

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners: John Wine, Chair
 Susan M. Seltsam
 Cynthia L. Claus

In the Matter of the Joint Application of Sprint)
Communication Company, L.P., United Telephone)
Company of Kansas, United Telephone Company)
of Eastern Kansas, United Telephone Company of)
South Central Kansas, and United Telephone)
Company of Southeastern Kansas for the)
Commission to Open a Generic Proceeding on)
Southwestern Bell Telephone Company's Rates for)
Interconnection, Unbundled Elements, Transport)
and Termination, and Resale.)

Docket No. 97-SCCC-149-GIT

ORDER SETTING INPUTS FOR COST STUDIES

Now the above-captioned matter comes on before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. After examining its files and records, and being duly advised in the premises, the Commission finds and concludes:

1. Sprint Communication Company, L.P., United Telephone Company of Kansas, United Telephone Company of Eastern Kansas, United Telephone Company of South Central Kansas, and United Telephone Company of Southeastern Kansas (collectively referred to herein as Sprint) filed a motion requesting the Commission initiate this docket to review Southwestern Bell Telephone Company's costs, establish prices for unbundled network elements (UNEs) and interconnection pursuant to 47 U.S.C. 252(d)(1) and establish the resale discount. On November 8, 1996, the Commission issued an order initiating the docket. The resale issue was separated from the rates for UNEs and interconnection. A separate order on resale will be issued in this docket.

1. In an Order dated December 19, 1997, the Commission determined that Southwestern Bell Telephone Company's (SWBT's) cost studies would be used to determine SWBT's prices for interconnection and UNEs. The Commission concluded it is appropriate to use SWBT's cost studies because it is SWBT's network that is being unbundled and priced. However, the Commission recognized some modifications may need to be made to SWBT's cost studies. The Commission notes SWBT's cost studies were also used by Missouri, Oklahoma, Arkansas and Texas to establish interconnection prices.

1. The purpose of the second phase of this docket is to determine the inputs and any necessary modifications to SWBT's cost studies. All parties and Staff had the opportunity to submit issues relevant to the cost studies for resolution. Every issue submitted was assigned a number and incorporated into the issues matrix.

1. SWBT, AT&T Communications of the Southwest (AT&T), the Citizens' Utility Ratepayer Board (CURB), Valu-Line of Kansas Inc. and Dunn & Associates, Inc. dba Boulevard Phone Company, both wholly-owned subsidiaries of Birch Telecom, Inc. (collectively referred to herein as Birch) and Commission Staff (Staff) submitted testimony on the issues identified in the issues matrix. A hearing was conducted on July 15 and 16, 1998. Witnesses for each party made presentations on the issues. The parties agreed to waive cross-examination. Subsequent to the hearing the Commission requested that the witnesses respond to questions to complete the record.

1. The Federal Telecommunications Act states the just and reasonable rate of network elements "shall be based on the cost (determined without reference to a rate of return or other rate-based proceeding)" and "nondiscriminatory" and "may include a reasonable profit." 47 U.S.C. 252(d)(1). The Federal Communications Commission (FCC) determined that prices for UNEs should be based on forward-looking economic costs and that the total element long run incremental cost (TELRIC) methodology was appropriate. *FCC Local Competition Order* ¶¶ 620, 672. The 8th Circuit vacated the FCC's pricing rules, finding the FCC exceeded its jurisdiction. *Iowa Util. Bd v. FCC*, 120 F.3d 753, 794 (8th Cir. 1997) However, the 8th Circuit did not invalidate the TELRIC method.

1. The State Act provides the prices for UNEs should be determined by the Commission on a "nondiscriminatory basis, to permit the recovery of costs and a reasonable profit." K.S.A. 66-2003(c).

