complete successfully prior to the July release. Similarly, it appeared doubtful that BellSouth could successfully complete the changes on its side by that time – especially given its past history of poor release quality.

15. Viewing the "cure" as worse than the disease, WorldCom asked BellSouth to postpone implementation of the changes until the Fall. BellSouth responded, however, that if CLECs did not agree to a July implementation of the changes, BellSouth would implement the changes until 2003. Faced with this non-choice, CLECs picked implementation in July over implementation in 2003. This posed a huge risk of creating major problems, however.

16. Fortunately, BellSouth ultimately postponed Release 10.6 from July to August 24. The delay will benefit CLECs by providing more time for BellSouth to ensure smooth implementation of the release and more time for CLECs to prepare for the change. But the delay did not result from any decision by BellSouth to accommodate CLECs. Rather it was entirely fortuitous.

17. The fact is that BellSouth cavalierly believed that a major change could be adopted in two and a half months and refused to adopt a more reasonable schedule despite CLEC requests. BellSouth apparently still does not understand the importance of ensuring high quality releases through adequate preparation. The problem of defect-ridden releases will therefore likely continue to plague CLECs and significantly diminish their ability to

compete effectively. BellSouth has made no proposals for correcting the problem. If BellSouth continues to issue releases with the current level of defects, it is likely a future release will devastate CLEC business.

Misrouting of IntraLATA Calls

18. It is already clear that BellSouth's August release will not fully resolve the problem with misrouting of intraLATA calls as local calls. In its Georgia/Louisiana filings, BellSouth attributed the misrouted intraLATA calls as caused by an issue regarding calling scope. BellSouth said that this problem did not exist outside of Georgia.

19. On April 17, WorldCom provided BellSouth an example of 45 intraLATA calls that were misrouted as local calls in Florida, the only state other than Georgia for which WorldCom had experience at the time. On June 24, BellSouth finally responded to this list. BellSouth acknoweledged that 12 of these calls were misrouted as a result of switch translation problems! E-mail from Greg Follensbee to Sherry Lichtenberg, June 14, 2002. That is exactly the explanation BellSouth originally provided for misrouted calls in Georgia before blaming the misrouting on issues having to do with calling scope. It is the latter problem that BellSouth claims it will fix with the release that is now scheduled for August. The translation problem will not be fixed in August.

20. Moreover, with respect to the remaining 33 calls, BellSouth claims that 31 of these calls were UNE originated calls to Land to Mobile Numbers and that these should record as a toll call and be carried by BellSouth as an intraLATA call. Since BellSouth has never provided clear documentation for this call type, we do not yet understand Bellsouth's response and intend to explore it further with BellSouth. Clearly, all calls from an MCI customer's line that are intra or interLATA in nature should follow the customer's PIC.

Whatever special deals BellSouth has with wireless companies should cease when the local customer leaves BellSouth. As noted, however, we intend to explore this issue further.

21. For now, what is important is that BellSouth appears to have a significant problem mistranslating its switches and this is leading to misrouting of intraLATA calls.

Single C Process

22. BellSouth has not yet implemented the single C ordering process for any of the states for which it is applying for section 271 authority in this application with the exception of Mississippi. The single C process would reduce the loss of dial tone caused by the existing two service order process. Under the current process, BellSouth creates a New order and a Disconnect order from every Local Service Request that CLECs submit for a UNE-P migration. If these two orders become disassociated or are not processed at the correct time, the customer can lose dial tone.

23. That is why the Georgia and Louisiana commissions ordered BellSouth to implement a new process in which migrations are processed using a single Change or C order. BellSouth implemented this process for Georgia and Louisiana in March 2002. But BellSouth does not intend to implement single C functionality in Alabama and South Carolina until July 21, 2002 and in North Carolina and Kentucky until August 4, 2002. In the meantime, MCI customers continue to lose dial tone as a result of the two service order process.

24. I am also concerned that when BellSouth does implement the change to a single C process, it will cause significant problems. The change to a single C process in March in other states caused just such problems – resulting in almost completely erroneous line

loss reports. Hopefully, BellSouth has learned from its mistakes. But it is not yet clear that BellSouth will be able to implement the single C process without causing new difficulties.

