

Exhibit No.
Issue: Cost Issues
Witness: Andrew D. Sanders
Type of Exhibit: Direct Testimony
Sponsoring Party: Southwestern Bell
Telephone Company, d/b/a/
AT&T Missouri
Case No: IO-2011-0057

SOUTHWESTERN BELL TELEPHONE COMPANY,
D/B/A AT&T MISSOURI

Case No. IO-2011-0057

DIRECT TESTIMONY

OF

ANDREW D. SANDERS

St. Louis, Missouri
September 29, 2010

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

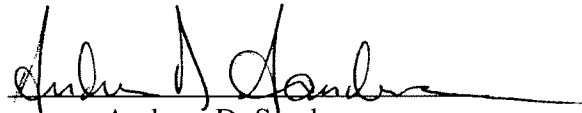
Verified Petition of Southwestern Bell Company d/b/a)
AT&T Missouri for Arbitration of Unresolved Issues for) Case No. IO-2011-0057
an Interconnection Agreement with Global Crossing)
Local Services, Inc. and Global Crossing)
Telemanagement, Inc.

AFFIDAVIT OF ANDREW D. SANDERS


STATE OF MISSOURI)
) SS
CITY OF ST. LOUIS)

I, Andrew D. Sanders, of lawful age, being duly sworn, depose and state:

1. My name is Andrew D. Sanders. I am presently Area Manager – Rates/Tariffs, Corporate Finance.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.


Andrew D. Sanders

Subscribed and sworn to before this 28th day of September, 2010


Notary Public

My Commission Expires: 2/21/2013

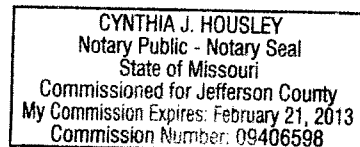


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I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Andrew D. Sanders. My business address is 909 Chestnut Street, 38-V-
3 08, St. Louis, Missouri, 63101.

4 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR CURRENT**
5 **POSITION?**

6 A. I am employed by AT&T Services, Inc., a subsidiary of AT&T Inc. ("AT&T"). My
7 position is Area Manager – Rates/Tariffs within the Cost Analysis Division, a group
8 that provides cost analysis and regulatory support to various AT&T subsidiaries,
9 including Southwestern Bell Telephone Company in Missouri (d/b/a AT&T
10 Missouri).

11 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL**
12 **EXPERIENCE?**

13 A. I earned Master of Science and Bachelor of Science degrees in Economics and
14 Finance in 2002 and 2001, respectively, from Southern Illinois University –
15 Edwardsville.

16 My employment began with AT&T, then SBC Communications, in 2003 in the Cost
17 Analysis Division as a Manager – Cost Analysis. My responsibilities included
18 developing incremental cost studies for various services throughout SBC's 13-state
19 ILEC operations. In 2005, I became responsible for supervising a team of managers
20 that performed incremental cost studies. My current responsibilities include
21 incremental cost development, loop cost modeling, financial analysis and testimony
22 cost support.

1 Prior to joining SBC, I was employed by the State of Illinois in the Governor's Office
2 of Management and Budget as a Budget Analyst.

3 **Q. PRIOR TO THIS ARBITRATION, HAVE YOU TESTIFIED BEFORE THE**
4 **MISSOURI PUBLIC SERVICE COMMISSION?**

5 A. No.

6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

7 A. I will explain AT&T Missouri's position regarding the disputed contract language on
8 DPL Issue No. 3. Specifically, I will demonstrate that the costs to perform the three
9 Routine Network Modification ("RNM") activities that are the subject of Issue
10 No. 3 are not already recovered through any existing, recurring or non-recurring
11 charges. Therefore, the costs of those RNMs must be recovered separately, as
12 AT&T Missouri's language would provide.

II. DPL ISSUE NO. 3

13 **Q. WHAT IS DPL ISSUE NO. 3?**

14 A. The stated issue is "Which Routine Network Modification (RNM) costs are not being
15 recovered in existing recurring and non-recurring charges?" The affected contract
16 language is as follows:

17 11.1.7 AT&T-22STATE shall provide RNM at the rates, terms and conditions
18 set forth in this Attachment and in the Pricing Schedule or at rates to be
19 determined on an individual case basis (ICB) or through the Special
20 Construction (SC) process; provided, however, that AT&T-22STATE will
21 impose charges for RNM only in instances where such charges are not
22 included in any costs already recovered through existing, applicable recurring
23 and non-recurring charges. **The Parties agree that the RNM for which**
24 **AT&T-22STATE is not recovering costs in existing recurring and non-**
25 **recurring charges, and for which costs will be imposed on CLEC as an**
26 **ICB/SC include, but are not limited to: (i) adding an equipment case, (ii)**
27 **adding a doubler or repeater including associated line card(s), and (iii)**