1. This Order establishes the inputs SWBT should use in its cost studies to determine the appropriate rates for interconnection and addresses each issue in accordance with the matrix numbering system (Attachment A), as well as general issues. The Commission will issue, forthwith, a separate order addressing non-recurring charges and the definitions of the UNEs. After SWBT

runs the cost studies with the inputs set forth in this order, SWBT will file the results with the Commission and serve the results on the parties. The parties will then have an opportunity to file comments on the cost study results and the proposed non-recurring charges. After the Commission evaluates SWBT's results and the comments, the Commission will issue an order establishing the rates for interconnection.

1. SWBT contends its model is forward looking. SWBT Brief at 2. SWBT asserts the Commission's only obligation is to determine just and reasonable rates based on costs. SWBT Brief at 3, 49. According to SWBT the term 'cost' in Section 252(d) is not restricted to any particular cost methodology. SWBT argues the actual costs can be used as a reasonable benchmark. SWBT Brief at 49. SWBT maintains the Commission should establish rate guidelines rather than specific inputs. SWBT Brief at 4. SWBT maintains that retail prices are of no relevance. SWBT Brief at 49.

1. Staff maintains that forward looking costs are consistent with the goals of the state and federal telecommunications acts. According to Staff the fundamental purpose of TELRIC, that is forward looking pricing, is to encourage competition within the local exchange market. Staff Brief at 3. Staff states the TELRIC methodology replicates the conditions of a competitive local exchange market. Staff contends the TELRIC methodology employs the most efficient technology sized for reasonably foreseeable capacity requirements. Staff Brief at 2. Staff points out that pricing UNEs below TELRIC will be a disincentive to CLECs to build their own facilities and pricing UNEs above TELRIC will discourage the development of competition. Staff Brief at 3.

1. AT&T maintains it has proposed inputs that are forward-looking that will result in final rates consistent with the economic principles underlying the TELRIC methodology. AT&T Brief at 9, 11. According to AT&T, TELRIC determines prices based on the costs of an efficient new entrant serving the same volumes served by the incumbent local exchange carrier. AT&T Brief at 12. AT&T stated that in two recent decisions, federal district courts have addressed whether rates set in accordance with Section 252(d)(1) (A) should include embedded costs. *See GTE South, Inc.*, 1998 WL 260909, *AT&T Communications of California, Inc.*, 1998 WL 246652. Both courts determined such costs should not be included. AT&T Brief at 13.

1. Birch argues the Commission should consider retail prices in evaluating the UNE rates. Birch contends such a comparison will allow the Commission to gauge the appropriateness of the final UNE rates. Birch Brief at 8.

1. The Commission concludes that inputs consistent with the TELRIC (Total Element Long-run Incremental Cost) methodology should be adopted. In describing TELRIC-based pricing methodology, the FCC stated "[a]dopting a pricing methodology based on forward-looking, economic costs best replicates, to the extent possible, the conditions of a competitive market." *FCC Local Competition Order* ¶ 679, dated August 8, 1996. In addition to the two federal district court cases referenced by AT&T, the Federal District Court, Western District of Texas recently addressed the appropriate methodology for establishing UNE rates. The Court recognized forward-looking methodologies are relevant to competitive markets because the prices are based upon what the elements would cost a new entrant. In its decision, the Court also rejected SWBT's contention that the term cost in Section 252(d)(1)(A) should be construed as embedded costs. The Court also noted that "[m]ost, if not all, state commissions that have considered the issue have adopted forward-looking pricing methodologies." *SWBT v. AT&T*, No. A97-CA-132SS (W.D. TX August 31, 1998) (Order affirming decision of the Texas PUC). The Commission determines that forward-looking costs best reflect the costs that would be incurred by an efficient competitor and are appropriate for establishing UNE rates.

1. The Commission concludes that, just as actual costs may be used as a benchmark for forward looking costs, retail prices may be used as a comparative benchmark in evaluating UNE rates. Furthermore, consistent with the State and Federal Acts, the Commission retains its authority to establish just and reasonable rates.

