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December 13, 2002

FILED[3]
DEC 1 3 2002
Missouri Public
Service Commission

Secretary
Missouri Public Service Commission
P. O. Box 360
Jefferson City, Missouri 65102

Re: Case No. TR-2001-65

Dear Mr. Roberts:

Enclosed for filing please find an original and eight copies of the Initial Brief of the Small Telephone Company Group and Holway et al. Please note that page 39 of the Initial Brief contains "highly confidential" information. Accordingly, that page is contained in a separate envelope. I would appreciate it if you and the parties receiving copies of the Brief would maintain the confidential nature of this information consistent with the terms of the Protective Order issued by the Commission in this case.

Please see that this filing is brought to the attention of the appropriate Commission personnel. I thank you in advance for your cooperation in this matter.

Sincerely,

W.R. England, III

WRE/da
Enclosures
cc: Parties of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of an Investigation of the Actual Costs Incurred in Providing Exchange Access Service and the Access Rates to be Charged by Competitive Local Exchange Telecommunications Companies in the State of Missouri.	)))))	Case No. TR-2001-65

INITIAL BRIEF OF
THE SMALL TELEPHONE COMPANY GROUP AND HOLWAY ET AL.

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INITIAL BRIEF OF
THE SMALL TELEPHONE COMPANY GROUP AND HOLWAY ET AL.

Introduction and Summary

The Missouri Public Service Commission (Commission) created this docket, among other things, for the purpose of investigating the "actual costs" of providing switched access service. The Small Telephone Company Group (STCG)[1] and Holway Telephone Company, KLM Telephone Company, Iamo Telephone Company, and Green Hills Telephone Corporation (Holway et al.) believe that the use of actual embedded, book costs allocated to the intrastate exchange access jurisdiction through the application of FCC Part 36 and Part 69 rules is the most appropriate methodology for determining their member companies' actual cost of providing switched access service.

The cost studies submitted by the STCG and Holway et al. in this proceeding follow the same procedures that are required by the FCC for allocating costs to the interstate jurisdiction. These cost studies are also based upon the same cost methodology that this Commission uses for purposes of establishing revenue requirements for companies that are subject to rate of return regulation. These cost studies reflect the actual investments and expenses incurred by these companies in providing the level of service that is currently being provided today. These costs

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[1]BPS Telephone Company Cass County Telephone Company Citizens Telephone Company of Higginsville, Missouri, Inc., Craw-Kan Telephone Cooperative, Inc., Ellington Telephone Company, Farber Telephone Company, Fidelity Telephone Company, Goodman Telephone Company, Inc., Granby Telephone Company, Grand River Mutual Telephone Corp., Green Hills Telephone Corp., Holway Telephone Company, Iamo Telephone Company, Kingdom Telephone Company, KLM Telephone Company, Lathrop Telephone Company, Le-Ru Telephone Company, McDonald County Telephone Company, Mark Twain Rural Telephone Company, Miller Telephone Company, New Florence Telephone Company, New London Telephone Company, Orchard Farm Telephone Company, Oregon Farmers Mutual Telephone Company, Ozark Telephone Company, Peace Valley Telephone Co., Inc., Rock Port Telephone Company, Seneca Telephone Company, Steelville Telephone Exchange, Inc., and Stoutland Telephone Company.

are known, measurable and verifiable as they are taken from the books and records of the respective companies.

The results of the STCG and Holway et al.'s cost studies reveal that, for the member companies of the STCG and Holway et al., total access costs are not significantly different than the total revenues received from existing access rates. As a result, there is no compelling evidence in the instant record which would require the Commission to take any action regarding the existing access rates of the STCG and Holway et al. member companies. Any changes to the existing access rates of the STCG and Holway et al. should only be made in the context of individual company rate cases or earnings investigations where all relevant factors regarding a company's total cost of service can be examined. Only in this context can the Commission meaningfully weigh the costs associated with reduced access rates (such as increased local exchange rates) against the alleged benefits (such as lower toll rates and increased toll competition).

Unfortunately, history has shown that in Missouri reductions in access charges by small telephone companies have not resulted in any tangible benefits for their end-user subscribers. In fact, during the last few years small companies have collectively made access rate reductions of approximately $2.6 million. Yet during that time no commensurate reductions in toll charges have taken place. In fact, during that time AT&T has refused to participate in the intraLATA presubscription process of these small companies and has implemented an in-state access recovery fee which has lead to decreased toll competition and increased toll rates for the end-users of Missouri Small Telephone Companies.

The following initial brief will address, in more detail, the position of the STCG and

Holway et al. For purposes of organization, Section I of the Brief will address the issues submitted to the Commission in the Joint Issue List. Section II of the Brief will address the questions posed by AT&T regarding the Commission's authority to alter or change rates of price cap, incumbent, and competitive local exchange carriers (LECs). Finally, Section III will address two additional questions which were posed by the Commission at the conclusion of the hearing regarding its authority to order expanded local calling and the propriety of modifying the Commission's standard protective order as has been requested by AT&T in this case.

I. JOINT LIST OF ISSUES

1. What is the appropriate cost methodology (i.e., TSLRIC, LRIC, embedded, stand alone, etc.) to be used in determining the cost of switched access?

Generally speaking, the debate over the appropriate cost methodology for determining the cost of switched access service breaks down between two points of view in this proceeding. Some parties[2] support the use of forward-looking economic costs (FLEC) as determined by a Total Service Long Run Incremental Cost/Long Run Incremental Cost (TSLRIC/LRIC) analysis. Other parties,[3] including the STCG and Holway et al., support the use of embedded, fully allocated costs for purposes of determining the actual cost of switched access service.

The STCG and Holway et al. believe that the use of actual, embedded costs allocated to the intrastate exchange access jurisdiction through the application of Federal Communications Commission (FCC) Part 36 and Part 69 rules is the most appropriate cost methodology for their

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[2]Missouri Public Service Commission Staff (Staff), Southwestern Bell Telephone Company (SWBT), Sprint Missouri Inc. (Sprint) and AT&T Communications of the Southwest (AT&T).

[3]Office of Public Counsel (OPC) and ALLTEL Missouri, Inc. (ALLTEL).

member companies. The procedures that the STCG and Holway et al. propose for "cost companies" are based on the actual investments made by those companies in providing service, the actual expenditures incurred by those companies in the cost study period, and the cost study procedures adopted by Part 36 and Part 69 of the FCC's rules. The cost study procedures are the same procedures that are used by the companies in setting rates and obtaining revenue recovery in the interstate jurisdiction, with only a few state-specific modifications. For "average schedule companies," which for many years have received interstate settlements under simplified procedures and do not normally perform these cost studies, costs have been developed based on the average cost of the small Missouri "cost companies." (Schoonmaker Direct, Ex. 36, p. 4; Warinner Direct, Ex. 31, pp. 15-16)

A. Actual Costs for Small Companies are Best Developed through the Use of Embedded, Fully Allocated Cost Studies.

1. Actual Costs

The Commission, in establishing this docket, ordered an examination of "actual costs in providing [exchange access] service" (emphasis added). *Webster's Collegiate Dictionary, 4th Edition*, defines "actual" as "existing in reality or in fact; not merely possible, but real." (Larsen Direct, Ex. 28, p. 7) The embedded cost methodology is the best methodology for determining the actual costs of small telephone companies in the provision of switched access services.

First, most of the small telephone companies are subject to rate of return regulation. The principles and procedures used in rate of return regulation are based on a company's actual cost of operation for a historic period in time (i.e., a "test year"). Thus, the use of similar procedures for determining the cost of switched access will provide a consistent basis for determining the

company's overall cost of operation, including the cost associated with the provision of switched access services. Other costing techniques such as TSLRIC/LRIC would result in very different costs being considered for access pricing when compared to the overall cost determination of the company.

Second, the use of actual cost procedures are based upon the actual costs a company is incurring to provide the level and type of service that is actually being provided to its Missouri customers. Other costing techniques, such as TSLRIC/LRIC, frequently rely on hypothetical networks and hypothetical costs of providing service. Such techniques require extensive data gathering and often complex models to estimate the cost that the companies might incur. These techniques frequently rest on subjective judgments of the cost of various network components which are the subject of a great deal of controversy and debate. The STCG and Holway et al. believe that the use of actual cost data can significantly reduce such controversy and provide a "real world" basis for the cost support.

Third, the models used for estimating forward-looking costs that are currently available for use to determine the costs of small telephone companies have numerous problems, and the forward-looking models are not very effective in estimating small company costs. For example, although the FCC has found it appropriate to use forward-looking economic cost models for large price cap carriers, it has specifically rejected their use for small rural carriers. (Schoonmaker Direct, Ex. 36, pp. 5-6)

2. Allocation of Small Company Costs to the Intrastate Access Jurisdiction.

Once the actual, embedded costs of the companies are identified, the STCG and Holway et al. propose using the cost allocation procedures contained in Parts 36 and 69 of the FCC rules.

