

**Missouri Case TO-2001-438**  
**SWBT's Reply to Joint Sponsors' Comments on Revised Cost Studies**

**Attachment 1NP**

<b>Issue #</b>	<b>Issue</b>	<b>Commission Ruling</b>	<b>Joint Sponsors' Comments</b>	<b>SWBT's REPLY</b>
<b><i>Policy Issues</i></b>				
<b><i>Labor Rate Issues</i></b>				
36.	What labor rates should be adopted for use in this case?	The Commission will address the specific questions raised regarding SWBT's labor rates in subsequent issues. It will not attempt to establish specific labor rates but will instead require SWBT to redevelop and resubmit its labor rates incorporating the revisions ordered by the Commission in its ruling on subsequent issues 37-44.	SWBT failed to compute Support Assets factors correctly (see below) and did not comply entirely with some exclusion requirements. Labor rates have been revised by the Joint Sponsors to comply with all elements and included in the Joint Sponsors' rates. Supporting work papers were submitted to Staff for review.	SWBT's revised labor rates, with the corrections noted under Issues 41 and 42 below, comply with the requirements of the Missouri Public Service Commission's (PSC's) August 6 <u>Report and Order</u> ("Order"). The specific issues raised by the Joint Sponsors, such as the computation of Support Asset Factors and various exclusions are addressed below.
41.	Should SWBT's labor rates include amounts for consultant fees?	SWBT has not presented sufficient evidence to justify incorporating the cost of hiring consultants into its labor rates. Furthermore, the Joint Sponsors' concern that including the cost of hiring consultants in labor rates could result in double counting of those costs is well founded, as SWBT has failed to demonstrate that the cost of hiring consultants is not also a component in SWBT's maintenance, support asset, or common cost factors. The Commission finds that SWBT must not include the cost of hiring consultants in its labor rates.	SWBT failed to eliminate all identifiable consultant fees which overstated SWBT's labor rates. Work papers provided to Staff identify SWBT errors. The Joint Sponsor's included the restated labors in the revised rates.	SWBT's revised labor rates, which it submitted on September 20, 2002, excluded amounts for consultant fees in compliance with the PSC's <u>Order</u> . Further review, however, showed that one revised labor rate (MO42xx) still contained consultant fees. SWBT will correct this error and will incorporate the revision into the final rates.

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42.	Should SWBT include annualized costs of contracts with Bell Communications Research and/or other vendors in the development of labor rates and then also base the labor rate development on less than a full-year's worth of productive hours?	SWBT has not presented sufficient evidence to justify incorporating the cost of contracts with Bell Communications Research and other vendors into its labor rates. Furthermore, the Joint Sponsors' concern that including the cost of contracts with Bell Communications Research and other vendors in labor rates could result in double counting of those costs is well founded, as SWBT has failed to demonstrate that such costs are not also a component in SWBT's maintenance, support asset, or common cost factors. The Commission finds that SWBT must not include the cost of contracts with Bell Communications Research and other vendors in its labor rates.	SWBT failed to eliminate all identifiable purchases from Bellcore, which overstated labor rates. The Joint Sponsors' identified and corrected these errors and provided work papers to Staff. The Joint Sponsor's included the restated labors in their revised rates	SWBT's revised labor rates, which it submitted on September 20, 2002, excluded amounts associated with Bellcore in compliance with the <u>PSC's Order</u> . Further review, however, showed that a few revised labor rates (CA09xx, MO15xx, MO43xx, TX31xx, TX43xx) still contained Bellcore fees. SWBT will correct this error and will incorporate the revisions into the final rates.

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43.	Should any changes in Support Asset factors be incorporated into the development of loaded labor rates?	The Joint Sponsors presented evidence that SWBT made input errors in calculating the Support Asset factor incorporated in loaded labor rates. The Commission finds that SWBT must make the correction to its Support Asset factor.	SWBT incorrectly applied decision regarding support asset factors resulting in over-stated labor rates. SWBT changed the original Support Asset Factors to its incorrectly restated Support Asset Factors. Joint Sponsors' used the correct Support Asset Factors in the restated rates. See, Issue 49	The Joint Sponsors' position is incorrect. As explained in more detail under Issue 49, SWBT appropriately revised its Support Asset Factors to reflect the Missouri PSC ordered cost of capital. These revised factors were then used to develop revised labor rates.

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44.	Has SWBT used the correct Support Assets factors in operator services labor rate development?	<p>The Joint Sponsors' expert witness, Daniel P. Rhinehart, testified that SWBT used incorrect support assets factors for operator services personnel. Rhinehart testified that based on his prior experience with SWBT's labor rate development, he believed that wages reported as operator wages in the development of support asset factors include the wages of not only operators but also their supervisors and support clerical personnel. Therefore, the operator services support assets factor should be applied to all wage titles in the operator services organization. SWBT's failure to do so will result in excessive non-operator labor rates and cost recovery for SWBT wherever operator services organization personnel are used in the delivery of service to CLECs.</p> <p>SWBT denied Rhinehart's allegation and claimed that operator service labor rates are not at issue in this proceeding.<sup>1[18]</sup> But the Joint Sponsors point out that related - non-operator - operator services personnel costs are at issue in this case as part of the development of certain recurring and non-recurring costs. As these labor costs are dependent upon the operator service support asset factor, that support asset factor is at issue. In their reply brief, the Joint Sponsors specifically indicate that failure to properly apply the operator services support assets factor will inflate the labor rates used in the calculation of NXX migration non-recurring charges.</p>	<p>SWBT incorrectly applied the decision regarding support asset factors resulting in over-stated labor rates. SWBT made a new input error when changing the original Support Asset Factors. This error was included in its restated Support Asset Factors. The Joint Sponsors' corrected SWBT new error and used the appropriate Support Asset Factors in the restated rates. <u>See</u>, Issue 49</p>	<p>The Joint Sponsors' position is incorrect. As explained in more detail under Issue 49, SWBT appropriately revised its Support Asset Factors to reflect the Missouri PSC ordered cost of capital. These revised factors were then used to develop revised labor rates.</p> <p>SWBT also disagrees with the Joint Sponsors' claim that SWBT made a "new input error when changing the original Support Asset Factors." SWBT has verified that the only change to its revised labor rate for operator services related to the ordered Support Asset change and no "new input errors" appear. As the Joint Sponsors have failed to identify or explain this purported "new error," the PSC should reject this claim.</p>