BellSouth Rejects Orders That Include Requests For BellSouth Long Distance Service

25. In Georgia and Louisiana, where BellSouth has been authorized to provide long distance service, BellSouth is refusing to allow CLEC local customers to request BellSouth long distance service. On June 14, 2002, BellSouth issued Carrier Notification SN91083138 announcing that CLEC customers could not order BellSouth long distance unless the CLEC entered a special "operational agreement" with BellSouth. BellSouth has not explained the terms of such an agreement.

26. In the meantime, BellSouth is rejecting CLEC orders when customers request BellSouth long distance service. A number of WorldCom orders have been rejected for this reason. Once they are rejected, WorldCom has no way of correcting the order unless it can persuade the customer to choose a different long distance carrier. In contrast, a BellSouth local customer can choose any long distance carrier.

BellSouth Has Not Shown Its OSS Is Regional

27. I have long had significant doubts that BellSouth's OSS is truly regional. As I explained in response to BellSouth's Georgia/Louisiana application, the fact that BellSouth's OSS grew from two different sets of legacy systems – one in the South Central Bell states and one in the Southern Bell states fueled these doubts. The doubts were confirmed to some extent when BellSouth informed WorldCom that orders with asterisks in the address would be rejected in parts of the BellSouth region but would not be rejected in other

parts. And they were further confirmed when BellSouth implemented its single C ordering process in some states in its region before other states.

28. After conducting a thorough examination, including an evaluation of the Pricewaterhouse Coopers attestation of regionality, the Tennessee Regulatory Authority recently concluded that significant parts of BellSouth's OSS are not regional. The Authority found that BellSouth had not shown that its loop make-up process, its Legacy Systems, RSAG and ATLAS, its manual work groups, its documentation or its provisioning and maintenance and repair processes are regional. The Tennessee Commission noted that its decision "was based in part on evidence that was not addressed in the FCC order . . . approving BellSouth's Georgia/Louisiana Section 271 application." Order Resolving Phase I Issues of Regionality, 01-00362 at 40 (Tennessee Regulatory Authority June 21, 2002). The Commission explained that an empirical analysis of performance data on percent flow through of Local Number Portability Orders for 10 months in 2001 showed statistically significant differences in performance across the region. *Id.* at 41. The Commission added that "BellSouth recommended "Percent Flow-Through" of CLECs' Local Number Portability as the best test of its performance. The handling of Local Number Portability orders does not depend on technical complexities associated with orders for unbundled network elements. Nor is it materially affected by interstate differences in technical complexities (*e.g.*, UNE orders) of CLECs' wholesale orders, local weather conditions, or local permitting requirements, factors which BellSouth has relied upon to explain interstate disparities in its performance." *Id.*

29. With respect to the Pricewaterhouse Coopers attestation, the Authority concluded that "PWC's attestation was seriously flawed by its failure to analyze OSS code or adequately

analyze actual performance data, and by its failure to review Bellsouth's highly complex ordering process for a sufficient period of time. Further, testimony from the December 3rd through 6th Hearing convinced a majority of the Directors that BellSouth had exerted inappropriate influence on PWC's attestation of the regionality of BellSouth's OSS." *Id.* at 42.

30. Because it now appears that BellSouth's OSS is not regional, BellSouth cannot rely on its Georgia performance to show its OSS is ready, as it did in persuading the Commission to approve its section 271 application for Louisiana. But without such evidence, BellSouth has little basis to claim that its OSS is ready outside of Georgia. No complete third-party test has been conducted outside of Georgia, and BellSouth has relatively little experience processing UNE-P orders residential orders outside of Georgia until very recently. BellSouth does not yet have sufficient commercial experience in the states at issue here to determine that its OSS is ready to process commercial volumes of orders.

CONCLUSION

This concludes my declaration on behalf of WorldCom.

I declare under under penalty of perjury that the foregoing is true and correct.

Sherry Lichtenberg

Executed on: 3 July 2002

B

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DECLARATION OF CHRIS FRENTRUP
ON BEHALF OF WORDLCOM, INC.