1 installing a repeater shelf, and any other necessary work and parts
2 associated with a repeater shelf.¹
3

4 Only the bold, underlined text is in dispute. Thus, the parties agree that AT&T
5 Missouri is entitled to charge Global Crossing for RNMs whose costs AT&T
6 Missouri is not already recovering through existing recurring and non-recurring
7 charges – there is no disagreement about that. The only dispute is whether the three
8 particular RNMs identified in AT&T Missouri’s proposed language are RNMs whose
9 costs AT&T Missouri in fact does not recover through its existing recurring and
10 nonrecurring charges. I will show that they are.

11 **Q. WHAT IS GLOBAL CROSSING’S POSITION?**

12 A. Global Crossing’s position is stated as follows on the DPL, which Global Crossing
13 has stated is accurate: “The rule is that AT&T Missouri can charge for RNM in order
14 to recover its costs. Global Crossing has no knowledge as to what costs are currently
15 being recovered by AT&T Missouri in its MRCs and NRCs and cannot agree that the
16 costs specified are not being recovered.”

17 Again, then, Global Crossing does not dispute that AT&T Missouri is entitled to
18 recover its costs for RNMs that are not otherwise already being recovered. Global
19 Crossing’s concern appears to be that it is unsure whether the three items enumerated
20 in AT&T Missouri’s proposed language are in fact not already being recovered
21 elsewhere.

22 **Q. IS GLOBAL CROSSING CONTENDING THAT AT&T MISSOURI IS**
23 **RECOVERING THOSE COSTS ELSEWHERE?**

¹ AT&T Missouri’s proposed language for section 11.1.7 as displayed on the DPL filed with the Arbitration Petition included an item (iv): “where applicable, deploying multiplexing equipment, to the extent such equipment is not present on the UNE Loop or Transport facility when ordered.” That item was included in error, and AT&T Missouri has withdrawn it.

1 A. No. Global Crossing is merely asking AT&T Missouri to demonstrate that it is not
2 already recovering these costs.

3 **Q. WHAT ARE RNMs?**

4 A. The Federal Communications Commission (“FCC”) has defined them, in pertinent
5 part, as follows:

6 Routine network modifications include, but are not limited to, rearranging
7 or splicing of cable; adding an equipment case; adding a doubler or
8 repeater; adding a smart jack; installing a repeater shelf; adding a line
9 card; deploying a new multiplexer or reconfiguring an existing
10 multiplexer; and attaching electronic and other equipment that the
11 incumbent LEC ordinarily attaches to a DS1 loop to activate such loop for
12 its own customer..²

13
14 AT&T Missouri’s proposed language closely tracks the above-listed RNMs (e.g.
15 equipment cases, repeaters and line cards, repeater shelves) where cost is not already
16 recovered.

17 **Q. WHAT ARE REPEATERS AND RELATED EQUIPMENT?**

18 A. A repeater, or doubler, is an intermediary device that, depending on the signal type,
19 amplifies or regenerates signal levels to maintain signal strength. The repeater is
20 comprised of an enclosure, shelves (slots) and line cards. Repeaters may be of
21 various sizes and forms and can be pole, pedestal, wall or rack mounted, or may be
22 located in a cabinet. Repeaters, when required, are typically found on high capacity
23 services such as T1s. Case equipment may involve the placement of repeater, or
24 loading coils, which are used to amplify and improve the quality of analog voice
25 service.

26 **Q. HOW DO THEY RELATE TO THIS ISSUE?**

² 47 C.F.R. Section 51.319(a)(8); *see also*, *Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, 18 FCC Rcd. 16978 (2003), ¶ 634.

1 A. When a customer orders a service where a repeater or related equipment is
2 determined to be required, certain RNMs may need to be performed. For example,
3 when a repeater does not have any available slots for line cards, or existing
4 equipment placement is not appropriate due to transmission requirements, RNMs are
5 required.

6 **Q. ARE REPEATERS AND RELATED EQUIPMENT ACTUALLY FOUND**
7 **WITHIN AT&T MISSOURI'S NETWORK?**

8 A. Yes.

9 **Q. DOES AT&T MISSOURI RECOVER THE COSTS FOR REPEATERS AND**
10 **RELATED EQUIPMENT FROM WHOLESALE CUSTOMERS WHEN IT**
11 **CHARGES THOSE CUSTOMERS FOR A SERVICE THAT REQUIRES**
12 **SUCH EQUIPMENT?**

13 A. No.

14 **Q. WHY NOT?**

15 A. The rates that AT&T Missouri charges for such services under an interconnection
16 agreement (unless the parties agree otherwise) are developed using long run
17 incremental cost methodology, which for unbundled network elements ("UNEs") is
18 TELRIC.³ Repeaters and related equipment are not included in long run incremental
19 cost development for AT&T Missouri's network, and they are therefore not recovered
20 in AT&T Missouri's wholesale rates.

