COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INQUIRY INTO THE DEVELOPMENT OF DEAVERAGED RATES FOR UNBUNDLED NETWORK ELEMENTS	)))	ADMINISTRATIVE CASE NO. 382

COMMISSION STAFF'S FIRST DATA REQUEST

Pursuant to 807 KAR 5:001, BellSouth Telecommunications, Inc. ("BellSouth") and other parties are to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before June 14, 2001. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible.

1. Deaveraging

In the stipulation adopted by this Commission on March 24, 2000, rates were deaveraged into three zones based upon the distribution of wirecenter loop costs as developed utilizing the HAI model, although BellSouth had proposed deaveraged rates utilizing rate groups. In an Order dated April 12, 2001, the Commission modified the three zones to reflect wirecenter loop costs deaveraged utilizing rate groups. Based upon this history, respond to the following questions:

a. Has BellSouth ascertained that all wirecenters are reasonably placed in the proper rate group?

b. What other methodologies have been considered in formulating the appropriate number of zones and the most suitable geographic configuration?

c. In its Order dated May 25, 2001, the Florida Public Service Commission ruled upon the methodology to be utilized for the purpose of geographic deaveraging in Florida. Fully describe this methodology and its similarity or differences to the two methods previously adopted in Kentucky. Provide rationale as to whether the Florida decision would be a more suitable fit for the geographic division of Kentucky.

2. Inputs

As discussed in the informal conferences and in BellSouth's direct testimony, the development of unbundled network elements ("UNE") prices is based upon the results of a number of multifaceted models, including the Loop Model, the Switch-related Cost Models, the BellSouth Cost Calculator, the Capital Cost Calculator and the Price Calculator. In the process of developing the loop costs, BellSouth utilizes five separate scenarios to determine loops and loop combination costs. In its May 2, 2001 supplemental filing, BellSouth provided a tentative issues list. Issues one and two are the determination of the appropriate assumptions and inputs for the determination of recurring and non-recurring UNE costs.

a. Given this, provide a matrix of the general assumptions, factors and loadings, and element-specific inputs used by BellSouth in each of the numerous models in its proposal.

b. This matrix should reflect and explain the similarities and differences in the five Loop Model scenarios and the elements impacted.

c. In addition, the matrix should reflect the general assumptions, factors and loadings, and element-specific inputs as outlined in the May 25, 2001 Order of the Florida Public Service Commission.

d. BellSouth and other parties should comment upon the use of the general assumptions, factors and loadings, and element-specific inputs in the Florida decision.

e. Would it be reasonable for the Kentucky Commission to adopt the general assumptions, factors and loadings, and element-specific inputs for use in Kentucky?

3. Depreciation

In this filing BellSouth has proposed to use projected economic lives as the appropriate input to the cost studies for depreciation.

a. Provide a matrix showing the current book depreciation rates, the current presubscribed depreciation rates, and the proposed economic depreciation rates.

b. Also provide a matrix showing depreciation rates adopted or recommended in other BellSouth states for inclusion in UNE costs analyses during the past 3 years.

c. In its Order dated May 22, 1998, in Administrative Case No. 360 ("Adm. 360"),[1] the Commission adopted as inputs to the universal service cost analysis depreciation rates as proposed, but which did not exceed the range presubscribed by the Federal Communications Commission ("FCC"). Based upon the above matrix,

[1] Administrative Case No. 360, An Inquiry Into Universal Service and Funding Issues.

identify and discuss all substantial variances from the depreciation rates previously adopted and those proposed herein and their impact upon the prices proposed.

4. Rate of Return

In this filing BellSouth has proposed to use 11.25 percent as the forward-looking cost of capital in the cost studies. This is the same rate adopted in the May 22, 1998 Order in Adm. 360.

a. What rate of return has been adopted or recommended in other BellSouth states for inclusion in UNE costs analyses during the past 3 years?

b. Provide updated calculations of the cost of capital recommended by BellSouth based on the most recent data available.

c. In the calculation for its cost of debt, BellSouth added the average spread between the yields of the 30-year U.S. Treasury bonds and Aa rated public utility bonds to a recent average 30-year U.S. Treasury bond yield. Why didn't BellSouth use Aaa rated bonds for this calculation?

d. Likewise, Aa rated bonds are used in certain calculations for cost of equity. Why didn't BellSouth use Aaa rated bonds?

e. In calculating the spread, BellSouth used only a 3-month time period. Why wasn't a longer period of time used?

f. Why did BellSouth exclude the cost (use) of short-term debt in its calculation?