Part 36 contains the separations procedures and specifically details procedures for "separating" the total company costs into those costs applicable to the interstate and intrastate jurisdictions. The Part 36 rules contain a description of the specific procedures that are to be used for each type of investment and expense. While the Part 36 rules primarily describe procedures to be used to separate interstate costs from intrastate costs, these same procedures can generally be used to separate intrastate access costs from intrastate local costs. (Schoonmaker Direct, Ex. 36, pp. 9-10)

The Part 69 rules contain the FCC procedures for identifying interstate costs to specific access subcategories such as common line, local switching, and local transport. These costing procedures have also been used to allocate intrastate access costs to these general subcategories. The Part 69 rules contain specific interstate "rate development" rules. Since these rate development rules relate specifically to FCC policies and rate development which differ from Missouri access rate structures and procedures, this portion of the Part 69 rules has not been followed at the state level. (Schoonmaker Direct, Ex. 36, p 10)

In developing the FCC Part 36/69 cost studies for each of the member companies of the STCG and Holway et al., there were four (4) specific areas in which the instant cost studies may differ from the interstate procedures and studies. These are: 1) the use of year-end investment; 2) the allocation of subscriber plant costs (i.e., the "loop"); 3) the allocation of local switching costs; and, in a few instances, 4) the use of pro forma financial data. (Schoonmaker Direct, Ex. 36, p. 10)

First, cost studies submitted in the interstate jurisdiction are prepared using plant investment based on an average of the beginning and end-of-year investment, or the mid-year

investment of the company. In Missouri, revenue requirements in a rate case proceeding have typically been based on end-of-period (or test year-end) investments. To make the studies more consistent with Missouri revenue requirement procedures, the cost studies used by the STCG and Holway et al. have been prepared using end-of-year investments rather than the average or mid-year investments. (Schoonmaker Direct, Ex. 36, p. 11)

Second, subscriber plant is that plant used to carry traffic between the end-user location and the central office switch (also referred to as the "loop"). This plant is frequently referred to as non-traffic sensitive (NTS) plant, as the cost of providing this plant is considered to be fixed and not sensitive to the amount of traffic that is carried over it. Over the past several years, there has been considerable debate on how the cost of this subscriber plant should be recovered and how it should be allocated between jurisdictions. The FCC determined a number of years ago that 25% of the loop costs would be allocated to the interstate jurisdiction and the remaining 75% would be allocated to the intrastate jurisdiction. This determination was based partly on nationwide data indicating that the national average usage of the network at that time was approximately 25% for interstate traffic.

In the 1984 to 1986 time period, this Commission established specific procedures for allocating subscriber plant costs between local, intraLATA, and interLATA. These procedures were based on the state frozen, subscriber plant factor (SPF), a separation factor which employed a weighting procedure that allocated a greater proportion of these loop costs to access than to local. These procedures have not been reviewed by the Commission for many years and have not been used in the development of access rates since the intrastate interLATA and intraLATA pools were eliminated in 1987 and 1988. (Schoonmaker Direct, Ex. 36, pp. 13-14)

For purposes of this case, the studies submitted by the small telephone companies used different cost allocation methods that allocate a smaller amount of subscriber plant to the state toll/access jurisdiction than those methods previously adopted by the Commission. In this case, the STCG and Holway et al. propose to allocate subscriber plant or loop costs between intrastate access and local based on subscriber line usage (SLU), or the relative usage for that jurisdiction, with the remainder of the costs being allocated to the local jurisdiction. However, a minimum 15% allocation to the intrastate access jurisdiction has been included in the studies because the STCG and Holway et al. believe that some minimal level of cost recovery should be made from the access jurisdiction. This allocation recognizes the value of having the network available for access to intrastate toll calling. (Schoonmaker Direct, Ex. 36, p. 16)

Third, in the interstate jurisdiction, local switching costs were allocated in accordance with a specific procedure known as the dial equipment method (DEM) weighting that was developed to allocate a larger portion of local switching costs, for companies under 50,000 lines, to the interstate jurisdiction to assist in supporting intrastate switching costs. For purposes of this case, however, the STCG and Holway et al. propose to allocate local switching costs between the state access and local jurisdictions based on the relative usage in these two categories. (Schoonmaker Direct, Ex. 36, pp. 16-17)

Fourth, several companies have made pro forma adjustments to their cost studies. In Missouri rate case proceedings, recognition is frequently given to known and measurable changes that have taken place since the end of the test period that would impact the cost of service on a going forward basis. In the case of the cost studies submitted in this case, nine companies determined that they had significant changes subsequent to 2000 (the year for which the cost

studies were prepared) that should be included to more appropriately reflect current cost levels. These pro forma adjustments reflect additional investments made after 2000, and in some cases, specific operating expense increases. (Schoonmaker Direct, Ex. 36, pp. 17-18)

Finally, individual cost studies were not performed for "average schedule companies" because these companies do not submit such cost studies to the FCC. The costs for average schedule companies were developed based upon an examination and averaging of the actual costs of the cost companies. In this case, the subscriber plant or loop costs for all of the cost companies were totaled and divided by the cost companies' total number of access lines to arrive at a cost per line for these cost companies. The average cost per line for the cost companies was then multiplied by each average schedule company's number of access lines to arrive at the subscriber plant cost for that average schedule company. For the local switching and local transport cost amounts, similar calculations were made for the cost companies, but on a cost per access minute of use basis rather than a per access line basis. The cost companies' average cost per minute of use for these elements was then multiplied by the average schedule companies' actual minutes to arrive at the average schedule company's cost for these rate elements.

3. Results of the Small Company Cost Studies

The results of the cost studies submitted by the STCG and Holway et al. are summarized in the proprietary Schedule RCS-4 attached to the direct testimony of Robert C. Schoonmaker in this case. (Ex. 37P) These cost studies show that, on an individual company basis, the access costs are higher in some cases and lower in other cases than the current small company access rates. (Ex. 37, Sch. RCS-5) If the access rates of the small companies were set based on the costs that have been developed, the revenue impact would vary for individual companies; but, in total,

access revenues for all small companies would be reduced from $34,566,305 to $31,760,321 (or approximately $2.8 million) if access rates were set based on the embedded cost studies that have been submitted. (Schoonmaker Direct, Ex. 36, p. 19; Ex. 37, Sch. RCS-6) In general, the actual embedded costs of providing access for all of the small telephone companies is approximately 92% of their total current access revenues. In other words, the small companies' access rates, in total, are not excessive when compared to their total actual costs.[4]

B. Forward-looking Economic Costs Based on TSLRIC/LRIC Cost Models are Not Appropriate for Reliably or Accurately Predicting Costs for Small Companies.

1. There is No Legal or Regulatory Requirement to Use TSLRIC/LRIC.

Neither the Telecommunications Act of 1996 nor the FCC rules implementing the Act require, or even state a preference for, forward-looking economic costs as a basis for establishing the cost of providing switched access service. Although TSLRIC/LRIC may be the cost standard established by the FCC for local interconnection, neither the Act nor the FCC rules require TSLRIC/LRIC as the cost standard for interstate exchange access rates. At the state level, few, if any, states have used TSLRIC/LRIC in the development of intrastate access rates. (Larsen Direct, Ex. 28, pp. 20-21) In addition, while the FCC has developed a forward-looking economic cost model (i.e., the FCC Synthesis Model), this model was originally conceived as an analytical tool to determine forward-looking economic costs to provide the services supported under the federal Universal Service program. (Tr. 118) Federal application of the FCC Synthesis Model

[4]It is also important to note that many of the small companies have recently been involved in earnings investigations where all of their costs of providing service were considered. The rates, including access, which the Commission established as a result of those investigations were determined to be "just and reasonable" from an earnings standpoint and in light of current rate design policies. (Warinner Direct, Ex. 31, pp. 18-19; Ex. 52)

for USF purposes is limited to determining costs for FCC "price cap" ILECs. Small rural carriers, such as the members of the STCG and Holway et al. are not, price cap carriers at the interstate level, and thus, the FCC Synthesis Model does not apply in the development of their USF draw. (Larsen Direct, Ex. 28, pp. 23-24) In fact, the FCC has specifically rejected use of its Synthesis Model for application to small carriers such as the STCG and Holway et al.

2. The FCC and the Missouri Commission have rejected the use of forward-looking cost models for small rural companies at this time.

The Rural Task Force (RTF), an independent advisory panel appointed by the Federal-State Joint Board on Universal Service, was directed to make recommendations to the Joint Board regarding the use of the FCC Synthesis Model for the determination of Federal USF for rural companies. STCG witness Schoonmaker was a member of the RTF, and he led the effort to analyze the FCC Synthesis Model and the results that it produced for rural telephone companies, conducting much of the analysis himself. The results of that analysis were presented to the RTF on May 25, 2000, and were later incorporated into the RTF's White Paper No. 4 titled, "*A Review of the FCC's Non-Rural Universal Service Fund Method and the Synthesis Model for Rural Telephone Companies.*" (Ex. 39, Sch. RCS-9.) The major criticisms of the FCC Synthesis Model were summarized by the RTF as follows:

- The model lines differ significantly from actual lines served. While the model generally tends to underestimate lines, in about one-third of the wire centers it overestimated lines.
- Comparisons of the number of route-miles of plant summarized in the model with actual data produced significant variations. Again, differences occur on both the high and low ends with a general tendency for the model results to overestimate the actual data. In 12 percent of the wire centers studied the model data overestimated route miles by more than 200 percent.

- Model results for the type of plant vary widely from actual plant constructed. The model generally tends to overestimate the percentage of aerial and underground plant, and underestimate the percentage of buried plant. This is likely due to the diverse character of the rural geography, and the use of a single set of inputs by density zone based on the experience of non-Rural Carriers.

- In calculating the applicable density zones, the model significantly underestimates wire center area. In 95 percent of wire centers the land area is understated, and in over one third of these the understatement exceeds 90 percent.

- The model significantly underestimates COE Switching investment. This is likely due to the lack of economies of scale of the Rural Carriers, and the general tendency of the model to underestimate lines served.

- Model results for various elements of general support investment vary widely from actual data and from rational forward-looking assumptions, with almost as many cases of overestimation as underestimation.