21 **Q. WHY ARE REPEATERS AND RELATED EQUIPMENT NOT INCLUDED IN**
22 **TELRIC COST STUDIES?**

³ TELRIC (Total Long Run Incremental Cost) is the methodology the FCC has determined must be used to establish the rates that incumbent local exchange carriers charge for UNEs.

1 A. Among the requirements of long run incremental cost development is that cost study
2 inputs be forward-looking. Repeaters and related equipment are not considered
3 “forward-looking.”

4 **Q. WHY NOT?**

5 A. Forward-looking costs reflect the effects of decisions made now, but experienced in
6 the future. They assume the most efficient technology currently available that can be
7 integrated into existing network designs and incorporate planned, going-forward
8 processes. The result of this forward-looking methodology is that if AT&T’s
9 network were to be efficiently replaced today, given certain constraints (e.g. wire
10 center locations), repeaters and related equipment would not be included, or at least
11 not nearly at the level of today.

12 **Q. PLEASE ELABORATE.**

13 A. AT&T’s forward-looking cost methodology includes modeling significantly more
14 fiber in its network than what is actually present. For example, certain UNE loop
15 cost studies are based on the forward-looking assumption that loops that exceed a
16 certain length would hypothetically be provisioned with more fiber than copper cable.
17 The result of this modeling is that the cost study includes extensive placement of
18 fiber plant well beyond what exists in the current loop network. This is appropriate
19 in a long run incremental cost study because, as I mentioned above, it assumes the
20 most efficient technology currently available that can be integrated into existing
21 network designs and reflects the planned, going-forward process. This additional
22 modeled fiber in AT&T Missouri’s network significantly reduces the need for
23 repeaters (*i.e.*, fiber cable does not need repeaters as copper cable does) to such an
24 extent that they do not merit inclusion in a long run incremental cost study.

1 **Q. YOU STATED THAT REPEATERS AND RELATED EQUIPMENT ARE**
2 **NOT INCLUDED IN COST DEVELOPMENT AS THEY ARE NOT A**
3 **FORWARD-LOOKING INPUT. IF GLOBAL CROSSING WERE TO**
4 **CONTEND OTHERWISE, WHAT TYPE OF INPUT TO A FORWARD-**
5 **LOOKING COST STUDY MIGHT GLOBAL CROSSING SUGGEST**
6 **INCLUDES A REPEATER OR REPEATER RELATED EQUIPMENT?**

7 A. Global Crossing might suggest that repeaters and related equipment are reflected as
8 an input to capital investments, because repeaters and related equipment are indeed
9 considered capital investments. A capital investment study, at a summary level,
10 contains the material investment cost, the associated installation cost of that
11 investment, and the annual costs (*e.g.*, cost of money, depreciation, taxes, operating
12 expenses) of that investment. But since AT&T Missouri's forward-looking cost
13 methodology excludes repeaters, there is no tangible material investment cost on
14 which to calculate the other costs identified above.

15 There are also non-capital inputs in long run incremental cost studies, including
16 operating expenses and "exempt" materials. However, even if repeaters were
17 considered forward looking, these non-capital inputs still would not contain
18 undisclosed repeater equipment.

19 **Q. WHY ARE REPEATERS NOT FOUND IN OPERATING EXPENSES?**

20 A. Operating expense factors are used in AT&T Missouri's long run incremental studies
21 to capture the annual costs caused by plant investment. Operating expense factors
22 represent the materials and labor expenses for a given plant account and tend to
23 fluctuate in proportion to fixed investment. A primary operating expense factor is
24 maintenance expense, which represents the regular maintenance and repair of an
25 investment. Customer initiated expenses are removed prior to factor calculation.

1 These factors are developed from and sourced to audited financial reports. This,
2 along with the fact the repeaters and related equipment are capitalized, not expensed,
3 eliminates the possibility of double recovery through operating expense factors.

4 **Q. WHY ARE REPEATERS AND RELATED EQUIPMENT NOT FOUND IN**
5 **“EXEMPT MATERIALS?”**

6 A. Exempt materials are incidental supplies that are of so little value that it is impractical
7 to track them individually. Examples include nuts, bolts, connectors, and other
8 miscellaneous small items. As repeaters and related equipment are of a measurably
9 greater value, they do not fit into this category.