Based on my personal knowledge and on information learned in the course of my duties, I, Chris Frentrup, declare as follows:

I. INTRODUCTION AND SUMMARY

1. My name is Chris Frentrup. I am employed by WorldCom, Inc. ("WorldCom") as a Senior Economist in the Public Policy Analysis Group of the Federal Advocacy organization. In that position, I am responsible for analyzing economic issues relating to telecommunications industry regulation and public policy, and assisting in the development and advocacy of WorldCom's public policy positions. I have filed declarations in review of several previous Bell company 271 applications. I have also participated in the development and advocacy of the HAI Model, a model used in the estimation of telecommunications network costs.

2. The purpose of my Declaration is to demonstrate that BellSouth's current unbundled network element ("UNE") rates in Alabama, Kentucky, Mississippi, North Carolina and South Carolina are not based on total element long run incremental cost ("TELRIC"), despite BellSouth's claims to the contrary in its recently filed section 271 application.

3. First, in all five of these states BellSouth incorrectly uses different technologies to model loop costs, depending on the intended use of the loop. This approach means that the cost model does not capture all the economies of scope inherent in the network, and results in excessive loop rates. BellSouth also fails to use integrated digital loop carrier ("IDLC") when modeling some technologies resulting in overstated costs. Even when BellSouth does model its costs using the integrated digital loop carrier ("IDLC"), it fails to use only IDLC which meets the GR-303 industry standard, which is the forward-looking and lower cost technology.

4. Second, BellSouth uses unsupported and excessive "in-plant" factors and loading factors in all five states to determine the cost of engineering, furnishing and installing its plant. It is clear that these factors add significantly to the cost of UNEs, and that they exceed reasonable levels.

5. Third, BellSouth's rates for Optional Daily Usage Files ("ODUF") and Access Daily Usage Files ("ADUF") charges in Alabama and South Carolina are excessive and do not reflect the purported regionality of BellSouth's Billing Information Systems.

6. Fourth, BellSouth's rates for UNE-P Service Ordering and installation in Alabama, Kentucky, Mississippi and South Carolina are excessive and do not reflect the purported regionality of BellSouth Operational Support Systems (OSSs).

7. Fifth, BellSouth UNE rates in South Carolina are not deaveraged based on cost, but instead are deaveraged based on retail rates zones, substantially inflating the costs in densely populated areas.

8. For all of those reasons the Commission should reject BellSouth's application. Until these errors are fixed, CLECs will be required to pay excessive UNE rates, to the detriment of competition and the harm of consumers.

II. BELLSOUTH'S UNE RATES IN ALABAMA, KENTUCKY, MISSISSIPPI, NORTH CAROLINA AND SOUTH CAROLINA DO NOT COMPORT WITH TELRIC PRINCIPLES

9. In setting its rates for UNEs, BellSouth and the Alabama, Kentucky, Mississippi and South Carolina Public Service Commissions and the North Carolina Utilities Commissions ("PSCs") made a number of methodological and input choices that fail to comport with TELRIC principles. Because correcting some of these errors would require redesigning certain aspects of the cost models, WorldCom is not able to quantify the precise effect of all of these errors. Other errors, however, can be corrected by an input change, and the effect of correcting these errors is quantified to the extent possible in the discussion infra. The net effect of all these errors is the UNE rates are currently set significantly above their TELRIC levels.

III. THE METHODOLIGIES USED TO SET UNE RATES IN THE FIVE APPLICATION STATESARE NOT TELRIC-BASED

10. WorldCom has identified several input and model design issues that result in an overstatement of costs in Alabama, Kentucky, Mississippi, North Carolina and South Carolina.

A. Shifting Methodologies

11. BellSouth improperly uses multiple scenarios with different mixes of IDLC and universal digital loop carrier ("UDLC") to compute different rate elements. For example, incorrectly claiming that unbundled loops cannot be served by IDLC, BellSouth runs its loop model using all UDLC for stand-alone loops, while using a mix of UDLC and IDLC for UNE platform loops. In addition, BellSouth performs runs of its models with no DLC of any kind to price asymmetric digital subscriber loops ("ADSL").