- Network Operations and Corporate Operations expenses are significantly underestimated, again likely due to the lack of economies of scale of Rural Carriers.

These criticisms led the RTF to conclude as follows:

> The aggregate results of this study suggest that, when viewed on an individual rural wire center or individual Rural Carrier basis, the costs generated by the Synthesis Model are likely to vary widely from reasonable estimates of forward-looking costs. In fact, much of the data analysis suggests that the model results tend to be in the high and low extremes, rather than near the expected results for the area being analyzed. While it may be technically possible to construct a model with added precision and variables to account for the differences among Rural Carriers and between non-Rural Carriers and Rural Carriers, it is the opinion of the Task Force that the current model is not an appropriate tool for determining the forward-looking cost of Rural Carriers.

Schoonmaker Rebuttal, Ex. 39, pp. 8-9, Schedule RCS-9 RTF's White Paper #4 *A Review of the FCC's Non-Rural Universal Service Fund Method and the Synthesis Model for Rural Telephone Companies,* p. 10. (Emphasis added)

The FCC concurred in and adopted the RTF recommendation that Federal USF should be based on a modified, embedded cost approach rather than the use of the synthesis model for five

years. While the FCC indicated that it would continue to examine the potential for using forward-looking costs for rural carriers in the future and to develop inputs to the model more relevant to those carriers, it also recognized that ". . . it is not possible to determine forward-looking costs for rural carriers at this time. . ."[5] (Schoonmaker Rebuttal, Ex. 39, p. 9)(Emphasis added)

Similarly, when confronted with the choice between forward-looking economic cost models and embedded cost studies for purposes of determining costs for the Missouri Universal Service Fund, this Commission expressed a clear preference for the latter.

> The parties may not propose a hypothetical cost model, but may propose a cost model based on embedded cost. The embedded cost calculations should be the most recent data available . . .

Order Establishing Technical Meetings, p. 2, issued June 27, 2000, Case No. TO-98-329. Thus, both the FCC and the Missouri Commission have rejected the use of forward-looking cost models for small rural companies at this time.

3. Forward-looking Costs Do Not Represent Actual Costs and Are Subject to Manipulation.

The Commission's directive in this case was to investigate the actual costs of providing switched access. The STCG and Holway et al. firmly believe that forward-looking economic costs models do not achieve the goal of identifying the actual costs of small companies. Forward-looking economic cost models rely on hypothetical networks and hypothetical costs of providing service. Such models require extensive data gathering and complex methodologies to estimate

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[5]*Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45 and Report and Order in CC Docket No. 00-256*, Adopted May 10, 2001, Released May 23, 2001, para. 177.

the costs that the companies might incur. These models frequently rest on subjective judgments of the cost of various network components which are subject to a great deal of controversy and debate. The STCG and Holway et al. have found the models used for estimating small companies' forward-looking costs that are currently available have numerous problems associated with them and are not very effective in estimating small company costs. (Schoonmaker Direct, Ex. 36, pp. 5-6)

Another major concern that the STCG and Holway et al. have for cost models is the ability to manipulate the data to get a desired result from the study. Unlike actual cost models where costs are known and measurable, forward-looking cost models generally rely on proxies or averages representing cost efficiency targets in lieu of actual information. If a party does not like the results of the models, they can simply change the underlying assumptions for the proxies and new results are provided. In most cases, these proxies may have little or nothing to do with the actual cost characteristics of the exchange to which they are being applied. This is very evident in the testimony provided by SWBT and Sprint in response to the Staff's attempt to model their respective costs. (Warinner Rebuttal, Ex. 33, p. 12)

For example, Sprint and Staff utilize essentially the same model to determine Sprint's costs of providing switched access. However, by altering the inputs that were used in the model, Sprint developed costs that ranged anywhere from 2.7 to 57.6 times higher than those developed by Staff. (Schoonmaker Rebuttal, Ex. 39, p. 10) Another example of the impact that differing inputs can have on model outputs is a comparison of results using the FCC Synthesis Model with its "default" inputs versus Staff's application of the FCC Model using different input values. Comparing the loop costs of each of the small companies, as developed by Staff, with loop costs

based on the FCC's default inputs results in cost differences ranging from a low of 5.4% to a high of 19.5%, with the total company numeric average of 15% (with Staff's costs being lower than the FCC in all cases). This illustrates that even with two presumably "neutral" parties (i.e., Staff and the FCC) applying their judgment to the appropriate inputs for the same model, they nevertheless produce significantly different "forward-looking costs." (Schoonmaker Rebuttal, Ex. 39, p. 11, Sch. RCS-11(HC))

4. TSLRIC/LRIC Models Do Not Identify or Allocate any Loop Costs and Therefore Offer Little, If Any, Guidance in Establishing Prices.

Virtually all of the parties to the case agree that TSLRIC/LRIC only provides a "price floor" for a service. Services need to be priced above their respective TSLRIC/LRIC if a company is to remain financially viable and recover all of its costs. (Tr. 83) However, once TSLRIC/LRIC identifies the price floor for switched access services, it does nothing to identify and/or allocate any common or joint costs, such as the loop, to the service or provide any guidance as to the level of contribution which the total price should make to recovering the common and joint costs of the company. (Tr. 535) Proponents of TSLRIC/LRIC seem to hail this shortcoming as a virtue and criticize fully allocated cost studies as containing a "subjective" allocation of common and joint costs. However, the fully allocated studies provide the Commission with a rational basis for establishing prices for a service which will reasonably recover its direct costs as well as a fair share of the Company's joint and common costs. (Tr. 849) The TSLRIC/LRIC studies, on the other hand, provide no guidance whatsoever because they contain absolutely no costs associated with the loop. (Tr. 645, 847)

5. Cost Models Are Not Readily Available or Easily Updated.

In determining the appropriate cost study or model for identifying the actual cost of switched access, the Commission should consider whether the study/model is readily accessible and capable of being updated without a great deal of cost and effort. None of the forward-looking cost models presented in this case meet these criteria. First, the models offered by SWBT, Sprint, and Verizon are "proprietary" to each respective company. (Tr. 196-198) It is not clear from the record whether those models are even available to other companies and, if so, at what cost.[6] (Tr. 199-200, 632, 706-707) In the case of Staff's model, as applied to the Small ILECs, it is an amalgamation of SWBT, Sprint, and Verizon proprietary models coupled with a linear regression analysis developed by Staff's consultant in this case, Ben Johnson & Associates (BJA). (Tr. 204, 207 and 211) (Warinner Direct, Ex. 31, p. 16)

There is also a significant ongoing cost to maintain the data bases used in conjunction with a forward-looking cost model. The data bases must be continually revised to reflect new line information, both quantities and location derived from census block data or Global Positioning System (GPS) tracking. Continual revisions are also required for new switching technologies and system enhancements, new transmission technologies, depreciation rates, and expense relationships. These data bases should also be maintained by geographic and

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[6]For example, Staff witness Johnson had this to say about the affordability of Telcordia's SCIS Model:

> "SCIS itself is a very costly model . . ." (Tr. 196)
>
> ". . . Telcordia . . . wouldn't, for example, allow a model [SCIS] to be used with, say one of your [small company] clients' data without a very substantial fee." (Tr. 197)

demographic areas if they are to be representative of the areas to which they will be applied. If these data bases are not kept current, the results of these forward-looking cost models will not be of much value in predicting actual costs. (Warinner Rebuttal, Ex. 33, pp. 11-12)

C. Staff's Forward-Looking Economic Cost Models Do Not Accurately and Reliably Identify the Actual Costs Incurred by the Small Companies in Providing Switched Access Services.

Staff was the only party in this case to attempt to estimate the small companies' (Small ILECs) cost of providing switched access through the use of a forward-looking economic cost model. Unfortunately, as the record in this case amply demonstrates, Staff's efforts were largely unsuccessful. First, as indicated in the prior section, forward-looking economic cost models simply have not proven to be of sufficient accuracy and reliability when it comes to predicting the costs of small rural carriers. Second, and more specifically, the FCC Synthesis Model used by Staff in this case to develop loop costs reflects the costs of a hypothetical network using network technology and assumptions that small Missouri companies do not have in place. Third, the forward-looking cost models used by Staff to develop switching and transport costs give no consideration to the actual costs of the small Missouri companies. They are forward-looking cost models related to Sprint, Verizon, and SWBT. No direct consideration was given to the cost differences that may be incurred by small Missouri companies in comparison to the large companies to reflect such considerations as economies of scale and scope, company size, geographic diversity, and volume discount availability. The method used by Staff for these items was a simple regression technique applied to large company results that does not consider these other factors. (Schoonmaker Rebuttal, Ex. 39, pp. 4-5) Finally, the statistical validity of Staff's

regression analysis is highly questionable.

1. A Summary of Staff's Forward-Looking Economic Cost Model

In developing its forward-looking economic costs for the ILECs in this case, Staff used a variety of models and techniques. A summary of Staff's approach is contained in Exhibit 8 and reproduced here as Table 1.

Company	Loop Cost	Switch Cost	Transport Cost
SWBT	FCC Synthesis Model	Contract information and calculations from SWBT	SPICE Model
Verizon	FCC Synthesis Model	SCIS Model for Verizon	ICM Model
Sprint	FCC Synthesis Model	SCIS Model for Sprint	TCM Model
Small ILECs	FCC Synthesis Model	Regression Analysis of SCIS (for Verizon and Sprint)	Regression Analysis of SPICE, ICM and TCM

It is readily apparent from a review of the foregoing table that Staff did not use a consistent cost model or technique to develop the switched access costs for the ILECs. The STCG and Holway et al. fully expect SWBT, Sprint, and others to state their own case regarding the accuracy and reliability of Staff's model at predicting their respective costs. Therefore, the STCG and Holway et al. will limit their criticism to the costs developed by Staff for the Small ILECs.