1. SWBT contends that some of the recommended adjustments are not inputs but actually modifications to the model. SWBT argues that the Commission's determination to use SWBT cost studies makes any proposed modification to the model moot. The Commission stated in its December 19, 1997 Order at paragraph 19, that modifications to SWBT's model will need to

be made. Thus, SWBT had notice that modifications to the model would be considered. SWBT's argument that any modification to the model is a moot issue, is without merit.

1. SWBT proposed individual case basis (ICB) pricing in several instances. The Commission realizes that ICB pricing is sometimes necessary and appropriate. There are requests that are unique to the requesting carrier or location. In addition, it may be wasteful to perform a cost study to establish the price for a particular UNE that may never be requested. However, SWBT's use of ICB pricing should be limited. There should be criteria to determine when ICB pricing is appropriate and guidelines for establishing ICB prices. Without such criteria and guidelines CLECs are subject to uncertainty that may delay competitors' entry into the local exchange market. SWBT should provide ICB prices promptly after a request is made. The parties and Staff should jointly formulate criteria and guidelines for ICB pricing. Staff should file a report in this docket within four weeks. If the parties do not reach a consensus on all issues, the parties may file comments on the items on which there is disagreement. Although ICB pricing may be appropriate in limited circumstances, once demand is sufficient for an item that is ICB priced, SWBT should prepare a cost study and submit it to the Commission to establish a uniformly available rate.

1. The Commission recognized in its December 19, 1997 Order that SWBT's cost studies are not formatted for use on a personal computer (PC), rather the cost studies reside on SWBT's main frame computer. Therefore, the parties other than SWBT cannot test assumptions and inputs on SWBT's main frame computer. ¶ 9. During this proceeding it became apparent that the availability of SWBT's cost study model in PC format, which would allow the parties to test proposed inputs and assumptions, would facilitate the procedure. The prices which result from this docket will need to be reviewed in the future. As the Commission stated in its December 19, 1997 Order, the Commission conditioned its selection of SWBT's cost study on the requirement that the studies and supporting data be made available to the parties. ¶ 19. SWBT should translate its cost studies to a PC format for use in future proceedings. SWBT indicated that it is in the process of converting the main frame based cost studies to PC-based cost studies. (Tr. at 855-857) SWBT stated that the translation of some, but not all, of the studies would be complete within six months

of the hearing (July 16, 1998). The Commission notes that AT&T has replicated much, if not all, of SWBT's cost studies in a PC format. The Commission directs SWBT to provide a list of SWBT's cost studies that are now PC-based and a schedule of anticipated completion dates for the remaining cost studies. SWBT should also indicate if the cost studies are fully integrated, and if not, when integration will be complete. SWBT should continue to inform the Commission of the progress of this project until complete.

1. SWBT is directed to incorporate the inputs established in this order and submit the results to the parties and the Commission within three weeks of the date of this Order. The parties shall have three weeks from the date the results are filed in the docket to submit comments. In addition, AT&T indicated in response to the Commission's question to Mr. Rhinehart that AT&T intends to run confirmation versions of as many of SWBT's studies as possible. SWBT should provide AT&T with all data that is necessary to perform verification runs. After reviewing the comments of the parties and Staff, the Commission will issue an order establishing SWBT's rates for interconnection and UNEs.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

(A) The inputs and modifications for SWBT cost studies set forth in this Order shall be used by SWBT in its cost studies to establish prices for interconnection and UNEs.

(B) SWBT shall file the results of the cost studies in this docket and serve the results on the parties within three weeks of this order. SWBT shall provide AT&T with all data necessary to perform verification runs. The parties shall have three weeks to submit comments on SWBT's results.

(C) The parties and Staff shall jointly formulate criteria and guidelines for ICB pricing. The results shall be filed in this docket within four weeks of the date of this Order. The parties may file comments regarding the guidelines, if necessary, on the same day.

(D) SWBT shall report the status of its process to convert its cost studies to PC format as stated herein.