12. This approach is inconsistent with a TELRIC methodology for two reasons. First, it fails to use the forward-looking technology – IDLC – in cases where fiber feeder is used. This error is compounded by BellSouth's failure to model the use of only IDLC that meets the forward-looking industry standard GR-303 protocol. Contrary to BellSouth's assertion, unbundled loops can readily be provisioned form IDLC that uses the GR-303 protocol, and failure of its cost model to do so means that the model does not meet the forward-looking, least cost mandate of the TELRIC requirement.

13. In addition, by running different scenarios for different purposes, BellSouth is not following the TELRIC requirement that a model reflect all uses of the network. Modeling different networks for different purposes results in loss of the economies of scope that occur in a multi-use network. The FCC's conclusion that this is not so, Georgia/Louisiana Order¶ 41, fails to take into account the diseconomies from designing networks for customer demand that could not be served efficiently using that particular network design.

14. For example, in the development of the unbundled copper loop rates, BellSouth models an all copper network to reach all customer locations assuming the existing location of BellSouth's wire centers. In order to connect all customer locations with BellSouth's wire centers, the engineering design limit contained in the cost model for maximum copper loop length was changed to 1,000,000 feet. The model thus assumed some ridiculously long copper loops (i.e. loops that would not even function to provide any service). Customers this far from a wire center could obviously receive ADSL service more efficiently through the use of remote terminal and fiber optic facilities. By assuming the existence of such long copper loops and averaging the cost of such loops with the shorter loops that would exist in an efficient network, BellSouth's model overstates the cost of a copper loop.

15. It is not possible to quantify exactly the effect of this error but it is substantial. Correcting the error would require modification to the engineering assumptions contained in BellSouth's cost model so that all digital loop carrier used was GR-303 complaint IDLC. It would also require modifying the demand assumptions utilized by the model so that a mixed-use network was modeled. Nonetheless, it is clear that a properly designed model would significantly lower the cost of loop. Of the five different networks, that BellSouth's model constructs, the model for POTS services most accurately reflects overall costs in part because POTS services are the most frequently ordered service and in part because that model uses IDLC. In South Carolina, for example, the unbundled stand-alone loop cost, which is developed from a model that uses only UDLC, is $2.77 a month more than the same loop when it is sold as part of a UNE platform, which uses IDLC, not all of which meets the GR-303 standard.[1] If the UNE platform loop were provided using only GR-303 compliant IDLC, this cost difference would be even greater because the UNE platform loop cost would be lower. The stand alone loop cost, if properly modeled, would therefore be much lower.

B. Loading Factors

16. Further, the BellSouth cost models fail to comply with TELRIC in their computation of total plant investment through the application of "in-plant" factors and loading factors to the material investment. The equipment prices that are used as inputs in the cost models are only the price of the materials themselves – the switch, copper cable or fiber cable

[1] The statewide average cost for a stand-a-lone voice grade SL1 in South Carolina is $22.00 while the statewide average UNE-P loop cost is $19.237.

itself.[2] The engineered, furnished, and installed ("EF&I") cost of the equipment is then determined by applying factors to that material cost.

17. Given the manner in which BellSouth developed them, these factors function as closure factors to bring the material investment amounts determined by BellSouth cost models more in line with BellSouth's embedded book investment. It is clear that these factors are excessive and capture some of the cost inefficiencies reflected in BellSouth's books of account that should not be reflected in a TELRIC cost study. Among the evidence that the factors are improperly determined is the fact that they vary substantially from state to state by more than can be explained by any labor or other cost differences. For example, the material in-plant loading factor for digital switching equipment in Kentucky was 28% higher than in the factor used for this equipment in Mississippi , even though the cost of engineering and installing digital switching equipment should not vary significantly by state. The only reason why BellSouth's material loading factor for digital switching does vary significantly by state is because it is based on the cost captured by BellSouth's embedded books of account.