2. Staff's Model Produces "Double Imaginary" Results

In the case of switching and transport cost development, the Staff has started with cost data provided by SWBT, Sprint, and Verizon. That cost data is then "inputted" into company proprietary cost models to produce a statistically derived prediction of switching and transport

costs for those large ILECs that in turn becomes the basis for additional statistical analysis in developing the Small ILECs' switching and transport costs. In other words, the output of the statistical models for large ILECs becomes the input for a new and different statistical model that attempts to predict switching and transport costs for Small ILECs. (Larsen Direct, pp. 26-27) In this case, SWBT and Sprint leveled a great deal of criticism at Staff's use of their proprietary models as well as Staff's inputs to those models. If SWBT and Sprint are correct, then Staff's costs for SWBT and Sprint are erroneous which will further compound the problems associated with Staff's subsequent regression analysis because those erroneous costs for SWBT and Sprint are the input values in that regression analysis. Thus, in the words of MITG witness Larsen, the Small ILEC costs developed by Staff in this case are "double imaginary" – first in the errors claimed by the larger ILECs and, second, in reliance on those errors in the application of a regression analysis of questionable statistical validity in the calculation of Small ILEC costs. (Larsen Surrebuttal, Ex. 30, p. 9)

3. Staff's Development of Loop Costs Using the FCC Synthesis Model Does Not Produce Accurate and Reliable Results.

Staff developed loop costs for the Small ILECs using the FCC Synthesis Model. However, as discussed previously, the FCC model is not currently capable of accurately and reliably predicting the loop costs of Small ILECs. In fact, the FCC has specifically rejected the use of its own model for purposes of determining loop costs for small rural carriers in the context of the Federal Universal Service Fund proceeding, choosing instead to continue to rely upon embedded cost studies. While Staff may argue that it has made adjustments to the FCC's default inputs to cure some of the admitted shortcomings of the applying FCC Synthesis Model to the

Small ILECs, it has not. The Staff's use of the FCC Synthesis Model to estimate Small ILEC loop costs contains the same inherent deficiencies as the original model. The Staff's model still assumes a hypothetical network with costs and capabilities that are different, in most cases significantly different, from the actual networks the Missouri Small ILECs have in place. The assumptions used in developing the cost of that hypothetical network are assumptions that were developed to represent broad cost levels on a national level and do not necessarily reflect the actual costs incurred by the Missouri Small ILECs in operating their individual companies. (Schoonmaker Rebuttal, Ex. 39, pp. 4-5)

4. Staff's Development of Switching Costs Substantially Understate the Small ILECs' Actual Switch Investments.

In attempting to develop switching costs for the small carriers, the Staff used switching cost models that are proprietary to Verizon and Sprint. Then Staff applied a regression technique to attempt to arrive at small company costs. (Ex. 8) The problems with Staff's approach may be summarized as follows:

a. Staff's regression analysis is based solely on results of forward-looking cost models for Verizon and Sprint central offices, not on the cost of small companies' central offices.

b. The sample of offices included in Staff's regression analysis is not likely to be representative of small Missouri company switches.

c. Staff's regression analysis does not generate results that are statistically valid.

d. A comparison between the central office switching investment generated by Staff's models and the actual investments made by the Small ILECs show that Staff's investment amounts substantially understate the Small ILECs' actual investments.

There are a number of factors that could cause the costs of the Small ILECs' switches to differ from those of Verizon and Sprint. One prime factor would be the manufacturer discounts from list price that those very large companies could achieve in comparison to the Smaller ILECs. Staff's analysis is based on the large companies' manufacturer discounts and does not take into consideration the lower discounts that Small ILECs are likely to experience. A second factor is that larger companies have larger offices and thus are likely to purchase larger capacity switches with different cost characteristics. The cost characteristics of a larger capacity DMS-100 Nortel switch is different than the cost characteristics of the DMS-10 switches which the Small ILECs typically deploy. A third factor is that the mix of manufacturers represented in the Verizon/Sprint sample may be significantly different than the Small ILEC mix. Fifty-seven (57) of the sixty-three (63) switch complexes included in Staff's analysis were Verizon switches, and only six (6) were Sprint switches. Historically, Verizon has had significant switching investment in GTD-5 switching systems (not Nortel switches), a fact that could make the sample non-representative. Finally, Staff's analysis is not based on the cost of individual switching units, but on the cost characteristics of host/remote switching complexes. It is likely that both the mix of the number of remote switching units to host switches and the mix of lines to individual switching units is different for the Small ILECs than it is for Verizon and Sprint. These factors will impact the actual cost of the Small Missouri Companies. (Schoonmaker Rebuttal, Ex. 39, pp. 13-14)

Of the 63 switching complexes used in Staff's regression analysis, four of the complexes have greater than 20,000 lines and twelve have greater than 10,000 lines. Only one of the small company host/remote complexes has greater than 10,000 lines. STCG witness Schoonmaker

duplicated Staff's regression analysis and then performed the regression first excluding the switches over 20,000 lines and then excluding the switches over 10,000 lines. He then calculated the investments generated by the regressions for these two additional scenarios and compared them with Staff's results for five different companies. The results of this analysis are shown as follows:

Company	Access Lines	Staff	Excl. 4 Switches Over 20,000 Lines	Excl. 12 Switches Over 10,000 Lines
Farber Telephone Company	258	$ 107,025	$ (241,283)	$ (273,988)
New Florence Telephone Company	488	129,942	(153,659)	(178,132)
Citizens Telephone Company	4,437	651,748	651,820	680,699
Kingdom Telephone Company	5,461	1,277,160	(420,515)	(530,220)
Grand River Mutual Telephone Corp.	14,666	3,072,634	2,708,271	2,823,305

This analysis demonstrates that if the larger switches are excluded, then the regression results are significantly different for three of the five companies tested with the projected switch investments showing negative rather than positive values. This raises significant questions regarding the validity of the regression analysis. (Schoonmaker Rebuttal, Ex. 39, pp. 14-15)

Finally, Staff's estimates of Small ILEC Central Office Equipment (COE) investment significantly understate the Small ILECs' actual investment in COE. While some may question the validity of comparing actual investments to estimated forward-looking investments, the STCG and Holway et al. believe that such a comparison is appropriate for Small ILEC COE switching investment. The current forward-looking technology for COE switching is very similar to the technology that most Small ILECs have deployed in their switches, and most Small ILECs have software upgrades which comport with current regulatory requirements. Thus, the current and forward-looking technologies are relatively consistent.

Although there has been some decrease in the cost of COE switching hardware over time, for Small ILECs this has largely been offset by increases in software and right-to-use costs. A comparison of the 1998 COE switching investment of most of the Small ILECs with the investment in COE switching investment generated by Staff's regression analysis reveals that for all but one company, the regression analysis generates considerably less investment than the actual investments of the companies. For the Small ILECs as a whole, Staff's cost study results show investments only 42% of the Small ILECs' actual embedded costs. If these 1998 investment amounts were updated to 2001, one would expect that the difference between their actual embedded costs and the cost developed by Staff's regression analysis would be even greater. (Schoonmaker Rebuttal, Ex. 39, pp. 15-16)

5. Transport Costs

Staff's analysis of transport costs for the small companies rests on a regression analysis of cost per circuit for Verizon, Sprint, and SWBT. The regression is based on cost per circuit for each of the wire centers of these companies, both large and small. For example, Staff's sample includes circuit costs in St. Louis, Kansas City, Springfield, and Columbia where traffic volumes, circuit densities, and trunk efficiencies are very high. These factors are high because there are a significant number of wire centers in these urban areas where circuit costs are low, in relation to distance and the number of lines served, and this reduces the costs reflected in the regression analysis. The Small ILECs do not operate in these areas, yet the analysis performed by Staff includes the cost of serving high density urban areas in the overall cost development for the Small ILECs. As a result, Staff's approach tends to understate, probably significantly, the cost of transport for the Small ILECs. (Schoonmaker Rebuttal, Ex. 39, p. 18)

In today's fiber optic networks, the number of circuits that can be transmitted over the same set of fibers can vary widely depending on the electronic and laser equipment used to transmit the light over the fiber network. As the number of circuits that can be handled increases, the electronic equipment becomes somewhat more costly but dramatically more efficient in the number of circuits that can be handled over the same number of fibers. This causes a substantial reduction in the cost per circuit. Thus, as the traffic density grows, the cost per circuit of handling the traffic decreases considerably. Costs per circuit in urban areas where interoffice traffic volumes are high are considerably less than in rural areas where traffic volumes are lower and a small number of circuits is transmitted over each pair of fibers.

A second factor that influences the cost of transport services in urban areas versus rural areas is the size of the trunk groups and the economies of scope that can be obtained in terms of the average usage of each trunk. Trunking networks are engineered to meet peak demand periods so that customers do not experience call blocking even during the highest usage periods. As the overall quantity of traffic increases, the required number of trunks grow at a slower rate than the traffic quantities because the overall efficiency of the trunk groups increase. This means that during a month a higher number of minutes per trunk can be handled through larger trunk groups than smaller ones. With a higher number of minutes per trunk or circuit, the overall cost per minute of transport will be lower in an urban area than in a rural area with smaller amounts of traffic and smaller trunk groups.