(E) Pursuant to K.S.A. 66-118b, the parties have fifteen days, plus three days if service of this Order is by mail, from the date of this Order in which to petition the Commission for reconsideration of any matter decided herein.

(F) The Commission retains jurisdiction over the subject matter and parties for the purpose of entering such further order or orders as it may deem necessary.

BY THE COMMISSION IT IS SO ORDERED.

Wine, Chr.; Seltsam, Com.; Claus, Com.

Dated: _____

David J. Heinemann
Executive Director

Attachment A
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ISSUES BY MATRIX NUMBER

AA Buildings

Issue No. AA-0001, Building factors

Staff: Staff asserts that in developing forward-looking long-run unbundled network element (UNE) cost estimates, it is appropriate to include only the minimum amount of building space necessary to efficiently provide unbundled network elements. Building space associated with radio equipment should be excluded from the cost of UNEs that do not involve or require the use of such equipment. Similarly, administrative building space that is associated with SWBT's retail operations should be excluded from UNE costs. (Tr. Vol. 8 at 3418, 3456-58)

Staff's recommends SWBT make appropriate adjustments to the proposed building factors, to the extent necessary to include only relevant items. Staff contends the Commission should reject SWBT's approach, which effectively replicates its existing buildings at today's higher construction cost levels, without adequately taking into account the reductions in square footage that are appropriate in the context of long-run cost studies for UNEs. Staff states the information received from SWBT during discovery was not sufficient to enable quantification of an appropriate adjustment to the building sizes included in the Company's studies. Consequently, Staff recommends that the Commission allow SWBT to recover the embedded cost of its existing buildings, without any adjustment for inflation. (Tr. Vol. 8 at 3457-58, Staff Brief at 5)

AT&T: AT&T's position is that SWBT's building factor development methods are inconsistent from state to state. AT&T asserts the Missouri-Oklahoma-Kansas-Arkansas (MOKA) method inappropriately excludes radio equipment from computation of the denominator and inappropriately includes administrative building space in the numerator. AT&T argues SWBT's factor fails to recognize empty space in the buildings, any revenues for collocation, and makes no adjustment to recognize that fewer and smaller buildings would be used if the network were totally replaced. AT&T claims this overstates the factor and results in overstated costs in SWBT's studies. (Tr. Vol 6 at 2490-92)

AT&T's recommended solution includes modification of SWBT's building factor inputs to include radio equipment in the denominator. Additionally, a small forward-looking adjustment for collocation space should be made. (Tr. Vol. 6 at 2490-93)

AT&T asserts that fewer and smaller switching equipment buildings would be needed in a forward-looking digital environment. Thus, AT&T argues, SWBT's factor based upon its current buildings is inaccurate.

SWBT: SWBT argues that while the "footprint" of a digital switch may be declining, the addition of other equipment replaces the central office floor space requirements. (Tr. Vol. 9 at 3704-05, Vol. 5 at 2155-57) Additionally, the amount of building space included in the factor is already adjusted downward by SWBT's forward-looking techniques which already recognizes the decreased size of digital switches. (Tr. Vol. 9 3703-04) SWBT's factor correctly does not account for radio equipment because, in Kansas, it is not forward-looking technology nor should administrative office equipment be included in the factor. (Tr. Vol. 6 at 2495; SWBT Brief at 8-9)

SWBT's position is that SWBT's building factor is appropriate for and specific to Kansas. Radio equipment is excluded from the building calculation in all five SWBT states and administration buildings are included. There is no "empty" space to recognize; the building space is appropriate for forward-looking studies. Shared space or collocation is not included since the impact would be minimal. SWBT's recommended solution is to use SWBT's factors. (Tr. at 2154-57)

Discussion: The Commission notes that the Missouri Public Service Commission (PSC) determined SWBT's historic building costs should be used without any adjustments. (Tr. at 3458) The Commission concludes that Staff's recommendation that SWBT should use the embedded costs of its buildings without an adjustment for inflation is reasonable.