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<i>Capital Cost Factor Issues</i>				
<i>Support Assets Factor Issue</i>				

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49.	What Support Asset Factors should be adopted?	<p>The Commission will address the specific issues raised by the Joint Sponsors in subsequent issues. The Commission will have more difficulty in dealing with the issue raised by Staff. The Commission agrees that CLECs looking to purchase UNEs should not be required to pay for that portion of SWBT's assets that are used to support SWBT's retail services. Unfortunately, Staff does not provide any indication of how that goal can be accomplished. Therefore, the Commission is unable to order SWBT to make any particular adjustment to its costs studies in response to Staff's concern.</p>	<p>SWBT develops its Support Asset factors on a five-state basis by summing the costs of all five SWBT states' support asset costs and dividing by all wages from the five states to come up with an average support asset cost per wage dollar. Included in those costs are the capital costs (depreciation, return and tax) that are heavily influenced by the rate of return amount. The commission ordered SWBT to use a 10.32% rate of return in this case. However, SWBT only applied the 10.32% rate of return to the Missouri support asset costs but continued to use its proposed 12.19% rate of return for all other states. As Missouri assets represent only a portion of the total included in the support asset computation. Because the support asset factors, which are used in the later development of maintenance factors, labor rates and common costs, are a blend of costs from all 5 states, the effective rate of return being used by SWBT in its support asset factor development is far above the 10.32% authorized. The Joint Sponsors recomputed the support asset factors using a 10.32% rate of return for all support assets across all five states to ensure that the costs imposed on Missouri do not exceed the costs authorized by the Commission.</p>	<p>SWBT changed the cost of capital as ordered for Missouri. The ordered cost of equity, debt and capital structure was applied only to the state of Missouri to calculate SWBT's Support Asset factor. SWBT applied the 12.19 cost of capital value for the other four SWBT states because that is the value that SWBT applies or would apply in cost studies filed in those states. To change the other four SWBT states' cost of capital to reflect the level ordered in Missouri would distort the level of support asset expenses that SWBT incurs to provision services in its five-state territory.</p>

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<b><i>Maintenance Factor Issues</i></b>				
54.	What Maintenance and Other Expense Factors should be adopted?	The Joint Sponsors and Staff recommend specific modifications to the maintenance factors in subsequent issues. The Commission will address the proposed modifications in those issues.	Sec, Issues 55 to 58.	The Joint Sponsors expressed concerns under Issues 55 and 56. SWBT addresses those concerns under the respective issues below.
55.	Do SWBT's Missouri maintenance factors incorrectly include costs attributable to other SWBT states?	The Commission finds that the inputs for Missouri expenses used to determine the maintenance factor used in setting UNE rates should be modified to reflect the amount of expenses for Missouri that SWBT reports to the FCC.	SWBT provided work papers to the Joint Sponsors to identify the expenses transferred to other states, but then SWBT only removed a portion of those costs as its correction to conform with the decision on this issue. Therefore, SWBT's included expenses still do not match what SWBT reports to the FCC. The Joint Sponsors corrected SWBT's "correction" and have provided explanatory work papers to Staff.	<p>Contrary to Joint Sponsors' claim, no additional adjustment should be made to the inputs for SWBT's maintenance factors. Consistent with the <u>Order</u>, SWBT modified its maintenance factor inputs to reflect the amount of expenses for Missouri that it reports to the FCC. The Joint Sponsors' claim that "SWBT's included expenses still do not match what SWBT reports to the FCC" shows its misunderstanding of what is being reported on SWBT's FCC ARMIS Report.</p> <p>SWBT's MR15 Plant Operations Expenses from its FCC ARMIS Report lists its operations expenses for its plant accounts (e.g., for the Land and Building Account 6121, the subaccounts include such operations expenses as house services salaries and wages, contract labor, supplies, electric power, fuel, water and sewage, and guard services). But recognizing that some of these plant assets benefit other state jurisdictions, the MR15 Plant Operations Expenses Report includes an intercompany investment compensation credit that subtracts expenses allocated to other jurisdictions.</p>

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55. (Cont)				<p>To comply with the PSC's Order SWBT adjusted its original study input for Plant Operations Expenses by removing all plant operations expenses that are part of the intercompany investment compensation credit that appears on its MR15 Report. However, this credit, for historical regulatory accounting purposes, also contains other expense items unrelated to the operational expenses utilized in developing the maintenance factor: it contains adjustments for taxes, depreciation, and return on investment. These expense items are not operational expenses and were appropriately not included in the adjustment SWBT made to its maintenance factor inputs. The inappropriateness of making additional adjustments for these items (as Joint Sponsors appear to suggest) can be seen from the fact that doing so would, in some cases, result in a negative expense (e.g., the Total Land and Building Account 6121 as reported on SWBT's ARMIS Report is negative (** _____ **), because of a ** _____ ** intercompany compensation credit. But only ** _____ ** pertained to operational expenses. The remainder is attributable to taxes, depreciation and return on investment. Accordingly, SWBT used only the ** _____ ** in its revised cost study to adjust its maintenance factor inputs).</p>