A third factor that impacts the cost of trunking in rural areas is the fact that circuits using digital transmission technology are provisioned in minimum quantities of 24 circuits per T1 or DS1 digital service. If the engineering requirement calls for 26 or 28 circuits, 2-T1s or DSIs or

48 circuits will still need to be provisioned causing additional losses of economies of scope. The percentage impact of this investment "lumpiness" tends to be larger in small offices with relatively small trunk groups.

Staff's studies only recognize the first factor in that the cost calculation for individual wire centers of the large companies will show varying costs per circuit depending on the traffic density encountered in that wire center. However, the regression technique used by Staff on all wire centers of the large companies, both urban and rural, to arrive at a cost per circuit for the small companies does not recognize that the mix of rural, high-cost, versus urban, low-cost, circuits is quite different for the rural companies than it is for the large companies.

The second and third factors, which impact the average number of minutes per circuit that are actually used, are not reflected in Staff's cost studies. Staff converts the cost per circuit to costs per minute by dividing by a fixed factor of 10,044 minutes per circuit. This factor is the same as the factor used in the FCC Synthesis Model but represents a theoretical high efficiency usage of trunks. This factor is not representative of actual trunk usage in rural areas. It may not even be representative of actual trunk usage in urban areas. At the time the FCC implemented its local transport rate restructure several years ago, this issue was raised in relationship to the trunk usage that should be used to convert the cost of a dedicated circuit to a per minute rate. In that proceeding, the FCC established a 9,000 minute per circuit level as presumptively reasonable for trunks around the country, which on a national basis are heavily concentrated in and between urban areas. In exploring the impact of this factor over the years, STCG witness Schoonmaker has occasionally conducted, or reviewed studies of actual trunk usage for rural companies. In most cases, these tend to show actual usage of 4,000 to 6,000 minutes per circuit. Staff's studies

do not take this lower usage per trunk into account and, thus, substantially understate the transport costs of the small companies. (Schoonmaker Rebuttal, Ex. 39, pp. 18-21)

6. Staff's Regressions Analysis Does Not Reduce Results that Are Statistically Valid.

The statistical reliability of Staff's regression analysis is undermined by its own "R-squared" values. When performing a linear regression analysis, the reliability of the predicted results can be demonstrated by the R-squared value and the value of the "standard error." R-squared is a value between 0 and 1.00. The higher the R-squared value, the better the predictive ability of the regression analysis; thus, an R-squared value of .95, or 95%, is considered very reliable. In the case of Staff's model, the statistical summary of the analysis including the R-squared values for the rural ILECs traffic sensitive costs are as follows:

	Line termination	Getting Started	Traffic Sensitive
R-squared	94%	53%	66%

As the data indicates, the Staff's model appears reliable in predicting line termination costs based on a R-squared value of 94%, representing a very high level of confidence that line termination costs are related to access lines. This appears to be a reasonable result since the line termination element represents the cost of the devices that attach customer loops to the main switching device. For other cost elements, however, such as Getting Started and Traffic Sensitive, the R-squared value drops to 53% and 66% respectively. These lower values indicate that predicting Getting Started and Traffic Sensitive costs is significantly more complex than a relationship

based on access lines would suggest. The low R-squared value for Getting Started costs of only 53% means that the Staff's model is only 53% "confident" that its prediction of Getting Started costs should be considered reliable by the Commission. Likewise, the Staff's model is similarly unreliable for estimating Traffic Sensitive costs with a R-squared value of only 66%. (Larsen Direct, Ex. 28, pp. 24-25)

7. The Staff's Model Produces Counter-Intuitive Results.

The accuracy and reliability of Staff's model is further undermined by its "counter-intuitive" results. In this case, Staff produced a "pure TSLRIC" cost of access for Sprint that is twenty-five percent (25%) higher than the average TSLRIC cost for Small ILECs. (Tr. 166-167, Johnson Direct, Ex. 1, Sch. 1, pp 10-11) This simply doesn't make sense given the fact that costs in the small, rural areas served by Small ILECs are higher than in the more urban exchanges served by Sprint. Public Counsel witness Meisenheimer readily acknowledged that this result was counter-intuitive. (Tr. 505) Sprint's witness Farrar was more pointed:

"Q. . . . In your Surrebuttal Testimony, I believe it's page 2, lines 20 through 22, you state, While, as a general rule, smaller companies have a higher cost than do large companies, that higher cost will be reflected in a forward-looking economic cost as it considers economic efficiencies. Do you see that?

A. Yes.

Q. Any my question then is . . . To the extent that Staff consultant BJA calculates a TSLRIC for Sprint that is approximately 25 percent higher than his average TSLRIC for the Small Telephone Companies, would that, in your opinion, be counter-intuitive?

A. Absolutely. That's probably putting it in about as polite a manner as you could. It's well accepted in the industry that at the one extreme you have Bell Company with very low costs and at the other extreme you have small rural companies with very high costs.

> I'll admit there's not a perfectly straight line between those two points, but that's a well established fact. You can see it in the FCC models, you can see it in any of the USF models. That's a well established fact. Any cost study that has Sprint, a larger company, having higher costs than these rural telephone companies, that's just wrong and it's – to me it's indicative of a – some sort of serious methodology flaw in the cost study.

(Tr. 702-703) (Emphasis added)

8. Lack of Availability/Accessibility of Staff's Cost Models

If the Commission is interested in using a forward-looking economic cost model for purposes of developing access costs for the Small ILECs, then it ought to use a model that is not only statistically sound and produces reliable results, but is readily available and accessible to the Small ILECs and all other parties that may have an interest in the establishment of those costs. In the instant case, that is clearly not the case with Staff's model. As is readily apparent from Table No. 1, Staff is using models which are proprietary to large ILECs, such as SWBT, Sprint, and Verizon, to develop inputs which are then run through a regression analysis that has been developed by Ben Johnson & Associates specifically for purposes of this proceeding. In future proceedings involving Small ILECs, the Commission has to ask itself how available are the proprietary models of SWBT, Sprint, and Verizon, how current are their underlying cost inputs, how accurate are their cost outputs, and how available is Dr. Johnson to perform his linear regression analysis?[7] Clearly, the use of embedded fully allocated costs does not require any

[7]Part of the answer may have been unwittingly provided by Dr. Johnson when he said:

> "I agree that it would be difficult to update these types of highly detailed cost studies on a frequent basis. However, I don't anticipate any circumstances in which a continual updating process would be required. The Staff study was prepared in response to the Commission's directives in this particular investigation. It is not meant as a road map to be followed on a frequent or routine basis." (Johnson Surrebuttal, Ex. 3, p. 34)(Emphasis added)

investment in purchasing proprietary models or expenditure of time in updating data bases. The information is readily available from the small companies' books and records and is easily verifiable.

2. Should the cost methodology (i.e., TSLRIC, LRIC, embedded, stand alone, etc.) for determining the cost of switched access be uniform and consistent for all Missouri LECs?

The STCG and Holway et al. believe the Commission intended that the access rate review process be initiated by applying a uniform and consistent cost methodology to all LECs. Without a uniform cost comparison, the Commission will be unable to compare relative costs of access with relative rates for access for all local exchange carriers. Since there has been no effort to apply a consistent cost methodology in this docket, it does not appear that this docket will have any practical benefit to the Commission.

Nevertheless, if the Commission is intent on establishing a cost model/study as a result of the hearing in this case, the STCG and Holway et al. support the use of actual, embedded cost studies for the small Missouri telephone companies but take no position regarding the models that should be used for the large companies. The STCG and Holway et al. do not believe it is absolutely necessary that individual company costing methodologies be identical so long as each LEC's exchange access service rates are maintained at just and reasonable levels. For each class of similarly situated LEC, the Commission should apply consistent methods. For example, the costs of the member companies of the STCG and Holway et al. and all other rate of return regulated LECs should be developed on a consistent basis; price cap LEC costs may be developed using a different method, and CLECs costs calculated with a third method.

3. Should loop costs be included in the determination of the cost of switched access, and if so, at what level?

The STCG and Holway et al. believe that loop costs should be included in the cost of switched access since all carriers that desire access to a customer to provide a telecommunications service use the loop. The portion of loop costs allocated to exchange access service should approximate the relative use of the loop by each service that uses the loop. As stated previously, the STCG and Holway et al. propose to use subscriber line usage (SLU) as the basis for allocating loop costs between the intrastate access and local jurisdictions. The SLU allocation factor represents the percentage of time, measured in terms of minutes of use, that the loop is used for intrastate exchange access services. This is a fair and reasonable method to allocate these costs. (Tr. 938-939)

Other parties who advocate a TSLRIC/LRIC approach argue that no loop costs should be allocated to switched access service. However, they do recognize that the price for switched access service should be at a level that is above the TSLRIC/LRIC determined cost. In other words, the price should make a "contribution" toward recovery of the company's joint and common costs, including the loop. Advocates of TSLRIC/LRIC, however, do not offer any guidance as to what is an appropriate contribution level, so the Commission is left to guess the appropriate amount of loop costs that should be recovered through this contribution. The STCG and Holway et al. believe it is more appropriate to consciously acknowledge the need to recover a portion of these loop costs from interexchange carriers and include that portion in the cost development of switched access service. Admittedly, the amount of loop costs to be allocated to switched access is a subjective exercise, but no less so than determining what is an appropriate

"contribution" amount.