Issue No. AA-0002, Should the Building Factor be based on "current costs?"

AT&T: AT&T argues that SWBT's building factor method used in Texas identified distinct building factors for switching equipment, frame equipment, circuit equipment, and other (including operator services space). However, SWBT presents only a single building factor in Kansas with numerous identifiable flaws. Thus, SWBT's factor does not reflect cost causation. (Tr. at 2489-90)

AT&T's recommended solution is limited due to a lack of time and information to adequately correct SWBT's method. Thus, "current costs" may be used as inputs but other input adjustments are needed. (Tr. Vol. 6 at 2495)

SWBT: SWBT's response to AT&T's argument is to recommend that this issue should be removed from the matrix since AT&T agrees to use SWBT's method. (Tr. at 2154-55)

Discussion: AT&T conceded, due to a lack of information, SWBT's current costs may be used subject to other input adjustments. However, the Commission determines SWBT should use its embedded costs without any adjustment for inflation. See discussion Issue No. AA-0001.

Issue No. AA-0003, MOKA exclusion of Texas information

AT&T: AT&T's position is that SWBT has refused to identify any methodological changes in the TELRIC study methods it uses from state to state. The Commission approved the use of SWBT's methods assuming that "[t]he methodology has been used to determine costs for UNEs in Texas and Missouri." (Tr. Vol. 6 at 2496-97) Although AT&T maintains the Texas method is preferable, in the interest of time, AT&T "reluctantly" recommends the Commission adopt a single building factor. (Tr. Vol. 6 at 2496-97)

SWBT: SWBT's response to the issue is that CURB appears to be under the wrong impression that the building factor is based upon combined MOKA data. This is incorrect. The building factor is developed from Kansas-specific information. It would be inappropriate to include either PacTel, Texas, or any other state's data in this calculation. (Tr. at 2154-56) SWBT's recommended solution is to use SWBT inputs.

Discussion: SWBT has indicated that its building factors are Kansas specific. AT&T conceded that although the Texas method would be preferable, the MOKA method used by SWBT could be used. See discussion Issue No. AA-0001.

AB Labor Costs

Issue No. AB-0001, Labor Rates

Staff: Staff's position is that SWBT's labor rates should be substantially reduced. First, all overtime and premium time loadings should be removed. Second, the labor rates developed in SWBT's Cost Factor Support Binder should be recalculated to remove all Transitional Benefit Obligation (TBO) costs and all Support Asset costs (a portion of the latter category can be recovered through the "common cost" factor). Third, TBO and Overhead costs should be removed from the labor rates developed in SWBT's Broad Gauge Report; alternatively, a more reasonable loaded hourly rate of no more than \$50 should be used. Staff recommends that the Commission require Engineering costs be separately estimated in future cost filings, so that these costs can be developed more accurately, and examined in greater detail. (Tr. Vol. 8 at 3418)

AT&T: AT&T's position is that SWBT includes average overtime and premium time in all basic loaded labor rate computations yet demands higher overtime and premium time charges in "Maintenance of Service," "Time and Materials," and "Nonproductive Dispatch" rates. Thus, new entrants would pay twice for SWBT's incurred overtime expenses. AT&T's recommended solution is to use only a basic loaded labor rate for all "Maintenance of Service," "Time and Materials," and "Nonproductive Dispatch" work because the rate already includes average overtime costs. Thus, AT&T contends, SWBT will not have an incentive to schedule this type of work out of normal work hours. (Tr. Vol. 6 at 2498-99)

CURB: It is CURB's position that SWBT includes average overtime and premium time in all loaded labor rate computations but uses higher overtime/premium time in various other areas such as Maintenance of Service resulting in duplications of charges paid by CLECs. CURB's recommended solution is to remove improper pay as necessary.