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55. (Cont)				In fact, Joint Sponsors' supporting materials make no corrections to SWBT's revised maintenance factor for the 6121 account as even they recognized that subtracting the full intercompany compensation credit would be inappropriate because it would drive the total maintenance expense below zero. AT&T's lack of adjustment to account 6121 confirms the appropriateness of SWBT's interpretation and application related to this Issue.
56.	Are account 6534 wages overstated in the maintenance factor computations?	The Joint Sponsors contend that SWBT improperly failed to exclude supervision costs found in account 6534, Plant Operations Administration, from its maintenance factor computations. Whether costs are overstated or understated, the error must be corrected when SWBT reruns its cost studies.	SWBT did not reduce account 6534 wages as required. Consequently, SWBT has now included these Plant Operations Administration Expenses in both its calculation of maintenance factors and its calculation of the shared and common cost factor (see related Issue 76, where SWBT has included these specific expenses, plus additional inappropriate expenses, in its common cost factor calculation). AT&T has referred Commission Staff to Excel work book MO 2000 Mtce Expense Factor with TO-2001-438_Compliance_09-20-02.xls, sheet: Support Assets, Cell: D51 where the correct adjustment is made. The Joint Sponsor's used the restated maintenance factors in its rates.	Joint Sponsors are incorrect. SWBT complied with the PSC's <u>Order</u> by zeroing out the annual cost factors for Account 6534.2 (Plant Operations Administrative Expenses - Staff Support). This revision can be seen in the MO 2000Mtce Expense Factor with TO-2001-438 Orders_09-20-02.xls, Expense Inputs & Adjustments tab - comment in Column D Line 123 and cell E138. The Joint Sponsors' confusion on this issue may be due to their referencing the wrong worksheet. Their reference to the Support Assets worksheet has no relevance to this issue as Support Assets for Account 6534 is not identified anywhere in the Shared & Common study.

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<b><i>Transitional Benefit Obligation Issues</i></b>				
61.	Should TBO expenses be removed from SWBT's TELRIC studies?	Having found in issue 60 that TBO expenses are not a forward-looking cost for purposes of TELRIC, the Commission concludes that those expenses must be removed from SWBT's TELRIC studies.	SWBT erroneously includes some capitalized TBO as an expense in the development of its Common Cost Factor. Other TBO expense was removed. All TBO "expense" should be removed.	The Joint Sponsors are incorrect. The PSC's <u>Order</u> at p. 48, states, "SWBT will not be required to remove capitalized TBO expenses from its TELRIC studies." SWBT's S&C study includes only the capitalized portion of TBO as a common cost and therefore complies with the PSC's <u>Order</u> .
62.	Should capitalized TBO amounts be removed from SWBT's TELRIC studies?	SWBT will not be required to remove capitalized TBO expenses from its TELRIC studies.	The decision did not require SWBT to remove capitalized TBO from its studies. However, SWBT's treatment of capitalized TBO as an expense item in its Common Cost computation is incorrect. Capitalized TBO, if inclusion by SWBT is elected, should be recovered, by definition, through the application of depreciation, return, and tax factors. SWBT's mistreatment of capitalized TBO overstated its common costs. The Joint Sponsors corrected this error. Explanatory work papers have been supplied to Staff and the Joint Sponsors have used the revised common cost in the rates.	Consistent with the PSC's <u>Order</u> , SWBT included only the capitalized portion of TBO in its studies. But now Joint Sponsors are improperly attempting to introduce a new issue not addressed by the Order. At no time did Joint Sponsors claim or present evidence that capitalized TBO should be recovered through the depreciation, return or tax factors. Accordingly, no further adjustments are appropriate. <u>See</u> , Ex. 28, Rhinehart Rebuttal, p. 19; <u>see also</u> , PSC's <u>Order</u> , p. 48.

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<i>Shared and Common Cost Issues</i>				
66.	What Common Cost factor should be adopted in this case?	The final factor that the Commission will direct SWBT to use when it reruns its cost studies will be determined based on the decisions reached regarding subsequent issues.	SWBT's restatement does not conform to the Commission decision in numerous ways. Joint Sponsors indicate a number of required corrections to SWBT's computations as stated in Issues 66- 81. Depending on the Commission's determination with respect to the specific issues identified below, the Joint Sponsors recommend a Shared and Common Cost factor specific to Missouri in a range of 10.36% to 11.32%. Joint Sponsors restated rates incorporate a Shared and Common Cost Factor of 10.82%. The Common Cost Factor is supported by workpapers provided to Staff.	SWBT's revised S&C study, with the changes noted under Issues 75 and 76 below, complies with the requirements of the PSC's <u>Order</u> . The specific claims being made by the Joint Sponsors are addressed in the sections below under which the claims were made. With the corrections SWBT has made on Issues 75 and 76, the revised S&C factor decreased from ** _____ ** to ** _____ **.