The STCG's and Holway et al.'s proposal is consistent with both the FCC's and this Commission's approach to assigning loop costs to access. As noted previously, the FCC determined a number of years ago that 25% of the loop costs should be allocated to the interstate jurisdiction (with the remaining 75% allocated to the intrastate jurisdiction). This FCC determination was based partly on the nationwide data at that time that suggested the national average usage of the network (i.e., SLU) was approximately 25% for interstate traffic. In the 1984 to 1986 time period, this Commission established specific procedures for allocating subscriber plant costs between local, intraLATA, and interLATA jurisdictions. These procedures were based on the state frozen, subscriber plant factor (SPF), a separation factor used at that time which employed a weighting procedure that allocated a greater proportion of these loop costs to access than to local. (Schoonmaker Direct, Ex. 36, pp. 13-14)

In 1983, the Commission addressed the same arguments it is being asked to address in this case. At that time, the Commission had the following to say about the allocation of loop costs:

> The Commission, having considered the various arguments of the parties, is persuaded, and finds, that the cost of a local loop can arise from a demand for local and/or long-distance service. Therefore, local loop costs should properly be recovered through contributions from at least three services: local exchange, carrier access and toll. The local loop has no value to any customer unless other customers are connected. The loop is in place to satisfy customers' demands for both long-distance and local service. This Commission finds and concludes that the local loop now gives a telephone subscriber access to an integrated telephone network which includes local exchange capabilities, and interstate and intrastate long distance (toll) capabilities as well. Since both local exchange service and toll service make use of the local loop, both services should contribute to the cost of the local loop . . .

> The existence of interexchange carriers and competitive toll service does not change this result . . . To announce that economic efficiency requires that interLATA toll carriers be provided with absolutely free access to the local loops of local exchange telephone customers is patently absurd. Thus, the interexchange carriers should pay for their use of the local network in providing toll services, just as local exchange service should pay for its use of the local loop.

Access charge rate structure and methodology and intraLATA toll settlements, Cases No. TR-83-253 and TR-83-288, 26 MoPSC (NS) 344, issued November 22, 1983, (emphasis added). The STCG and Holway et al. submit that the Commission's 1983 reasoning is still appropriate today and that it would be "patently absurd" for interexchange carriers to be provided with absolutely free access to the local loops of local exchange companies.

Finally, the Telecommunications Act of 1996 has reaffirmed the notion that basic local service should not be saddled with 100% of the loop costs to local services. Section 254(k) of the Act provides that:

> (K) SUBSIDY OF COMPETITIVE SERVICES PROHIBITED – A telecommunications carrier may not use services that are not competitive to subsidize services that are subject to competition. The Commission, with respect to interstate services, and the states, with respect to intrastate services, shall establish any necessary costs allocation rules, accounting safeguards, and guidelines to ensure that services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide these services. (Emphasis added)

Clearly, any cost model, such as TSLRIC/LRIC that attempts to assign 100% of the cost of the loop to basic local service runs afoul of this requirement of the Act.

4. What are the appropriate assumptions and/or the appropriate values for the following inputs?

This question seems to assume a hypothetical cost methodology, such as specifically

TSLRIC/LRIC, as the cost standard for determining exchange access service costs. The STCG's and Holway et al.'s general response to this question is that the cost elements identified in this question are included in the accounting records of their respective member companies and used in the development of the costs presented by the STCG and Holway et al. to the Commission in this case. With respect to the following specific assumptions/inputs, the STCG and Holway et al. state as follows:

a. Cost of Capital –In the absence of a company specific rate of return determination, the STCG and Holway et al. believe that an 11.25% rate of return is appropriate for the small Missouri telephone companies to determine their cost of access in this proceeding.

b. Switch discounts – The STCG and Holway et al. support the original installed cost of the network investment necessary to provide telecommunications service. Original installed cost recognizes whatever discounts were specifically included in that cost. The STCG and Holway et al. believe that the buying power of SWBT, Verizon, and Sprint entitles these companies to significantly greater discounts than those available to the member companies of the STCG and Holway et al.

c. Depreciation – The STCG and Holway et al. support the use of depreciation rates prescribed by the Commission and recorded in accounting records in the development of actual embedded cost studies.

d. Maintenance factors – The STCG and Holway et al. support the use of actual maintenance expenses as recorded in accounting records in the development of actual embedded cost studies.

e. Common and shared costs – The STCG and Holway et al. believe common and shared costs should be included in the cost of exchange access service in a proportion relative to the use of the property.

f. Fill factors –The STCG and Holway et al. believe application of fill factors that assume economies of scale and scope appropriate for larger LECs are inappropriate for smaller LECs.

g. Other major assumptions and/or inputs –

1. Use of the FCC Synthesis Model – The STCG and Holway et al. do not believe that the FCC Synthesis Model produces reasonable results of the forward-looking loop costs of the small Missouri LECs. (*See also* Argument, Section I.1.B.1, *supra*)

2. Use of regression analysis to determine small Missouri LEC costs – The STCG and Holway et al. do not believe that the regression analysis techniques used by Staff in its cost studies provide an appropriate measure of the small Missouri LECs' local switching and transport costs. (*See also* Argument, Section I.1.c., *supra*)

5. Is the current capping mechanism for intrastate CLEC access rates appropriate and in the public interest?

The STCG and Holway et al. believe that the Commission should clarify that the existing CLEC capping mechanism applies to the maximum permissible access rates an ILEC is permitted to charge. This is because price cap LECs may voluntarily reduce the access rate they charge from the existing, maximum rate as established by the price cap rules. CLECs should not

be required to automatically reduce their rates when an ILEC voluntarily reduces its access rates because the Commission has already determined that the capped rates, not simply the rates actually charged by the price cap ILEC, are just, reasonable, and lawful. This approach insures that a CLEC can price exchange access lawfully, and this approach will permit the CLEC to compete and not be driven out of the market by the price cap LEC's pricing tactics. To the extent the incumbent price cap LEC chooses to price exchange access service below its capped rate, that choice is the incumbent's to make just as the incumbent can choose to price at the capped rate. (Larsen Rebuttal, Ex. 29, pp. 21-22)

6. Are there circumstances where a CLEC should not be bound by the cap on switched access rates?

The STCG and Holway et al. believe that if a CLEC requires exchange access rates that exceed the prescribed capped rate, then the CLEC should be permitted to seek rate relief with a supporting cost study. The Commission should examine all of the facts relevant to such a request for relief. The cost study submitted by the CLEC should be comparable to the cost study required of the ILEC with which it competes. For example, if the ILEC with which the CLEC is competing is required to use an embedded cost study for purposes of identifying its costs of switched access, then the CLEC should also justify its proposed access rates using a similar study of its own embedded costs.

7. What, if any, course of action can or should the Commission take with respect to switched access as a result of this case?

Virtually every party agrees, with the exception of AT&T, that the focus of this proceeding is limited to the determination of the cost of access and not the appropriate price to be

charged for access. The most the Commission can do, given the state of the record, is to determine the appropriate methodology for determining the actual cost of switched access service. Even then, if the Commission determines that it wants to utilize a forward-looking economic cost model for purposes of determining small companies' cost of switched access, additional proceedings will be necessary in order to: 1) determine the appropriate cost model, and 2) develop the appropriate inputs to that model, since the Staff's model has clearly failed to accurately and reliably predict small companies' costs. If, on the other hand, the Commission determines that the actual cost of providing switched access is best measured by the embedded, fully allocated cost studies, then the Commission's cost inquiry is at an end as that information is in the record. Future rate determinations should only be made in the context of individual rate cases or earnings investigations where all relevant factors pertaining to that company's total cost of service can be examined.

A. There is no Compelling Evidence in this Record that Access Rates Need to be Adjusted.

As previously indicated, the results of the small companies' embedded cost studies reveal that, in total, their access costs are not significantly different than their current access revenues. In this case, the actual cost of providing switched access, as developed by the small companies' cost studies, is approximately 92% of their current access revenues, clearly demonstrating that access rates are not significantly out of line with their respective costs. Thus, no further action needs to be taken at this time. While an individual company may have greater differences between their actual costs and their individual access rates, the Commission should not make any broad determinations in regards to that company until it can examine all of the costs involved in

providing service for that company.

The STCG and Holway et al wholeheartedly agree with Public Counsel witness Meisenheimer who recommended as follows:

> In terms of a solution to what access rates should be, I think that your current mechanism is a correct solution. You look on it – you look at it on a case-by-case basis, considering all relevant factors for the particular company that you're reviewing . . . So I think the way you do it now is just fine. If it's not broke, don't fix it.

(Tr. 482) Many of the small companies have recently undergone earnings investigations where all of their rates were reviewed, including access. Rates established as a result of those investigations are presumed to be lawful and reasonable and there has been no compelling evidence offered in the instant record that would rebut that presumption.

B. Access Rate Comparisons With Other States Are Not Particularly Relevant or Meaningful In this Case.

The Staff, in its presentation to the Commission, attempted to compare the access rates of the Missouri ILECs with those of LECs in other states. However, this comparison is not particularly relevant or meaningful for a number of reasons. First, Staff's rate comparison tells the Commission nothing about how the Missouri LEC costs compare to the LECs' costs in those other states. (Tr. 85) Second, the rates which Staff displays for the LECs in other states tends to focus on Regional Bell Operating Companies or other large LECs. Staff did not attempt to analyze or compare the rates of Small LECs in those other states as those rates were not easily obtainable. (Tr. 309) Finally, Staff's comparison does not reveal to what extent these other states have implemented state universal service funds, pooling mechanisms, or state subscriber line charges which would likely have an impact on the level of access rates. (Tr. 214-215) In fact, it

is Sprint witness Harper's experience that in states where significant access rate reductions have occurred, there have been offsetting increases in local rates, state universal funding, or both, so it is impossible to draw any meaningful conclusions by simply comparing access rates between states. (Tr. 777-778) Accordingly, the Commission should be very careful about drawing any conclusions from the access rate comparisons offered in this docket.

