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**EX PARTE**

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
The Portals  
445 12<sup>th</sup> St. SW  
Washington, D.C. 20554

Re: WC Docket 02-150

Dear Ms. Dortch:

In connection with the above-referenced proceeding, Commission staff has requested that BellSouth respond to certain questions relating to the development of costs for unbundled network elements in the states included in this application. The following information is being provided in response to these staff requests.

In accordance with Commission rules, I am filing copies of this notice and request that it be included in the record of the proceeding identified above.

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**DUF Cost Study Period**

The staff requested further explanation of BellSouth's decision to use a 3-year study period for ODUF costs but a 10-year study period for ADUF costs. Although arguments could be made in favor of both shorter and longer periods, BellSouth initially determined that a 3-year period for UNE costs, including DUF-related investment, was most appropriate in light of the type of costs involved and the manner in which those costs were to be recovered. Specifically, DUF related costs are recovered through per message charges assessed pursuant to rates in interconnection agreements, set pursuant to either state TELRIC proceedings or negotiated interconnection agreements. BellSouth accordingly determined that the appropriate study period would be the anticipated timeframe in which those rates would be in effect. In accordance with this rationale,

BellSouth believed 3 years was the most reasonable period because (1) this was the typical length of the interconnection agreements negotiated with CLECs at the time, and (2) it was anticipated that state commissions would initiate new cost proceedings after 3 years at which time updated information would be utilized. In fact, as shown by the chart below, the states have tended to initiate new cost proceedings after approximately 3 years.

	<b>First Round Order</b>	<b>Second Round Order</b>
Alabama	8/25/1998	5/31/2002
Kentucky	1/29/1997	12/18/2001
Mississippi	8/25/1998	10/12/2001
North Carolina	8/18/1999	12/31/2001
South Carolina	6/1/1998	11/30/2001

North Carolina reflects initial order, and Phase II order of same docket. A new docket has just been initiated that will review the entire complement of UNEs. Kentucky's first order was an arbitration order. It should also be recognized that longer study periods are inherently more difficult to accurately forecast, especially considering the volatility of the telecommunications market.

Although BellSouth believes that the 3-year study period is the most supportable for the reasons stated above, BellSouth subsequently decided to use a 10 year study period for ADUF. This was not done because BellSouth believed that a 10-year period was more consistent with TELRIC cost principles—in fact there is nothing to support such an argument. Rather, in light of the limited ADUF demand at the time, BellSouth simply determined that use of a 3-year period resulted in a per message rate that CLECs would find objectionable. Accordingly, BellSouth unilaterally extended the study period to 10 years to reduce the ADUF per message cost to CLECs.

An important point is that regardless of the study period chosen, BellSouth appropriately reflects the asset's life in its calculation of the DUF costs. In the ODUF study three years of investment and expenses are included. When the investment is converted to annual costs in the BellSouth Cost Calculator, a five year asset life is considered. However, only the first three years of those costs are included in the study. For example, the investment is depreciated over five years, but only the first three years of depreciation are included in the cost study for recovery per message. Thus the first three years' costs are recovered over the first three years' demand.

### **Loading Factors**

Commission staff has also requested clarification of certain issues relating to the development and application of loading factors, specifically those used in

the development of loop costs, i.e., the in-plant factors. BellSouth's Caldwell Reply Affidavit contained a table that compared cable placed by the BSTLM to the actual cable placements used to derive the in-plant loading factors. See ¶ 21. As clarification, the BSTLM route miles reflect "rebuilding" the entire outside plant network, whereas the in-plant factor is based upon actual placements made during one year. Thus, significantly more route miles are placed by the BSTLM than those physically placed during the base year (1998). As this chart exemplifies, the BSTLM places an exceptionally high amount of small-sized cables when compared to the actual cable placements. In fact, the BSTLM placed over 75% 25 & 50 pair cables in Alabama, Kentucky, Mississippi and South Carolina as compared to 45% actual placements. The CLECs have not suggested that the BSTLM places incorrectly sized cables. Rather they criticize the application of an average in-plant factor to those various size cables. In particular, they state that an average in-plant factor overstates the cost of large cables. However the CLECs ignore the corresponding effect of understating the cost of small cables. Since the BSTLM places more small cables than were included in the placement data used to calculate the in-plant factor, the use of the in-plant loading factor is understating costs for most of the cables placed by the model.

Further, the development of the in-plant factor itself includes an average of the actual placement costs of which 55% are larger than 50 pair cables. Therefore, the in-plant loading factor reflects the economies gleaned from placing these larger sized cables and is lower than a factor that would have been generated using the distribution of cable sizes produced by the BSTLM. This also has the effect of producing a lower cost.

Sincerely,

A handwritten signature in black ink, appearing to read "Glenn T. Reynolds". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Glenn T. Reynolds

cc: Tamara Preiss  
Josh Swift  
Richard Kwiatkowski  
Elizabeth Lyle  
Susan Pie  
James Davis-Smith (Department of Justice)