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67.	Should the Common Cost factor computation be determined using revenues in the development of the denominator?	SWBT will not be required to use revenues in the development of the denominator for the common cost factor calculation.	While, SWBT does not use revenues in the denominator of its computation, SWBT does not correctly compute the denominator. SWBT properly calculated its wholesale marketing expense but SWBT has incorrectly allocated that expense. SWBT was required to allocate its wholesale marketing expense across all direct expenses. However, SWBT only allocated its wholesale marketing expense across a portion of its expenses. This has understated the denominator, causing an overstatement of the Shared and Common Cost Factor. The Joint Sponsors have corrected this error. Work papers supplied to Staff demonstrate the Joint Sponsors' concerns.	Contrary to the Joint Sponsors' claim, SWBT's revised S&C study correctly calculates the denominators and properly allocates wholesale marketing expenses. Joint Sponsors are improperly attempting to introduce a new issue not addressed by the Order. SWBT would note that its revised S&C study does not change the "allocation" of shared costs from its original S&C study. While the Joint Sponsors raised several claims concerning SWBT's S&C study, <u>see</u> , Ex. 28, Rhinehart Rebuttal, pp. 25-30, they neither made a claim nor presented evidence that SWBT's S&C factor was overstated because of any misallocation of wholesale marketing costs. The Order does not require any change to SWBT's assignment of wholesale marketing costs. Therefore, SWBT appropriately made no change for this item in its revised S&C study.
68.	Should TBO be excluded from Common costs?	The Commission previously addressed this issue in issues 60-62. The Commission concluded that TBOs should be excluded from common costs. There is no need to further discuss this issue.	<u>See</u> , Issue 62 above. The decision did not require SWBT to remove capitalized TBO from its studies. However, SWBT's treatment of capitalized TBO as an expense item in its Common Cost computation is incorrect. Capitalized TBO, if inclusion by SWBT is elected, should be recovered, by definition, through the application of depreciation, return, and tax factors. Explanatory work papers have been supplied to Staff.	Consistent with the PSC's <u>Order</u> , SWBT included only the capitalized portion of TBO in its studies. But now Joint Sponsors are improperly attempting to introduce a new issue not addressed by the Order. At no time did Joint Sponsors claim or present evidence that capitalized TBO should be recovered through the depreciation, return or tax factors. Accordingly, no further adjustments are appropriate. <u>See</u> , Ex. 28, Rhinehart Rebuttal, p. 19; <u>see also</u> , PSC's <u>Order</u> , p. 48.

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69.	Has SWBT correctly used support Asset factors in its Common Cost Factor development?	SWBT will not be permitted to apply wage-based support asset factors to assets to identify supposed support asset costs.	SWBT did eliminate some but not all of its Support Assets computed costs as SWBT did not demonstrate that the portion it retained was based on an application of the correct support assets factor to wages and salary dollars only, as required by the Order. SWBT incorrectly applies disaggregated Support Asset Factors to the <u>total expenses</u> of certain accounts. The Joint Sponsors' proposed rates reflect the proper application of the correct support assets factor only to wages and salary dollars in compliance with the Commission's decision on this issue. The Joint Sponsors have developed work papers showing corrections to SWBT's errors and have provided them to Staff.	SWBT complied fully with the PSC's <u>Order</u> by removing all wage-based support assets costs from its investment accounts (see, SC2001MO with TO-2001-438_Compliance_09-0-02.xls, calc Tab 7-Support Assets, Col. n, lines 15-25). For the first time, Joint Sponsors now claim that SWBT incorrectly applied "disaggregated Support Asset Factors." Joint Sponsors had neither previously raised this claim nor presented any evidence challenging the appropriateness of this aspect of SWBT's methodology. As SWBT has complied with the PSC's directive, no further adjustments are appropriate and the PSC should reject the attempt to interject new issues.

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71.	Has SWBT correctly applied the Commission Assessment factor in its Common Cost development?	The Commission has no evidence before it but has only SWBT's assertion that it is using the correct assessment factor, and the Joint Sponsors' intimations that perhaps SWBT is in error. The Commission makes no finding about the appropriateness of the assessment factor used by SWBT but directs SWBT to demonstrate in its compliance filing that it has used the correct Commission Assessment factor.	<p>In its compliance studies, SWBT identified a Commission Assessment factor based on revenues. However, through SWBT's computations of summary Annual Cost Factors (ACFs), SWBT converts the revenue-based factor to an investment-based one. In making this calculation, SWBT made a computational error, which increased Commission Assessment factor by a factor of 10 as input into the Common Cost Study. The result was an overstatement of Common Costs.</p> <p>The Joint Sponsors corrected SWBT's computational error and included the results in their rates.</p>	<p>Contrary to the Joint Sponsors' claims, SWBT has used the correct Commission Assessment factor and appropriately applied it. In its Surrebuttal testimony, SWBT corrected the Commission Assessment factor from its original filing. SWBT's originally submitted factor - (** _____ **) was inadvertently based on figures from the Kansas F435 report. The corrected factor (** _____ **) that was applied in SWBT's TELRIC and S&amp;C studies is based on the appropriate Missouri values. <u>See</u>, Ex. 17, Ries Surrebuttal, p. 48.</p> <p>SWBT's formula appropriately applies the Commission Assessment factor. SWBT also notes that the formula used for this revised study is the same as the one used in the studies SWBT previously filed in this proceeding. At no time did the Joint Sponsors raise issues with this calculation or present evidence that it caused any overstatement of common costs. The only change, as noted above, was to replace the Kansas dollars with those of Missouri. No further changes are appropriate.</p>