18. In a forward-looking network, the cost of capitalized installation and maintenance would almost certainly decline by more than material costs. In a forward-looking network, for example, there would be little need for field work either to install loops or to maintain them, as is reflected in the embedded ratios used to develop these factors. Loops could be installed via a circuit board and maintained by electronically taking circuits off line. The radical decline in forward looking installation and maintenance costs means that use of a factor based on a historical ratio of such costs to material costs overstates overall forward looking costs.

[2] It is important to note that in South Carolina, the switching rate (and the total non-loop rate) exceeds that in Georgia and Louisiana after taking into account cost differences between the states.

19. The loading factors add a significant amount to the total cost of the UNEs. For example, the cost of an unbundled loop is approximately doubled by use of these factors. Much of the added cost is inappropriate. In AT&T & WorldCom's filings, WorldCom calculated the installed cost of loops and switches based on the fully loaded material costs used in the Commission's universal service model. This is entirely appropriate as there is no difference in the fully loaded material costs for universal service purposes or for calculating UNE costs.

20. Furthermore, in pending Florida and Georgia UNE cases, AT&T and WorldCom provided an itemization of the effect of the recommended input changes.[3] These itemizations show that the loading factors employed by BellSouth cause forward looking cost to be overstated by at least 15%. Further, since in the development of the approved UNE rates, the 5 state commissions in the states for which BellSouth is applying for section 271 authority made no adjustments to BellSouth's proposed loading factors, it is reasonable to conclude that the currently effective loop and switching rates in these states are also overstated by at least 15% as a result of these factors alone.

21. In addition, because BellSouth applies the same loading factors to all sizes of equipment, the factors significantly skew the costs across geographic areas. In particular, they result in rates that exceed actual cost by far more in densely populated areas than in other areas, meaning that in these areas rates are far more than 15% above cost. The reason is that the cost for laying a cable or placing a switch does not vary linearly with size, e.g., it does not require twice as much expense to lay a 2400 pair cable as it does to lay a 1200 pair cable. But BellSouth's loading factors assume that it does, and thus attribute excess costs for installation in the densely populated areas in which larger cables can be used. Thus, the application of a single

factor to determine EF&I costs overstates BellSouth's UNE costs, especially in more densely populated areas.

IV. PURPORTEDLY REGIONAL SYSTEMS SHOULD HAVE REGIONALLY CONSISTENT RATES

A. DUF Charges

22. BellSouth contends that the Billing Information Systems it uses to process, record and transmit Access Daily Usage file and Optional Daily Usage File data are the same for all the states it serves, and the cost support it filed in these 5 states reflected this contention. However, the ADUF and ODUF rates currently in effect in Alabama and South Carolina are significantly higher than the rates currently in effect in the other BellSouth states.[4] The reason that the ADUF and ODUF rates in these two states are inconsistent with the rates in the other states is because the cost studies used to support the rates were found to be flawed and were corrected by the other states or were voluntarily corrected by BellSouth. For example, BellSouth recently voluntarily reduced its ADUF and ODUF rates in Mississippi and North Carolina.[5] However, BellSouth has failed to correct its ADUF and ODUF rates in Alabama and South Carolina.

23. These excessive charges add significantly to the cost of serving a customer. Assuming that these charges are assessed only for the originating side of a call, WorldCom estimates that the monthly charge for an average customer for these DUF will be at least $1.21 in South Carolina and $1.06 in Alabama, almost double the approximately $0.58 charge in Georgia, Kentucky, Louisiana, Mississippi and North Carolina. As such, at a minimum, the

[3] Georgia PSC Docket 14361-U revised exhibit JCD-BFP-Q, 4/30/02 and Florida PSC Docket No. 990649A, Late Filed Hearing Exhibit 70.

[4] The per message ADUF rates range from 0.001825 in Louisiana to 0.001862 in Georgia, but are 0.007037 in Alabama and 0.008061 in South Carolina. In addition, the per message ODUF rates range from 0.002446 in Louisiana to 0.0027366 in Tennessee, but are 0.004101 in Alabama and 0.004704 in South Carolina.

DUF charges in South Carolina and Alabama should be reduced to no more than the Georgia and Louisiana level before BellSouth's section 271 application for these states is approved.