SWBT: SWBT's position is that SWBT includes average overtime and premium time in basic loaded labor rate computations. It is inappropriate to do this for "Maintenance of Service," "Time and Materials," and "Nonproductive Dispatch" work. The overtime and premium time charges are only applicable if a CLEC specifically requests the work be done during overtime and premium time hours. Without separate overtime and premium time rates, there is no incentive for AT&T to allow SWBT to schedule this work during normal work hours. (Tr. at 2160-61)

SWBT acknowledges this error in the labor rate for particular activities. SWBT's recommended solution is where a separate rate element is proposed for overtime and premium time charges, the basic hourly labor rate should exclude this loading. SWBT will revise these labor rate calculations input when the study is redone. (Tr. at 3728)

SWBT argues that the SWBT labor agreement with the Communications Workers of America (CWA) represents the only labor rates that can be realistically used. (Tr. at 843; 2162) These are the most realistic forward-looking expenses likely to be paid since SWBT will provide service with its employees. (Tr. at 2189-90; SWBT Brief at 9)

Discussion: The TBO should be removed from SWBT's labor rates. SWBT should also correct the labor rates to remove overtime and premium time where a separate rate element is proposed for overtime and premium time charges.

Issue No. AB-0002, Should sale commissions be eliminated from all long-run incremental cost (LRIC) labor rates?

AT&T: AT&T contends commissions are not paid to SWBT employees in the wholesale environment and should not be reflected in their labor rates. AT&T recommends elimination of sale commissions from all LRIC labor rates. (Tr. at 2499)

CURB: CURB argues that sale commissions cannot be forward-looking wholesale costs, and should not be paid for by CLECs in UNE rates. (CURB Brief at 6; Tr. at 3191) CURB's recommended solution is to remove sales commissions.

SWBT: SWBT's argues commissions are an accepted form of payment and may, indeed, be applicable in a wholesale environment. SWBT's inputs develop labor rates based on current knowledge and provide a reasonable estimate of expected wages. SWBT's wholesale employees are subject to the same commission/bonus expectations as retail employees and these should also be part of the labor rate. (Tr. at 2159-60; SWBT Brief at 9)

Discussion: SWBT has not demonstrated that commissions are an appropriate forward-looking cost in a wholesale environment. Therefore, such costs should be removed.

Issue No. AB-0003, Should the labor rates be consistent with the lowest cost option for constructing a "scorched node" network in a long-run planning horizon?

Staff: Staff argues that SWBT is using its internal labor costs throughout its cost studies. These reflect union contracts, fringe benefits and overhead costs that aren't necessarily consistent with the lowest cost option for constructing a "scorched node" network in a long-run planning horizon. (Tr. at 2162)

Staff recommends the Commission adjust hourly labor rates as necessary to be consistent with the minimum cost option in a long-run planning horizon. Staff recommends that SWBT's labor rates be substantially reduced. Staff recommends that Engineering costs be separately estimated in future cost filings, so that these costs can be developed more accurately, and examined in greater detail. (Tr. at 3460-70)

AT&T: AT&T contends SWBT is using its internal labor costs throughout its cost studies. AT&T's recommended solution identifies several errors in SWBT's loaded labor rate development as it should be applied to TELRIC studies. Thus, AT&T's modifications should be adopted. (Tr. at 2503)

SWBT: SWBT's position is that the 1996 Telecom Act provides for charges to be based upon the cost of providing the interconnection and network element. SWBT inputs reflect the labor costs it incurs. SWBT argues that the KCC has not adopted a "scorched node" methodology. The Staff consultant's assumption is incorrect and unrealistic. (Tr. at 2162)

Discussion: The Commission accepts SWBT's base labor rates that it incurs, but directs SWBT to make the appropriate adjustments contained herein to the loaded labor rate (e.g. remove TBO, commissions, etc.)

Issue No. AB-0004, Labor Rates - Overhead Costs

Staff: Staff argues that in developing its labor costs SWBT includes overhead costs that are appropriately excluded from a forward-looking long-run economic cost study, and/or are more appropriately included in the common cost factors.