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75.	What amount of Executive and Planning and General and Administrative costs should be considered avoided in determining the Common Cost Factor?	The Joint Sponsors would exclude 15.67 percent of those costs, with certain exceptions, using the Indirect Factor established by the Commission in TO-97-40. ...the Commission finds that the position espoused by the Joint Sponsors is most reasonable in that it is based on the findings previously made by this Commission in TO-97-40 and the expert opinion of the Joint Sponsors' witness.	SWBT was required to eliminate 15.67% of the amounts from accounts 6711-6712 and 6721-6728. Although the Order refers to "Executive and Planning and General and Administrative costs," that is just a general description of the types of accounts for which retail-attributable costs should be removed. A reference to the rebuttal testimony of Joint Sponsor witness Dan Rhinehart (Ex. 28, pgs. 29 – 30, Schedule DPR-7) and of Staff Witness Dr. Ben Johnson (Ex. 25, corrected HC Schedule 4, Recommended Common Cost Factor Spreadsheet) makes clear that both the Joint Sponsors and Staff were concerned with removing retail costs from the general category of "General and Administrative" accounts, and not just accounts specifically named "general and administrative," i.e., account 6728. In addition, the Commission's rationale for removing a percentage of retail costs from General and Administrative accounts is applicable to ALL such accounts. However, SWBT only reduced accounts 6711, 6712, and 6728. The result was an overstatement of costs. The Joint Sponsors have correct this error in calculating their rates.	Upon further review, SWBT concurs that the 15.67% adjustment should be applied to the 6711-6717 and 6721-6722 accounts. SWBT will revise its study and this adjustment will be reflected in the final rates.

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76.	What amount of Network Operations – General Supervision costs should be considered avoided in determining the Common Cost Factor?	<p>[SWBT's] omission of the costs results in a slight understatement of SWBT's costs. The Joint Sponsors argue that, nevertheless, the proper adjustment should be made, including an avoided cost adjustment of 15.67 percent, the Indirect Factor it proposed in issue 75.</p> <p>The Commission agrees with the Joint Sponsors. SWBT will be required to correct what its witness acknowledged to be an error.</p>	<p>This issue addresses the same issue as Issue 75, but with respect to different expenses. The Commission ruled that the same 15.67% reduction to these expenses should be taken. The Order does explicitly authorize SWBT to add these costs into its Common Cost factor Calculation. The Joint Sponsors do not oppose inclusion of the omitted costs as long as only those costs that were inappropriately omitted are added back in to the calculation. SWBT has now included additional inappropriate costs and then applied the 15.97% reduction.</p> <p>The Order contemplates SWBT including only certain Network Operations – General Supervision costs as part of the Shared and Common Cost factor. Although the Order references the entire account 6534, SWBT originally only excluded costs from a single sub-account of 6534, which is sub-account 6534.2. This is reflected in the testimony at hearing of SWBT witness Ries (Tr., Pages 444 – 445, Lines 20-25, 1-15; cited to in the Order). Despite Mr. Ries' admission at hearing that it was only the sub-account costs that had been omitted, SWBT incorrectly included the costs of the entire 6534 account -- ("Plant operations administrative expense, 47 C.F.R. §32.6534), in its common cost calculation, which is about 10 times the amount for the supervision portion that</p>	<p>After further review, SWBT concurs that only annual expenses for the subaccount (Account 6534.2) should be applied to the S&amp;C factor. SWBT will revise its study and this adjustment will be reflected in the final rates.</p>

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77.	What amount of uncollectibles expense should be considered avoided in determining the Common Cost Factor?	Faced with this complete lack of evidence the Commission has no choice but to make no finding on this issue. This will have the effect of leaving this aspect of SWBT's cost study unchanged	SWBT did not use 1999 data for uncollectable expense. The Joint Sponsor's were unable to correct this error so the resulting shared and common factor is overstated.	SWBT correctly applied the PSC's directive on this issue to leave this aspect of the study "unchanged." See, PSC Order, p. 60. Accordingly, SWBT made no changes to its study for this issue.

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78.	What amount of Marketing costs should be considered avoided in determining the Common Cost Factor?	90 percent of marketing costs are to be considered avoided.	SWBT was required to include only its wholesale marketing expense in a factor applied to all direct expenses. Total wholesale marketing expense is calculate by removing its retail marketing expense from total marketing expenses. SWBT properly removed retail expense from total expenses to calculated total wholesale marketing expenses. However, SWBT removed its retail marketing costs from a portion of its total expenses. This has understated the denominator, causing an overstatement of the Shared and Common Cost Factor. The Joint Sponsors have corrected this error. Work papers supplied to Staff demonstrate the Joint Sponsors' concerns.	SWBT has complied with the PSC's <u>Order</u> by removing 90% of its marketing costs pursuant to the PSC's directive that they are considered to be avoided.  Contrary to the Joint Sponsors' claim, SWBT's revised S&C study correctly calculates the denominator and properly allocates wholesale marketing expenses. Joint Sponsors are improperly attempting to raise a new claim not previously determined by the Commission. SWBT would note that its revised S&C study does not change the "allocation" of shared costs from its original S&C study. While the Joint Sponsors raised several claims concerning SWBT's S&C study, <u>see</u> , Ex. 28, Rhinehart Rebuttal, pp. 25-30, they neither made a claim nor presented evidence that SWBT's S&C factor was overstated because of any misallocation of wholesale marketing costs. Moreover, the Order requires no change to SWBT's assignment of wholesale marketing costs. Therefore, SWBT appropriately made no change for this item in its revised S&C study.