10 **Q. HAVE OTHER STATE COMMISSIONS ADDRESSED THE QUESTION**
11 **PRESENTED HERE?**

12 A. Yes, and they have resolved the question in favor of the position AT&T Missouri
13 advocates here. Indiana Cause No. 42857, Illinois Docket No. 05-0442, and Kansas
14 Docket No. 10-SWBT-419-ARB are a few state dockets in which the state
15 commissions made findings rejecting suggestions of double recovery of RNM costs.

16 **Q. PLEASE PROVIDE MORE INFORMATION ON THESE STATE**
17 **COMMISSION DECISIONS.**

18 A. The Indiana Utility Regulatory Commission (“IURC”) found the following:

19 In its proposed language, SBC lists three specific RNMs for which it believes
20 it should be able to recover its costs: "(i) adding an equipment case, (ii)
21 adding a doubler or repeater including associated line card(s), and (iii)
22 installing a repeater shelf, and any other necessary work and parts associated
23 with a repeater shelf, to the extent such equipment is not present on the loop
24 or transport facility when ordered."⁴
25

⁴ *In the Matter of the Indiana Utility Regulatory Commission's Investigation of Issues Related to the Implementation of the Federal Communications Commission's Triennial Review Remand Order and Remaining Portions of the Triennial Review Order.* Cause No. 42857. January 11, 2006, Final Order, at 85.

1 The Commission must resolve two issues: first, are the three specific services
2 in Section 8.1.6 of the Agreement being recovered through SBC Indiana's
3 current recurring or nonrecurring charges; and second, if the charges are not
4 being recovered, what are the appropriate rates? We find that SBC Indiana,
5 through the testimony of Mr. Barch, has provided sufficient evidence that the
6 three specific routine network modifications listed in Section 8.1.6 of the
7 Agreement are not already included in its UNE rates.⁵
8

9 The "three specific services" referenced by the IURC are the same three RNMs
10 AT&T Missouri for which is seeking cost recovery in this docket.

11 Similarly, the Illinois Commerce Commission ("ICC") agreed that cost recovery is
12 appropriate for RNMs of the sort that are enumerated in the language AT&T
13 Missouri is proposing here:

14 CLECs argue that costs for routine network maintenance are included in
15 TELRIC rates, either through direct network investment or through the ACFs
16 [Annual Cost Factors] applied to this investment. SBC contends that charges
17 for repeater equipment are specifically not included in the capital costs for
18 TELRIC loops as they are not consistent with forward looking network
19 design. SBC also explains at some length how EF&I [Engineering,
20 Furnishing and Installation] factors are developed, and shows that these
21 factors do not include repeater costs. SBC further argues that although costs
22 associated with some RNMs may be included in ACFs, costs for the specific
23 modifications at issue here are not included. SBC says these costs are not
24 expensed and therefore not included in ACF's.
25

26 CLEC witness Starkey identified account 6543 as being where the RNM
27 expenses at issue are recorded and subsequently included in ACFs. Mr.
28 Starkey correctly described how costs from account 6534 flow in to the
29 TELRIC cost for the loop via the ACF. Mr. Starkey then concludes that
30 double counting of these RNM costs is therefore occurring. His position, as
31 plausible as it appears, is entirely contingent upon the assumption that the
32 specific RNM costs at issue are included in account 6534 (or a similar
33 expense account). SBC witness Barch states these costs simply are not
34 recorded in account 6534 or any other expense account that would flow into
35 an ACF; rather, they are recorded as capital costs. The record is devoid of
36 specific evidence contradicting Barch. For this reason, the Commission is
37 compelled to agree that SBC may charge for these specific RNMs as the need
38 arises.
39

40 In regard to future as yet unidentified RNM expenses, we find that subject to
41 a true up, agreement by the parties or a further directive from the ICC, SBC
42 should be allowed to recover additional expenses associated with the specific

⁵ *Id.*, at 88 (emphasis added).

1 routine network modification at issue, if it first certifies that these costs are
2 not recovered elsewhere.⁶

3
4 The ICC thus recognized that repeaters were appropriately treated as capital and not
5 included in annual cost factors.