Staff's recommended solution is to adjust hourly labor rates as necessary to exclude inappropriate common costs. Staff maintains TBO and Overhead costs should be removed from the labor rates developed in SWBT's Broad Gauge Report; alternatively, a more reasonable loaded hourly rate of no more than \$50 should be used. Staff recommends that the Commission require Engineering costs be separately estimated in future cost filings, so that these costs can be developed more accurately, and examined in greater detail. (Tr. Vol. 8 at 3418-19)

AT&T: AT&T agrees with Staff, that in developing labor costs, SWBT includes overhead costs that are appropriately excluded from a forward-looking long-run economic cost study. (Tr. at 2504)

AT&T identifies several errors in SWBT's loaded labor rate development as it should be applied to TELRIC studies. AT&T contends its modifications should be adopted.

SWBT: SWBT argues that it has only included direct costs of labor in its labor rates. Overheads include social security, unemployment tax, benefits, supervision, etc. These overhead costs will be incurred by SWBT. (SWBT Brief at 9-10, Tr. at 3725-26; 2162-63)

Discussion: As pointed out by Staff, the TBO is not a forward-looking cost and should be removed. However, other overheads, such as social security, unemployment tax, etc., should not be removed.

SWBT should separately estimate its Engineering Costs in its future cost filings, so these costs can be developed more accurately and examined in greater detail.

Issue No. AB-0005, Retail bonus/awards levels in labor costs

AT&T: AT&T argues that retail bonus/awards levels should not be included in labor costs. AT&T identifies several errors in SWBT's loaded labor rate development as it should be applied to TELRIC studies and urges that its modifications correcting these errors should be adopted. (Tr. at 2505)

CURB: CURB argues that incentive compensation/bonuses and award payments should be removed from SWBT's cost studies since competitors should not have to pay for these costs which are related to retail operations and thus serve no benefit to competitors and are not incurred to provide wholesale UNEs. CURB recommends incentive compensation payments be removed from the common cost factor and from any other cost study component such as maintenance, benefits and other areas. (Tr. at 3192-95)

SWBT: SWBT maintains that the retail bonus/awards levels included in labor costs reflect the labor cost SWBT incurs. (Tr. at 2159-60) SWBT's recommended solution is to use SWBT's inputs.

Discussion: Retail bonuses and award payments should not be paid by CLECs and should be removed from SWBT's cost studies.

Issue No. AB-0006, Should the Transition Benefit Obligation (TBO) be adjusted to reflect forward-looking levels?

Staff: Staff's position is that in developing forward-looking long-run UNE cost estimates, SWBT's SFAS 106 Post Retirement Benefit Obligation costs should be excluded because the TBO reflects prior period costs which are not warranted in a forward-looking cost study. The TBO should be removed from labor rates affecting the pricing of UNEs in this docket for two reasons. First, TBO costs are historical, embedded costs incurred in prior periods, which are not relevant to the establishment of forward-looking costs. (Tr. Vol. 8 at 3334; 3467) Second, SWBT's parent company (SBC) decided to expense its TBO costs in 1993, whereas SWBT opted to amortize the costs for regulatory purposes. Amortization of the TBO is not a forward-looking operating expense. (Staff Brief at 6; Tr. Vol. 8 at 3340)

Staff recommends that the amortization of SWBT's TBO should be excluded for the cost elements added to labor in developing overall hourly labor rates. The Commission should require the elimination of all TBO costs in the development of UNE prices. (Staff Brief at 6)

AT&T: AT&T's position is that SWBT has included its TBO amortization as a line item in its loaded labor rate development. SWBT is also including its ongoing post-retirement benefit obligation accruals in its loaded labor rates. AT&T recommends the entire TBO should be excluded from loaded labor rate development because it does not reflect a forward-looking cost. (Tr. at 2506-07)

