

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

Attachment 2NP

Issue #	Issue	Commission Ruling	Staff's Comments	SWBT's Reply
<i>Policy Issues</i>				
<i>Labor Rate Issues</i>				
39.	Should SWBT's labor rates include amounts for purchases from affiliates?	The Commission agrees with the Joint Sponsors. SWBT has not presented sufficient evidence to justify incorporating purchase of services from affiliates into its labor rates. Furthermore, the Joint Sponsors' concern that including purchase of services from affiliates in labor rates could result in double counting of those costs is well founded, as SWBT has failed to demonstrate that purchase of services from an affiliate 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 purchasing services from affiliates in its labor rates.	In its Report and Order the Commission concluded that Southwestern Bell's cost of purchasing services from its affiliates should not be included in its labor rates. Staff was not able to verify that this amount was not included in Southwestern Bell's labor rates. When the Staff requested further clarification from Southwestern Bell, Southwestern Bell responded that the rate was not included "where applicable." At this time the Staff is unclear as to why Southwestern Bell has qualified its response to the Staff and is unable to report to the Commission whether Southwestern Bell has complied with the Commission's decision on this issue, Issue 39 of the DPL.	SWBT's revised labor rates fully comply with the requirements of the PSC's <u>Order</u> because SWBT removed affiliate transactions expense from all labor rates that contained such expenses. SWBT explained to Staff that it removed these expenses "where applicable" because not all labor rates SWBT originally filed contained affiliate expenses. For the originally-filed labor rates containing no affiliate expenses, no change was required. SWBT's compliance with the PSC's Order on this issue can be verified in the revised studies provided to Staff and the Joint Sponsors: for those rates that originally contain an additive to cover the cost of purchasing services from affiliates, the "Loadings" Tab in the Labor Rate files has been revised to reflect a zero value (and a comment noting the change).

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<i>Support Assets Factor Issues</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>Cost of Capital – Southwestern Bell applied a 10.32 percent cost of capital to its Missouri-specific data, but applied the 12.19 percent cost of capital that it proposed to its data from the other four states within Southwestern Bell's five-state operating region. Since the Commission determined that, for the purpose of calculating Missouri rates, it was necessary to estimate Southwestern Bell's weighted average cost of capital for "the business of providing UNEs," not for the "Missouri-specific business of providing UNEs," the Staff believes that Southwestern Bell should have applied a weighted average cost of capital of 10.32 percent to its data from all of the states within its five-state operating region, not just its Missouri-specific data. This change in the cost of capital to 10.32 percent throughout Southwestern Bell's five-state region would result in adjustments to all rate elements in Southwestern Bell's September 20, 2002 filing except those elements noted as TO-97-40 rates, T2A rates, ICB pricing or none (decision point list issues 82-85, 109, 138, 152, 180, 188, 208, 218, 228, 236, 243, 261, 265, 273, 280, 292, 301, 307 and 312).</p>	<p>SWBT changed the cost of capital for Missouri as ordered. 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 same 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>

November 22, 2002

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<i>Unbundled Dedicated Transport Entrance Facilities DS1, DS3, OC3, and OC12 Non-Recurring (TELRIC) Cost Study 2001 - 2003, June, 2001</i>				
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.	Staff indicates that it did not understand SWBT's rationale for not changing the technician dispatch time for these elements.	Consistent with the requirements of the PSC's <u>Order</u> , the <u>** __**</u> 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 apparent confusion on this issue may be due to the fact that there are two dispatch times in the sub-loop study: <u>** __**</u> minutes for DS1 and higher level services (<u>see</u> , Sub-loop NRC Study, Tabs 8.2.4 and 6.2.2) and <u>** __**</u> minutes for subrate services (below DS1). (<u>Sec</u> , 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.
(b)	N/A	There are instances where the Commission ordered the corresponding Texas 271 Agreement ("T2A") rate as the appropriate rate.	Staff believes SWBT's reference to "T2A" is insufficient.	SWBT does not object to listing the actual rate from the T2A.
(c)	N/A	There are instances where the Commission ordered the corresponding rate from its Report and Order in Case No. TO-97-40 as the appropriate rate.	Staff believes SWBT's reference to "TO-97-40" is insufficient.	SWBT does not object to listing the actual rate from Case No. TO-97-40.
(d) and (e)	N/A	Commission's adoption of Joint Sponsor's rate for complex and simple resale conversion orders.	Staff indicates it was unable to locate these rates in SWBT's September 20, 2002 filing.	SWBT's September 20, 2002 filing was to provide its revised cost studies. As SWBT accepted and the Commission adopted the Joint Sponsors' proposed rates for these activities, SWBT submitted no supporting material for them in its revised cost studies. These rates, however, will be included in the final price list developed in this proceeding.