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104	Cost Factors	Cost factors are specifically addressed under issues 45-85 and need not be addressed again.	As explained in the Joint Sponsors' comments on Issues 45-85, SWBT's related cost factors were not consistent with the Commission's decision. As explained IN THE Joint Sponsor's comments on Issues 45-85, the Joint Sponsors have revised the Cost Factors to be consistent with the Commission's decision, as applicable. The Joint Sponsor's revised cost factors were included in the Joint Sponsor's rates.	SWBT's revised cost factors, with the corrections noted in this matrix, fully comply with the PSC's Order. As explained under the specific cost factor sections above, no further adjustments to SWBT's revised cost factors are appropriate. (This response also applies to Issues 114, 141, 161, 182, 191, 193, 235, 242, 260, 264, 272, 279 and 291.
<b><i>UNE Dark Fiber Cross-Connect to Collocation Cage Non-Recurring (TELRIC) Cost Study, 2001-2003, June 2001</i></b>				
107	Fiber optic Cross-connect installation time	The Commission concludes that SWBT's time estimates are somewhat inflated but not to the extent asserted by the Joint Sponsors' witness. The Commission will reduce the time for installing fiber optic jumpers to match the time allotted for installing a 2-wire copper cross-connect. SWBT's cost studies shall assume an average installation time of five minutes for running fiber optic cross-connects.	SWBT has only revised the Central Office Force installation time and not the Installation & Maintenance installation time. The cross-connect times should be the same for these cross-connects regardless of the work groups involved. Also, in accordance with the Commission ruling on issue 126, the disconnect times have been reduced by the Joint Sponsors to match the connect times. SWBT's cost study was revised accordingly and the rate restated.	Upon further review, SWBT concurs that both the Central Office Force and Installation and Maintenance installation times should be adjusted.  SWBT, however, disagrees that any adjustments should be made for the disconnection times for dark fiber cross-connects. Joint Sponsors are improperly attempting to raise a new issue not previously raised before the Commission. In their comments, Joint Sponsors inappropriately attempt to extend the PSC's ruling on Issue 126 to Dark Fiber. As is clear from the record, Joint Sponsors took no issue with disconnect times for Dark Fiber cross-connects. Their claim that the connect and disconnect time should match was only raised and supported in testimony with respect to UNE loops (Issue 126) and Unbundled

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				Dedicated Transport Entrance Facilities (Issue 203). <u>See</u> , Ex. 27, Turner Rebuttal, p. 55. Joint Sponsors made no claim or presented any evidence that the connect and disconnect times for Dark Fiber cross-connects should be the same. No further changes are appropriate.
110	Labor Rates	Labor rates are addressed at issues 36-44 and need not be addressed again.	As explained on Issues 37 – 44, SWBT's compliance labor rates were not consistent with the Commission's decision. The Joint Sponsors have revised those rates to be consistent with the Commission's decision and the revised labor rates were entered into the Joint Sponsors' cost studies to produce the revised costs on the rate sheet.  Revised costs on the rate sheet.	SWBT's revised labor rates, with the corrections noted under Issues 41 and 42, comply with the PSC's <u>Order</u> . As explained under the specific labor rate sections above, no further adjustments to SWBT's revised labor rates are appropriate. (This response also applies to issues 139, 153, 181, 189, 209, 219, 229, 262, 266, 302, 308, 313, 316, 322, 327, 331, 334, 338, 343, 348 and 351.)
<b><i>UNE Loop Cross-Connects Non-Recurring (TELRIC) Cost Study, 2001 - 2003, June 2001</i></b>				
120	Establish Circuit Cross-Connect times	The Commission finds that the Joint Sponsors' position is more reasonable. SWBT's cost study shall assume that an initial 2-wire cross-connect will take three minutes to complete and that additional 2-wire cross-connects also will be completed in three minutes.  The Commission finds that SWBT's cost study shall assume that the time required to install a digital cross-connect is the same as the time utilized in the study for the installation of an	Digital Loop to DCS 4W and Digital Loop to Switch Port installation times were still **__** minutes first and additional in the SWBT compliance filing. These times should match the times for analog 4W times. Therefore, these times have been changed to **__** minutes first and additional and incorporated into the restated rates.	The Joint Sponsors are incorrect in their claim that the installation time for the Digital Loop to Switch Port 4W and Digital Loop to DCS 4W should be the same as that for the Analog 4-wire element. The rate elements at issue here are all DS1 rate elements. The order specifically indicates that "SWBT will not be required to modify the installation times it assumes for DS1 and DS3 connections." PSC <u>Order</u> , p. 87. Therefore, no adjustment is required to the "Digital Loop to Switch Port 4W" and "Digital Loop to DCS 4W" rate elements.

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		<p>analog cross-connect.</p> <p>SWBT will not be required to modify the installation times it assumes for DS1 and DS3 connections.</p>		
124	Circuit Order and Administration time for disconnect additional time	<p>SWBT acknowledged the error and corrected it in its surrebuttal testimony.</p> <p>There is no remaining dispute</p>	<p>This activity time was supposed to be corrected to link back to the time for a 2-wire digital DS0 cross connect. However, several cross-connects elements still had the incorrect ** ____** minute times for the "additional" time in the SWBT compliance filing. These times were reduced to 0.5 minutes.</p>	<p>Upon further review, SWBT has found that it made a typographical error in entering ** ____** minutes for the Circuit Order and Administration additional disconnect time on the Digital Loop to DCS 2W rate elements. SWBT concurs that the value should have been entered as ** ____** minutes. SWBT will correct its study and reflect this correction in the final rates.</p>
<b><i>LSP to SS7 Links Cross-Connects and Interoffice Facilities for Voice Grade DS0 and DS1 Non-Recurring (TELRIC) Cost Study, 2001 - 2003, June 2001</i></b>				
158.	Should multiplexing equipment be included in the recurring cost for the cross-connects in this study?	<p>This issue was addressed at issue 111 and need not be addressed again.</p>	<p>FX0 plug-ins still included in the SPICE runs for 2 and 4 wire cross-connects. The equipment costs for these plug-ins have been removed in the Joint Sponsors compliance study.</p>	<p>Joint Sponsors' position is incorrect. Removal of FX0 plug-in equipment costs from the 2 and 4 wire cross-connect studies would be inappropriate. The PSC did not order the removal of these costs and their inclusion in the cross-connect study does not result in double recovery.</p> <p>Under Issue 111 (which the PSC adopted for Issue 158) the PSC analyzed whether there should be a D4 bay multiplexer in both the cost study for the DS0 port on the DCS machine, and the loop to DCS cross-connect and ruled, "SWBT should be able to recover the cost of multiplexing equipment only once. The Commission finds that multiplexing equipment costs should not be included in the recurring costs for loop to DCS cross-</p>