C. The Alleged Benefits of Access Rate Reductions Insofar as Small Company Exchanges Are Concerned have not Materialized.

Many of the proponents of reduced access rates cite the fact that toll rates will be reduced, toll competition will be increased, and/or expanded calling plans will be offered. The experience in Missouri, however, is that none of these benefits have materialized to date even in light of past access rate reductions. It is also significant to note that when pressed, none of the interexchange carrier witnesses were willing to make any specific commitments regarding future flow through of access rates, at least insofar as small company exchanges are concerned. (Tr. 752, 1077-1078, 1090)

First of all, while small companies in Missouri have been repeatedly criticized for their "high access rates" relative to SWBT's rates, it must also be kept in mind that there is currently no state universal service funding mechanism which would provide assistance to these small, rural companies in recovering their high costs. Thus, their only real source of cost recovery is either from local or access charges. (Tr. 500-501) Access charges have necessarily been set at relatively high levels in order that local rates could remain affordable.

Additionally, even though the Small ILEC access rates may be high, relative to SWBT's access rates, the total access payments by IXCs to small companies are relatively small when

compared to access payments to large companies. (Tr. 1208) For example, total access payments made by AT&T to Missouri LECs for the most current year were approximately $**_____** Of that amount, $**_____** were paid to large ILECs and only $**_____** (or **_%** of total access payments) were made to Small ILECs. (Tr. 1206-1207, Ex. 55)

Another way to put the Small ILECs' access charges in perspective is to look at AT&T's proposal to add $1.00 to all ILECs' local exchange rates which would result in a total access rate reduction of approximately $45.5 million. However, approximately $44 million of that statewide access rate reduction will come from large ILECs and only $1.5 million will come from Small ILECs. (Tr. 1175-1176) Using this example and increasing the "shift" to local rates to $6.00 a line, Small ILECs would make a collective $9 million reduction in access rates. (Tr. 1178) However, the Commission needs to remember that when Sprint and Verizon made a collective $9 million access rate reduction in their first year of rate rebalancing, this was not a significant enough access rate reduction for AT&T to flow it through to its statewide toll rates. (Tr. 1091-1092) The obvious question is what is the value of raising Small ILEC local rates by $6.00, if the resulting $9 million reduction in access charges is not significant enough for AT&T to flow through to its statewide toll rates?

History has shown that Small ILEC access rate reductions have not been flowed through to interexchange rates. Small ILECs have collectively, through recent earnings investigations, reduced their access rates by $2.6 million, but AT&T could not point to any specific flow through of those access rate reductions. (Tr. 1090) This is not surprising since AT&T readily admits that a $9 million access rate reduction is not sufficient to cause a change in its statewide

toll rates. Unfortunately, what we do know has happened during this period of time is that AT&T has refused to participate in the intraLATA presubscription process of the Small ILECs, and it has implemented an in-state access recovery fee which its long distance customers must pay in addition to per minute charges. (Tr. 1090) Clearly, history has shown that, in Missouri, access rate reductions do not translate into toll rate reductions or any other identifiable benefits for local ratepayers. This is not unique to Missouri. Public Counsel witness Dunkel indicated that his experience in other states has led him to the same conclusion. Mr. Dunkel studied the relationship between access rate reductions and toll rate reductions nationwide and found a very low correlation between the two. For example, if there had been a 7¢ per minute reduction in access rates, only 1¢ per minute was flowed through to toll rate reductions. (Tr. 405)

The Commission should also be wary of the contention that lower access rates will provide an incentive for more carriers to compete for intrastate toll business. Both Sprint and Verizon experience relatively vigorous intrastate toll competition in the state of Missouri, but their access rates are as "high" as many of the Small ILECs. Accordingly, one cannot simply conclude that low access rates are a key to increased toll competition or, conversely, that high access rates are an impediment to toll competition. (Tr. 479-480)

While the Commission continues to be barraged by complaints of high access rates, it needs to realize what is driving those rates in this state (i.e., high costs) and what, if any, benefits will result if those access rates are proposed. This cost/benefit analysis can only be done in the context of individual rate or earnings investigations where all relevant factors can be considered.

II. RESPONSES TO TEN QUESTIONS RAISED BY AT&T

1. Whether the Commission has the jurisdiction to direct an ILEC regulated under "price-cap regulation" pursuant to Section 392.245, RSMo 2000, to reduce its switched access rates?

The Commission cannot direct an ILEC regulated under the price cap statute to reduce its switched access rates. Section 392.245.4,[8] sets out very specific methods by which maximum allowable prices for both exchange access and basic local telecommunications service shall be changed annually. Using one of these methods is the only way that switched access rates could be changed. Subsection (5) of § 392.245.4 states that an incumbent may change the rates for its services consistent with the provisions of § 392.200 so long as the rates do not exceed the maximum allowable prices established for the service by section (4). Thus, any reduction in switched access rates could only be accomplished by a change in the Consumer Price Index (CPI-TS) or a change in the Gross Domestic Product Price Index (GDP-PI) (minus the productivity offset established for telecommunications service by the Federal Communication Commission and adjusted for exogenous factors), and that change would have to be allocated between exchange access and basic local telecommunications service in the same percentage as the revenues bear to the total revenues of the company for the preceding twelve (12) months. § 392.245.4(3). Further, § 392.245.7 specifically states that a company regulated under § 392.245 "shall not be subject to regulation under subsection 1 of section 392.240," the statutory section that provides for "rate of return" regulation.

[8]All statutory references are to RSMo 2000 unless otherwise indicated.

2. Whether the Commission has the jurisdiction to direct an ILEC regulated under "price-cap regulation" pursuant to Section 392.245 RSMo 2000, to restructure its switched access rates?

Although the STCG and Holway et al. are not entirely sure what is meant by "restructure" in this context, it is assumed that it means to change the various elements of switched access rates. In that case, the answer to the question would be the same as above, as any change in switched access rates for a price cap ILEC would have to be effected through the methods set out § 392.245.4. If this restructure involves increases/decreases to existing rates (rate elements), then it probably cannot be done. If, however, it is accomplished through imposition of a "new" charge(s), then the answer would be "maybe," but, at the very least, such a change would have be revenue neutral.

3. Whether an ILEC regulated under "price-cap regulation" pursuant to Section 392.245, RSMo 2000, may voluntarily reduce its switched access rates?

Subsection (5) of § 392.245.4 states that an ILEC "may change" the rates for its services consistent with § 392.200 so long as the rate is not in excess of the "maximum allowable price established for such service under this section." Sections 8 and 9 of § 392.245 set out a procedure whereby an ILEC regulated pursuant to the statute may "rebalance" rates by reducing intrastate access rates and offsetting the amount of the reduction by an increase in its rates for basic local telecommunications service. This reduction in intrastate access cannot exceed one hundred fifty percent (150%) of the company's interstate rates for similar access services in effect as of December 31 of the year preceding the year in which the company is first subject to price cap regulation. The company has four (4) years in which to make the adjustments

authorized by this section. The increase in basic local telecommunications rates authorized in subsection 9 is limited to $1.50 per month.

Whether a price cap ILEC could "voluntarily" reduce its switched access rates within the context of price cap regulation is not specifically addressed, but subsection 9 of § 392.245 also states, "Nothing in this subsection shall preclude an incumbent local exchange telecommunications company from establishing its intrastate access rates at a level lower than one hundred fifty percent of the company's interstate rates for similar access services in effect as of December thirty-first of the year preceding the year in which the company is first subject to regulation under this section." Presumably then, a price cap company could voluntarily reduce its access rates (without offsetting revenue-neutral local rate increases) so long as the reduction was not below the long range incremental cost ("LRIC").

4. Whether an ILEC regulated under "price-cap regulation" pursuant to Section 392.245, RSMo 2000, may voluntarily restructure its switched access rates?

Again, depending on what is meant by restructure, the price cap company should be able to reduce its current rates, but not increase its existing rates (other than as allowed by the price cap statute). A price cap company may be allowed to implement a new rate for a new service to offset reductions in other existing rates. § 392.245.11. However, any new rate would have to be approved by the Commission.

5. Whether the Commission has the jurisdiction to direct an ILEC that is regulated under rate of return regulation to reduce its switched access rates without conducting a full rate case?

No. The law is clear on this issue. Both the Commission and appellate courts have

interpreted the provision in § 392.240.1 stating that in setting rates the Commission must give "due regard, among other things, to a reasonable average return" as requiring the Commission to determine rates based upon "all relevant factors." Thus, the Commission cannot increase or decrease rates for a single service without taking into account the entirety of a company's costs and revenues. (This is sometimes referred to as the prohibition against single issue ratemaking.) The Commission must consider all relevant factors, including all operating expenses and the utility's rate of return, when determining a rate authorization. *State ex rel. Office of Public Counsel v. Public Service Commission of Missouri,* 858 S.W.2d 806 (Mo. App. W.D. 1993); *State ex rel. Utility Consumers' Council of Missouri, Inc. v. Public Service Commission,* 585 S.W.2d 41 (Mo. banc 1979); *State ex rel. Missouri Water Company v. Public Service Commission,* 308 S.W.2d 704, 719 (Mo. 1957); *In the Matter of Southwestern Bell's Tariff Sheets Designed to Increase Local and Toll Operator Service Rates,* 5 Mo. P.S.C. 3d 59, 63 (1996). For example, the Commission dismissed a complaint brought against SWBT's intrastate switched access rates on the grounds that a reduction of only one rate was unlawful single issue ratemaking. *MCI Telecommunications Corporation, Inc. et al v. Southwestern Bell Telephone Company, Inc.,* 6 Mo. P.S.C. 3d 483, 489 (1997).