6 In addition, the Kansas Corporation Commission (“KCC”), in a recent Global
7 Crossing/AT&T Kansas arbitration in which the KCC was presented with exactly the
8 same issue presented here, found as follows, concerning the same three RNM
9 categories of activities which are at issue here:

10 Global Crossing agreed that AT&T should recover the cost of providing
11 RNM service and/or equipment when requested by Global Crossing. The
12 Arbitrator determined that these charges are not recovered elsewhere by
13 AT&T because RNM charges are not contained in the long-run incremental
14 cost study for AT&T's network. The Commission adopts the determination by
15 the Arbitrator of Issue 6.⁷

16
17 In sum, these state commissions have determined – with respect to the same activities
18 at issue here and for the same reasons as advanced here – that AT&T is not already
19 recovering their associated costs elsewhere. Moreover, in Missouri, as elsewhere,
20 these costs cannot be quantified on a “one size fits all” basis; rather, the costs will
21 necessarily vary from one UNE order to another.

22 **Q. DID THE SUBJECT OF COST RECOVERY FOR RNMS ARISE IN THE 2005**
23 **POST-M2A ARBITRATION?**

24 A. Yes. The *Final Arbitrator’s Report* in Case No. TO-2005-0336 acknowledged that
25 “[t]he FCC makes clear that ILECs may recover the cost of network modifications

⁶ *Access One, Inc., et al., Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 with Illinois Bell Telephone Company d/b/a SBC Illinois to Amend Existing Interconnection Agreements to Incorporate The Triennial Review Order And the Triennial Review Remand Order.* Docket No. 05-0442. November 2, 2005, Final Order, at 160.

⁷ *In the Matter of the Petition of Southwestern Bell Telephone Company d/b/a AT&T Kansas for Compulsory Arbitration of Unresolved Issues with Global Crossing Local Services, Inc. for an Interconnection Agreement Pursuant to Sections 251 and 252 of the Federal Telecommunications Act of 1996*, Docket No. 10-SWBT-419-ARB, Order Adopting Arbitrator’s Determination of Unresolved Interconnection Agreement Issues, August 13, 2010, at 17. (emphasis added).

1 either through recurring or non-recurring rates, as long as it does not double-recover
2 by doing both.”⁸ Further, the Report specifically acknowledged FCC Rule
3 51.319(a)(8), which states that RNMs include, but are not limited to, the same
4 activities referenced in the language which AT&T Missouri advances here.⁹
5 However, the Report does not specifically address any claims of potential double
6 recovery.

7 **Q. AT&T’S MISSOURI’S LANGUAGE STATES THAT THE RNMS FOR**
8 **WHICH AT&T MISSOURI DOES NOT RECOVER ELSEWHERE**
9 **“INCLUDE, BUT ARE NOT LIMITED TO” THE THREE ITEMS YOU**
10 **HAVE DISCUSSED. WHAT IS THE JUSTIFICATION FOR THE “NOT**
11 **LIMITED TO” LANGUAGE?**

12 A. While AT&T Missouri is not aware of any other RNMs for which it is not recovering
13 its costs, it is difficult to envision all potential instances that would require RNMs.
14 AT&T Missouri’s proposed “not limited to” language is intended to allow AT&T
15 Missouri to identify such instances if they arise. If that should occur, Global
16 Crossing would of course be entitled to demand the same sort of showing that AT&T
17 Missouri has made here.

18 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

19 A. AT&T Missouri and Global Crossing have agreed that AT&T Missouri is entitled to
20 charge Global Crossing for routine network modifications whose costs AT&T
21 Missouri is not already recovering through its existing recurring and non-recurring
22 charges. AT&T Missouri has proposed contract language that identifies three such

⁸ *Southwestern Bell Telephone, L.P., d/b/a SBC Missouri’s Petition for Compulsory Arbitration of Unresolved Issues for a Successor Interconnection Agreement to Missouri 271 Agreement (“M2A”).* Case No. TO-2005-0336. June 21, 2005, Final Arbitrator’s Report, § III Unbundled Network Elements at 57, *aff’d in pertinent part*, Arbitration Order, July 11, 2005.

⁹ *Id.*, at 58.

1 RNMs, and Global Crossing opposes that contract language on the ground that it does
2 not know whether AT&T Missouri in fact is not recovering the cost of those RNMs
3 through existing recurring and non-recurring charges. Global Crossing does not
4 question whether the three RNMs enumerated in AT&T Missouri's language are
5 RNMS, or whether their costs *should be* recovered elsewhere – the only question is
6 whether they are recovered elsewhere. I have testified that in fact the costs of the
7 enumerated RNMs are not recovered elsewhere, and I have provided (even though it
8 is perhaps unnecessary) an explanation of why they are not recovered elsewhere.
9 Unless Global Crossing can demonstrate that my testimony is untrue, which it cannot,
10 AT&T Missouri's proposed language should be included in the parties' Missouri
11 ICA, just as it will be included in their ICA in Kansas, where the parties arbitrated the
12 same issue.

13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 **A.** Yes.