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				connects." PSC Order, pp. 76-77. As is clear from the Order, SWBT was not ordered to remove the FXO equipment from the 2-wire and 4-wire UDT cross-connects. And as the evidence showed, the FXO equipment included in the 2-wire and 4-wire UDT cross-connects was not in the multiplexing cost study. See, Ex. 11 Cass Surrebuttal, p. 32, T. 355-361. Therefore, including the FXO costs in the UDT cross-connect cost study does not constitute a double or over recovery of costs, and SWBT will not recover its full TELRIC costs if the investment of the FXO card is eliminated from the cross-connect cost study.
<b><i>Unbundled Dedicated Transport Cross-Connects, Digital Cross-Connect, System (DCS), and Multiplexing Non-Recurring (TELRIC) Cost Study, 2001 - 2003, June 2001</i></b>				
176.	Establish Circuit Cross-Connect times	This issue was addressed at issue 120 and need not be addressed again.	In accordance with the Commission's ruling on Issue 126, the disconnect times have been reduced to match the connect times for Voice Grade 2W and 4W cross-connects.	SWBT disagrees that any adjustments should be made for the disconnection times for UDT Cross-Connect, DCS and Mux. Joint Sponsors inappropriately attempt to extend the PSC's ruling on Issue 126 to these elements. As is clear from the record, Joint Sponsors took no issue with disconnect times for UDT Cross-Connect, DCS and Mux cross-connects. Their claim that the connect and disconnect time should match was only raised and supported in testimony with respect to UNE loops (Issue 126) and unbundled Dedicated Transport Entrance Facilities (Issue 203). See, Ex. 27, Turner Rebuttal, p. 55. Joint Sponsors made no claim or presented any evidence that the connect and disconnect

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				times for UDT Cross-Connect, DCS and Mux cross-connects should be the same. Therefore, no changes are appropriate.
<b><i>Unbundled Dedicated Transport Entrance Facilities DS1, DS3, OC3, and OC12 Non-Recurring (TELRIC) Cost Study 2001 - 2003, June, 2001</i></b>				
198.	Dispatch time to Unmanned Central Offices, and Order completion	The Commission finds in favor of the Joint Sponsors. The time that SWBT allots in this cost study for dispatching a technician to a customer's premises to provision an entrance facility, is reduced to match the time allotted for the same task in SWBT's sub-loop cross-connect nonrecurring cost study.	SWBT's sub-loop cross-connect cost study uses a time of **__** minutes for dispatch. The SWBT compliance cost study was revised to use this time instead of the **__** minutes SWBT used.	The Joint Sponsors' claim that this dispatch time should be reduced to **__** minutes is incorrect and reflects their misunderstanding of the study. Consistent with the requirements of the PSC's <u>Order</u> , the **__** minute dispatch time employed in this study exactly matches the time allotted for the same task in SWBT's sub-loop cross-connect non-recurring cost study. The Joint Sponsors' confusion apparently is due to their failure to note that there are two dispatch times in the sub-loop study: **__** minutes for DS1 and higher level services (see, Sub-loop NRC Study, Tabs 8.2.4 and 6.2.2) and **__** minutes for subrate services (below DS1). (See, Sub-loop NRC Study, Tabs 8.2.2 and 6.2.1). DS1 and above services have a longer dispatch time because those services are located in more secure areas and more time is needed to gain access to the services. Since the study at issue here pertains only to DS1 and higher level services, the dispatch time SWBT employed is appropriate.
203.	Disconnect cross wire times	This issue was addressed at issue 126 and need not be addressed again.	For this study SWBT has interpreted the Commission's ruling to be that the disconnect time should be equal to the connect time, rather than the correct interpretation that that disconnect	Upon further review, SWBT has found that the corrections it made on this issue were not necessary. SWBT concurs that the cross-connect disconnect times for the Entrance Facility DS3 additional, Entrance Facility