5. TELRIC Methodology

a. BellSouth reserved the right to revise its cost study once a final decision is reached in the Eighth Circuit case at the Supreme Court. How should this Commission proceed if the TELRIC cost methodology is not upheld or is severely modified?

b. What rate does BellSouth propose for the combining fee or glue charge for UNE combinations?

6. Reciprocal Compensation

Inter-carrier compensation and reciprocal compensation have been subjects of much debate over the past 5 years.

a. Identify the network elements within the proposed prices that would be utilized in the transactions of reciprocal compensation.

b. Are the elements consistent with the rates proposed in the recent FCC Orders?

c. Fully discuss pros and cons of any differences or similarities.

7. Pricing Issues

a. How have the nonrecurring prices proposed by BellSouth been established? Philosophies differ as to the appropriate means of recovering non-recurring costs. At one end of the spectrum is the immediate recovery of any fixed cost incurred. On the other end of the spectrum is the deferral of fixed initial costs over time as an additive to recurring costs.

b. Have all prices been established similarly?

c. Provide an explanation of the policy decisions BellSouth considered in pricing nonrecurring charges.

d. BellSouth states that the FCC's pricing rules do not result in full cost recovery. How can this be demonstrated? Provide a full explanation of any perceived under-recovery.

e. In its discussion of UNE combinations, BellSouth states that TELRIC-based prices do not cover the actual cost of the elements, let alone do such prices represent a fair price in the marketplace. Provide proof and examples of this statement.

f. Explain the function in the network of Unbundled Network Terminating Wire ("UNTW") and Unbundled Intrabuilding Network Cable ("UINC"). How do they meet or differ from the FCC's definition of inside wiring? It is stated that BellSouth will not provide these elements to locations where the property owners provide the wiring or where the property owners will not allow BellSouth to place the facilities. Explain in detail this policy.

g. BellSouth proposes to recover vertical features cost on a per-port basis. This appears to be a shift in strategy. Provide an explanation of the newly proposed "features per port" rate.

h. In its discussion to comply with the requirement to offer unbundled call-related databases and signaling, BellSouth references a previous filing in "Docket No. 26029." Explain this reference.

i. In its supplemental testimony, BellSouth proposes to remove two UNEs for co-carrier cross connect. Have CLECs requested these elements?

j. In the development of the forward-looking investment costs, BellSouth proposes the use of an inflation adjustment factor based on a 3-year planning period. Provide a full description as to the necessity of incorporating an inflation adjustment factor into the rules for setting UNE prices?

k. BellSouth states that it utilized a methodology that reflects the costs it expects to incur in providing UNEs on a going-forward basis in Kentucky. Moreover, BellSouth states that the methodology to cost UNEs incorporates its actual provisioning practices and network guidelines. Describe what is meant by "provisioning practices and network guidelines." What effect will the items have on costs and how are they factored into the models?

l. BellSouth states that the results of the cost study must replicate the incremental costs it will incur in providing UNEs. How can the Commission be assured that the models actually produce costs that truly replicate BellSouth's incremental costs? Discuss fully.

8. Deferrals to this Case

Over the past couple of years BellSouth and others have deferred some pricing issues from arbitration proceedings to this proceeding. Identify each of these instances and the specific issues to be decided herein.

9. Other State's Proceedings

a. Provide the status of UNE pricing issues in other BellSouth states, and, if known, from out-of-region states.

b. In a comparative matrix show how the proposed UNE prices in Kentucky compare to those in other BellSouth states.

10. Additional Model Runs

a. Provide the proposed UNE prices developed upon the general assumptions, factors and loadings, and element-specific inputs of the Florida Public Service Commission Order dated May 25, 2001. Include the modification to the methodology utilized in deaveraging UNE loop elements.

b. Using the same parameters as in (a), produce another set of UNE prices using a rate of return of 11.25 percent.

11. Issues List

On May 2, 2001, BellSouth provided a list of issues to be examined and answered in this proceeding. Are there additional issues that BellSouth or any other party believes should be resolved?

12. Model Sensitivity

As you recall from the Commission's decision dated May 22, 1998, during the review of the HAI Model, slight modifications to trenching inputs produce substantial variances.

a. Has BellSouth performed tests on the models utilized in this proceeding to ascertain the sensitivity to modifications in the user-adjustable inputs? If so, what were the results?

b. If not, what assurance can be given that the results are valid?

13. Tariffing of UNE Prices

In order to make UNE prices more readily available the Commission is considering whether UNE prices should be tariffed. Give pros and cons to this proposal.

14. Resale Discount

Do the models used to develop the proposed UNE prices have an interrelationship with the "avoided cost" resale discount rate? Explain this impact or explain how there is no impact.

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DATE: 5/31/01

cc: All Parties