6. Whether the Commission has the jurisdiction to direct an ILEC that is regulated under rate of return regulation to restructure its switched access rates without conducting a full rate case?

The Commission may have the jurisdiction to direct an ILEC that is subject to rate of return regulation to restructure its existing access rates only if it is done on a revenue neutral basis. The prohibition against single-issue ratemaking would apply to any restructuring of

approved switched access rates that was not revenue neutral. *In the Matter of Mark Twain Rural Telephone Company's Proposed Tariff to Introduce its Wireless Termination Service,* MoPSC Case No. TT-2001-139 (Feb. 8, 2001).

7. Whether an ILEC that is regulated under rate of return regulation may voluntarily reduce its switched access rates without filing a full rate case?

A rate of return regulated ILEC may voluntarily reduce its switched access rates without filing a rate case by filing a tariff with the Commission. Once the Commission approved the new tariff, the rate reduction would be effective.

8. Whether an ILEC that is regulated under rate of return regulation may voluntarily restructure its switched access rates without filing a full rate case.

A company regulated under rate of return regulation should be able, by filing a tariff with the Commission, to voluntarily restructure its switched access rates on a revenue neutral basis without filing a full rate case. The tariff filing would, of course, be subject to Commission approval.

9. Whether the Commission has jurisdiction to direct a CLEC to reduce its switched access rates?

Generally speaking, once a CLEC has been granted competitive status, the services the CLEC provides have been designated as competitive services, and after the Commission has approved a tariff for the CLEC, any increase or decrease in rates must be pursuant to § 392.500. Although a competitive company is still subject to the provisions of § 392.200 stating that its rates must be just and reasonable, those rates approved by the Commission are deemed to be just and reasonable. Similarly, the Commission may not bring a complaint under § 392.240.1,

RSMo, alleging that the CLEC's rates are unjust or unreasonable because competitive companies typically receive a waiver of that statute.

Notwithstanding the foregoing, an exception has been created for switched access services. As part of the CLEC certification process, the Commission has imposed a "cap" on the CLEC's access rates that is tied to the access rates of the ILEC with which it competes. If the ILEC is required to reduce its switched access rates pursuant to the price cap rules, the CLEC is required to reduce its rates as well. Presumably, if the CLEC did not voluntarily act to reduce its rates, the Commission could act to enforce "capping" requirement imposed at the time of certification. *In the Matter of the Access Rates to be Charged by Competitive Local Exchange Telecommunications Companies in the State of Missouri,* MoPSC Case No. TO-99-596 (June 1, 2000).

10. Whether the Commission has jurisdiction to direct a CLEC to restructure its switched access rates?

No. The analysis would be the same as above. Additionally, Section 392.185(6) states that competition should be allowed to function as a substitute for regulation when consistent with the protection of ratepayers and the public interest. This would seem to further suggest that the Commission should take a "hands-off" approach to setting rates and rate structures for CLECs.

III. ADDITIONAL QUESTIONS POSED BY THE COMMISSION

1. The Commission's Authority to Order Expanded Local Calling

The Commission's authority to establish expanded calling plans is limited by Missouri case law and statutory provisions which restrict the Commission's ability to order telephone

companies to expand their service areas. Also, any expanded calling plan mandated by the Commission must be supported by findings that customer needs are not being met. Finally, any Commission-mandated plan must be revenue neutral to all companies affected by the mandate.

In *Southwestern Bell v. Missouri Public Service Company*, 416 S.W.2d 109 ("the *Bellflower*" case), the Commission ordered SWBT to extend its services to an area in Montgomery County that it did not serve. The Missouri Supreme Court reversed and remanded the Commission's decision, holding that the Commission is "without power to order a telephone company to provide services in an area which it has not offered, professed or undertaken to serve." *Id.* at 113. Thus, *Bellflower* prohibits the Commission from ordering a telephone company to provide service in an area where it has not sought to serve.

The Commission may order a physical connection to be made between the lines of two or more telecommunications companies if, after hearing, the Commission finds that such a physical connection can be reasonably made and will serve the public convenience and necessity. §392.240.3. Thus, the Commission could order two companies to connect their respective networks in order to permit toll or interexchange calling between their respective subscribers. However, such an order may not be made "primarily to secure the transmission of local telecommunications service." *Id.* Therefore, this provision does not authorize the Commission to require two companies to connect their networks for the purpose of establishing local calling between those two companies without the agreement of the companies.

Recent changes to Missouri statutes provide that the Commission may alter local exchange boundaries if: (a) the Commission determines that it is in the public interest to do so; and (b) the ILEC(s) serving the affected exchanges approve(s) the boundary alteration.

§392.200.9. Thus, the Commission may not alter exchange boundaries, which traditionally define the area in which local exchange service is provided, without approval from the affected ILEC(s).

Missouri telecommunications companies must provide adequate facilities and adequate service at "just and reasonable charges." § 392.200.1. However, the Commission and the Court of Appeals have held that this statute is not authority for mandating expanded calling plans. For example, in *State ex rel. City of Oak Grove v. Missouri Public Service Comm'n*, 769 S.W.2d 139 (Mo. App. 1989) a group of suburban telephone customers sought expanded calling into the Kansas City metropolitan area, and the Commission denied the petition. The Court of Appeals affirmed the Commission and explained:

> The sole basis for appellants' complaint was the cost of service, not adequacy of equipment. We are unaware of any case authority, and appellants cite none, indicating that [§ 392.200.1] dealing with adequacies of facilities and instrumentalities encompasses a claim for less expensive telephone service, that is, the elimination of inter-exchange tolls.

Id. at 145[5]. Thus, § 392.200.1 does not give the Commission the authority to mandate expanded calling plans.

The Commission does appear to have some authority to address expanded calling plans under §392.240. If the Commission determines, after hearing, that rates and tolls are unjust and unreasonable, then the Commission may determine and fix just and reasonable rates and tolls. §392.240.1. In the past, the Commission has used this authority to adopt industry proposals for expanded calling plans such as Community Optional Service (COS), Outstate Calling Area (OCA), and Metropolitan Calling Area (MCA). *In the Matter of the Establishment of a Plan for Expanded Calling Scopes in Metropolitan and Outstate Exchanges*, Case No. TO-92-306, *Report*

and Order, issued Dec. 23, 1992. The Commission's authority to adopt such plans was affirmed by the Court of Appeals in *MoKan Dial v. Missouri Public Service Comm'n*, 897 S.W.2d 54 (Mo. App. 1995). However, the *MoKan Dial* case stressed that the plans: (1) did not expand any company's area of service (distinguishing *Bellflower*); (2) did not require any increased expenses (i.e. no "takings"); and (3) did not result in any revenue losses (i.e. maintained revenue neutrality). *Id.* at 55-56.

After the state and federal Telecommunications Acts were passed in 1996, the Commission's position towards expanded calling plans appears to have changed. One of the Missouri legislation's clear directives was to allow competition to substitute for regulation when consistent with the public interest. §392.185(6). Accordingly, when the Commission terminated the COS Plan in 1997, it stated, "Retaining a mandated service that is not a necessary function of basic local service is inconsistent with the goal of a more competitive telecommunications environment." *In the Matter of an Investigation into the Provision of Community Optional Calling Service in Missouri*, Case No. TW-97-333, *Report and Order*, issued Oct. 28, 1997. This decision indicates the Commission's unwillingness to mandate expanded local calling plans in a competitive environment.

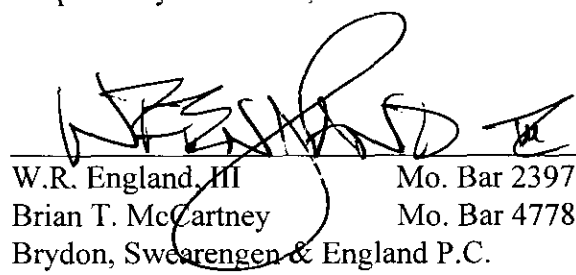
In summary, it is clear that the Commission cannot order a Missouri telephone company to expand its service area or exchange boundaries without the agreement of the affected company or companies. The Commission cannot direct a connection between two companies primarily for the purpose of providing local service. Whether the Commission can mandate a change from an existing toll calling arrangement between two or more companies to a new local calling arrangement is not as clear. At the very least, there must be a factual record supporting a finding

that the existing toll service and rates are inadequate, and provision must be made for the affected companies to remain revenue neutral.

2. AT&T's Motion to Modify The Commission's Standard Protective Order

The STCG and Holway et al. believe that the Commission should retain its standard protective order and the "Highly Confidential" and "Proprietary" designations. The standard protective order has been used for many years, and it has served the Commission and the parties well. However, the STCG and Holway et al. would not object if the Commission allows one (1) or two (2) internal cost expert(s) in a party's employ to review the cost studies in this case so long as those "in-house" experts sign the nondisclosure agreement and comply with the Commission's standard protective order. The safeguards outlined in SWBT's separate, supplemental nondisclosure agreement could also be put in place. For example, the in-house cost expert(s) would certify that they were not involved in retail marketing, pricing, procurement or strategic analysis and planning. The STCG and Holway et al. would not object to such a modification of the Commission's standard protective order in this fashion. It would retain, in large part, the existing protective order and the existing procedures for handling "proprietary" and "highly confidential" information. At the same time such modification would accommodate the concerns expressed by AT&T in this case.

Respectfully submitted,



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Certificate of Service

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