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			times should be no greater than connect times (but not increased to match connect times). SWBT has increased the disconnect times on several elements in the study. These times have been corrected to the disconnect times in SWBT's original studies. The affected elements are Entrance Facilities DS3 (additional time), Entrance Facilities OC3, and Entrance Facilities OC12.	OC3, and Entrance Facility OC12 should be adjusted back to their original values. SWBT will correct its study and this correction will be reflected in final rates.
<b><i>Simple and Complex UNE Feature Non-Recurring Cost</i></b>				
317.	Probability of occurrence for verifying a feature	The arguments presented by the parties are the same as those presented in issue 305, which dealt with fallout rates. The Commission's decision in that issue also applies to this issue.	SWBT incorrectly applied the Commission's ruling to the study and in effect applied a fallout rate of 0.2% instead of 2%. The fallout rate for verifying a feature in SWBT's study is sourced from Tabs 8.6 and 8.8. In SWBT's original study, this rate was ** ____ ** and Joint Sponsors successfully argued that it should be 2%. In SWBT's compliance filing, the value on Tabs 8.6 and 8.8 was left at ** ____ ** but another factor of 2% was applied on Tab 6.4. The correct implementation of this ruling within the study is to change the ** ____ ** fallout rate to 2% on Tabs 8.6 and 8.8 and leave the occurrence factor on Tab 6.4 at 100%. This produces a	Joint Sponsors are mistaken in claiming that SWBT incorrectly applied the PSC's ruling on this issue. In making this claim, it is apparent that they misunderstand the cost study for this activity, and where the fall out value should be entered.  Issue 305 (which the Commission followed in deciding Issue 317) indicated that "For those processes that should be highly automated, such as feature activations in the local switch, service order processing and similar processes, SWBT shall utilize a fallout rate of two percent." <u>Order</u> , p. 144.  SWBT appropriately implemented the PSC's decision here by applying the 2% fallout rate to the Simple and Complex UNE Feature

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			<p>TELRIC cost of .04 for activation of simple features.</p>	<p>Non-recurring Cost study. This is reflected on Tab 6.4 in Cell D15. Inputting the 2% value into this cell directs the model to assume that 2% of the orders being processed fall out and applies that probability to the cost for the manual work performed by service representatives on orders that have fallen out. The model itself makes clear that this is the proper location for entering the fall out value in that the title for that input includes a note indicating that it is the "fall-out" value.</p> <p>The Joint Sponsors, however, claim that the 2% value should be entered under Tabs 8.6 and 8.8 of this study. This claim is incorrect. This is not the appropriate location to apply a fallout rate for mechanized systems because these tabs pertain to activities that a service representative may perform if an order falls out to get the order back into the mechanized system. This task probability of occurrence is defined in the study on Tab 8.4 and establishes the probability (i.e. % of time) that a given task must be performed in the sequence of work activities under study after the order falls-out of the mechanized system. SWBT's revised run, consistent with the PSC's Order, models a situation in which 2% of the orders processed fall out, and with respect to those fallen out orders, the identified subsequent activities are required to be performed ** ____ **of the time.</p>

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<i>Simple and Complex UNE Feature Non-Recurring Cost</i>				
324.	Preparation and implementation times for inputting backup D channel trunk group into MTS	The Commission finds in favor of the Joint Sponsors. SWBT must remove this cost from its cost study.	This task relates to both the connect and the disconnect for the PRL. The ruling eliminated the costs for this task in connection with the Backup D channel, therefore the task should be eliminated both for the connect and disconnect functions. The times for disconnect were not removed from SWBT's compliance studies. The disconnect time for this task was set to zero in Joint Sponsors revised study on Tab 8.1.2.	<p>SWBT has fully complied with the PSC's directive by removing the preparation and implementation times for inputting a backup D-channel trunk group into its Mechanized Translations System ("MTS").</p> <p>The Joint Sponsors inappropriately ask the PSC to disallow the costs SWBT incurs when these D-channels are disconnected. While Joint Sponsors' testimony did object to the inclusion of connection costs, they did not object to or provide any evidence showing that the disconnection costs are already being recovered. Their witness only claimed "SWBT includes a stop in the <u>provisioning</u> of a backup D-channel that is already included when the PR1 is initially provisioned in the switch. Specifically, SWBT has included in the <u>provisioning</u> of the back-up D-channel the cost for <u>preparing</u> and <u>implementing</u> the trunk group for the PR1 into the Mechanized Translation System (MTS), (Ex. 27, Turner Rebuttal, p. 132) (emphasis added). The Commission accepted the Joint Sponsors' claim that this "work activity would be done when a PR1 (Primary Rate Interface) is <u>provisioned</u>" and ordered removal of these</p>

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				costs. PSC Order, p. 147-8 (emphasis added). SWBT complied with this directive by zeroing out the times related to inputting on Tab 8.1.2. No further adjustments are appropriate.
<i>NXX Migration TELRIC Cost Study</i>				
353.	White pages activities	SWBT has failed to demonstrate that the time for coordination with White Pages personnel is necessary for the provision of this UNE service to a CLEC. The Commission finds in favor of the position advocated by the Joint Sponsors.	SWBT did not remove the cost for White Pages personnel in Tab 6.0 of SWBT's study.	<p>SWBT appropriately removed the entire cost of coordination with White Pages personnel as required by the PSC's Order. This coordination activity was described in the study as "meetings with account managers, CLEC, and directory personnel" (study tabs 6.2, 8.3).</p> <p>However, in addition to White Pages personnel assisting in the "coordination" of NXX migrations, SWBT's original studies reflected that there are wholly separate activities that White Pages clerks perform that are not a part of "coordination." These different activities include maintaining the integrity of the directory system by manually inputting listings and listing related information caused by a NXX Migration (study tabs 6.2, 8.3). A migration includes moving an entire block of 10,000 numbers from SWBT to a CLEC. In addition to the many and various activities (involving numerous organizations and systems) caused by such a request, White Pages clerks must maintain the directory's integrity by updating</p>

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				directory information by identifying and including changes caused by a migration. While the Joint Sponsors challenged meetings with Directory White Pages personnel, they raised no issue nor presented any evidence with respect to these other necessary activities. Since SWBT's revised study removed coordination time in compliance with the PSC's <u>Order</u> , no further changes would be appropriate.