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September 3, 2002

Secretary  
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P. O. Box 360  
Jefferson City, Missouri 65102

**FILED<sup>2</sup>**  
SEP 03 2002  
Missouri Public  
Service Commission

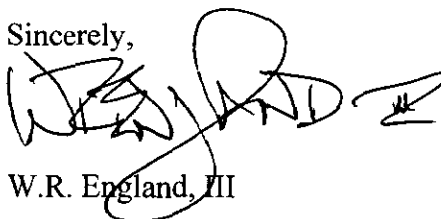
**Re: Case No. TR-2001-65**

Dear Mr. Roberts:

Enclosed for filing please find an original and eight copies of the Statement of Position of the Missouri Independent Telephone Company Group, the Small Telephone Company Group and Holway et al.

Please see that this filing is brought to the attention of the appropriate Commission personnel. If there are any questions regarding this filing, please give me a call. I thank you in advance for your attention to and 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

FILED<sup>2</sup>

SEP 03 2002

Missouri Public  
Service Commission

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

**STATEMENT OF POSITION OF THE**  
**MISSOURI INDEPENDENT TELEPHONE COMPANY GROUP,**  
**THE SMALL TELEPHONE COMPANY GROUP AND**  
**HOLWAY ET AL.**

Comes now the Missouri Independent Telephone Company Group (MITG), the Small Telephone Company Group (STCG) and Holway Telephone Company, KLM Telephone Company, Green Hills Telephone Corporation, and Iamo Telephone Company (Holway et al.) and for their statement of position state to the Missouri Public Service Commission (Commission) as follows:

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?

MITG, STCG and Holway et al. POSITION:

The MITG, STCG and Holway et al. believe that the use of actual embedded, booked costs allocated to the intrastate exchange access jurisdiction through the application of FCC Part 36 and Part 69 rules is the appropriate methodology for the member companies of the MITG, STCG and Holway et al.

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.

MITG, STCG and Holway et al. POSITION:

The MITG, 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. Since there has been no effort to apply a consistent cost methodology in this docket, this docket will not provide the starting point necessary for subsequent steps and this docket will have little if any practical benefit to the Commission.

Assuming the Commission will go forward based upon the cost studies submitted in this docket, the MITG, 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 studies that should be used for the large companies. The MITG, 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. The costs of the member companies of the MITG, 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?

MITG, STCG and Holway et al. POSITION:

The MITG, STCG and Holway et al. believe that loops 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. The traffic factors used by the MITG, STCG and Holway et al. in their cost studies submitted in this case properly reflect this relative use.

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

MITG, STCG and Holway et al. POSITION:

This question assumes a hypothetical cost methodology, specifically LRIC or its variations, as the cost standard for determining exchange access service costs. The MITG, STCG and Holway et al. general response to this question is that the cost elements identified in this question are included in the accounting records of the respective member companies of the MITG, STCG and Holway et al. and used in the development of the costs presented by the MITG, STCG and Holway et al. to the Commission in this case.

- a. Cost of Capital –In the absence of a company specific rate of return determination, the MITG, 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 – MITG, 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 MITG, 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 MITG, STCG and Holway et al.
  - c. Depreciation – The MITG, 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 MITG, 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 MITG, 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 MITG, 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 MITG, 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.
    - 2. Use of regression analysis to determine small Missouri LEC costs – The MITG, STCG and Holway et al. do not believe that the regression analysis techniques used by Staff witness Dr. Johnson in his cost studies provide an appropriate measure of the small Missouri LECs' local switching and transport costs.
5. Is the current capping mechanism for intrastate CLEC access rates appropriate and in the public interest?

MITG, STCG and Holway et al. POSITION:

The MITG, STCG and Holway et al. believe that CLEC access rates should be capped at the *maximum rate* a price cap LEC is permitted to charge. CLEC access rates should not be capped at the rate the price cap LEC is actually charging since the price cap LECs'

current capped rates are each presumed to be just, reasonable and lawful. The MITG, STCG and Holway et al. also support Commission consideration of an alternative cap, similar to that adopted by the FCC, for CLECs operating only in the rural areas of large ILECs. This alternative would allow these CLECs to use the National Exchange Carrier Association interstate switched access rates as the cap rather than the incumbent LECs maximum rates.

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

MITG, STCG and Holway et al. POSITION:

The MITG, STCG and Holway et al. believe that if a CLEC requires exchange access rates that exceed the prescribed capped rate, the CLEC should be permitted to seek rate relief with a supporting cost study, and the Commission should examine all of the facts relevant to such a request for relief.

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

MITG, STCG and Holway et al. POSITION: \_

The MITG, STCG and Holway et al. believe that any costing method developed in this case can only be considered as a guideline and that changing rates of companies will need to be an individual company effort rather than fixed to a specific procedure.

ANDERECK, EVANS, MILNE,  
PEACE & JOHNSON, L.L.C.

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ATTORNEYS FOR STCG and  
HOLWAY et al.

**CERTIFICATE OF SERVICE**

The undersigned does hereby certify that a true and accurate copy of the foregoing was mailed, via U.S. Mail, postage prepaid, this 3<sup>rd</sup> day of September, 2002, to all attorneys of record in this proceeding.

W. K. J. AND