24. In reality, BellSouth's DUF charges should be eliminated altogether. BellSouth already recovers Billing Information Costs as part of its shared and common costs. Although BellSouth purports to have backed out the billing information cost associated with the provision of DUF data to CLECs from the billing information cost included in its shared and common cost factors, the costs that BellSouth backed out do not appear to be for DUF systems but rather for costs in the same category that actually represent unassociated software expense that was capitalized.

25. Further, permitting BellSouth to allocate shared and common costs, for billing information systems, increases the probability of unreasonable discrimination. The only way to fully ensure that shared costs, such as billing information system costs, are recovered on a non-discriminatory basis is for those costs to be recovered from all parties that benefit from the systems, including BellSouth, the independent telephone companies and the competitive local exchange carriers. As such, separate charges for billing information system data (i.e. DUF) should not be permitted and any forward looking cost used to develop rates for DUF should be included in the shared and common cost factors and recovered from all parties that use those systems.

B. OSS Charges

26. In each of the 5 states, BellSouth attempts to recover the cost of OSS development through Service Ordering and Installation charges. As shown in Attachment 1, BellSouth's Service Ordering and Installation charges for UNE-P are significantly different from

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[5] Mississippi SGAT filing 1/9/02 and North Carolina SGAT filing 5/7/02.

state to state. In Alabama, Kentucky, Mississippi and South Carolina these charges significantly exceed the levels reviewed in the Georgia and Louisiana 271 case. The rates are approximately double those in Louisiana, 50 times those in Georgia, and are approximately 100 times those in North Carolina.[6]

27. These rate differences are not based on differences in cost. BellSouth contends that its Service Ordering and Installation systems for UNE-P are regional. As such, BellSouth's cost based rates for service ordering and installation should be consistent state to state.

28. The rates in Alabama, Kentucky, Mississippi and South Carolina should be reduced so that they are no more than Georgia and Louisiana levels.

29. Indeed, under proper TELRIC principles, there should be no separate OSS charge at all. WorldCom explained why at length in the Virginia arbitration as a generic matter. Here, what is important to note is that Bellsouth recovers its OSS development costs through its common cost factor and should not be permitted to double recover those costs.

C. South Carolina Rates Are Not Deaveraged Based on Cost

30. BellSouth's South Carolina rates cannot be accepted as TELRIC rates for yet another reason. These rates have not been properly deaveraged. BellSouth has deaveraged its rates based on retail rate centers, rather than based on cost. End users are grouped in retail rate centers based on what they pay in local retail rates, not based on cost. In South Carolina, cost is not a factor in the decision used to determine which wire centers are place in which deveraged rate zone. Some high cost wire centers are included in Zone 1 in South Carolina; some low cost wire centers are included in Zones 2 and 3.

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[6] The rates in Georgia and North Carolina are not set on a per order basis as in the other states. In Georgia, for example, OSS costs are $500 for the first 1000 orders and $110 for each

31. The result is that there is no zone in South Carolina that groups relatively low cost wire centers. Not surprisingly then, there is no zone in the state in which CLECs can profitably provide basic local service. Furthermore, the non-loop rates in South Carolina cannot be supported by a benchmark analysis. Per the Commission's Synthesis Model (SM), the non-loop costs in South Carolina are 10 percent above those in Georgia, but the rates are 18 percent higher. Similarly, South Carolina SM costs are 28 percent lower than in Louisiana, but the rates are 25 percent higher. Clearly, non-loop rates in South Carolina are set above TELRIC levels.

VI. CONCLUSION

32. The problems with the BellSouth cost models and the inputs indicate that the resulting UNE costs are clearly not cost-based, although the full magnitude of the error cannot be determined on the partial information provided in BellSouth's application. Unless BellSouth corrects its UNE rates to adjust for the problems outlined here, the Commission should reject BellSouth's section 271 application for Georgia and Louisiana.

33. This concludes my Declaration on behalf of WorldCom.

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additional 1000 orders. I converted these rates to per order rates by assuming a volume of 5,000 orders per month.

I declare under penalty of perjury that the foregoing is true and correct.
Executed on July 11, 2002.

Chris Frentrup