CURB: CURB argues that TBO costs should be removed from SWBT's cost studies. (CURB Brief at 6-7; Tr. at 3196-3199) CURB's recommended solution is to remove the TBO from the common cost factor and from any other cost study component such as maintenance, benefits and other areas. The entire impact of TBO should be removed from all cost study components. (Tr. at 3196-99)

SWBT: SWBT's position is that TBO expenses will continue to be accounted for over a period of 20 years in Kansas. This has been approved by the KCC. These expenses are legitimate

expenses of SWBT and should remain in the calculation of labor rates. SWBT recommends the use of SWBT's inputs. (Tr. at 2145-47)

Discussion: The TBO expense should be excluded. The fact that the KCC allowed SWBT to amortize TBO expenses for other purposes does not require inclusion of TBO expenses in a forward-looking cost analysis for UNEs.

Issue No. AB-0007, Should expenses related to the SFAS 106 Post Retirement Benefits Transitional Benefit Obligation be eliminated from labor rates?

CURB, Staff and AT&T all propose removal of TBO costs. (Tr. 3196-3199; 3331-3340)

Staff: Staff's position is that in developing forward-looking long-run UNE cost estimates, it is appropriate to exclude SWBT's SFAS 106 Post Retirement Benefit Obligation costs since the TBO reflects prior period costs which are not warranted in a forward-looking cost study. (Tr. at 3332-40)

Staff recommends that the amortization of SWBT's Transition Benefit Obligation should be excluded for the cost elements added to labor in developing overall hourly labor rates. The Commission should require the elimination of all TBO costs in the development of UNE prices. (Staff Brief at 6)

AT&T: AT&T's position is that these expenses should be eliminated from labor rates, to the extent that the SFAS 106 Post Retirement Benefits Transitional Benefit Obligation expenses can be identified. The TBO represents historic expenses and are not forward-looking. New forward-looking Post Retirement Benefit expense accruals are already included in labor costs. (Tr. at 2506-08)

CURB: CURB also believes that Transition Benefit Obligation costs should be removed from SWBT's cost studies. CURB's recommended solution is to remove TBO from the common cost factor and from any other cost study component such as maintenance, benefits and other areas. The entire impact of TBO should be removed from all cost study components. (Tr. at 3196-99)

SWBT: SWBT argues that TBO expenses will continue to be accounted for over a period of 20 years in Kansas, as approved by the KCC. These expenses are legitimate expenses of SWBT and should remain in the calculation of labor rates. Since this expense is yet to be paid (in the future) to retirees, it cannot be considered embedded. As forward-looking expenses yet to be paid, these are the type network incremental costs that SWBT "actually expects to incur in making" UNEs available and should be included. SWBT's recommended solution is to use SWBT inputs. (SWBT Brief at 10; Tr. at 2145-47)

Discussion: Consistent with issue AB-0006, SWBT should exclude TBO costs from all cost studies.

AC Use of Zones in the Studies

Issue No. AC-0001, Matching Between Costs and UNE Prices

Staff: Staff argues that there is a wide variance for loop costs for exchanges in the rural zone (zone 1). The range is from less than half of the average to over three times the average. Zone 1 includes 100 exchanges with a wide range of cost characteristics, thus, the averaging effect masks a large disparity in loop costs. Using one average rate for the UNE price which in turn may determine the KUSF support may significantly overstate the support for some exchanges and understate it for others. Staff is concerned that over funding support for some exchanges may encourage some CLECs to build their own network. This might be a bad market signal to the CLECs caused only by the grouping of so many exchanges into one zone with one average price. (Tr. Vol. 8 at 3388-89)

Staff's recommended solution is to use the existing loop study and stratify the average price for the loop in the rural zone based upon investment levels. According to Staff this deaveraging will create a better match between costs and the UNE price. Staff has looked at the loop investment by exchange furnished by SWBT for 1995. The data for zone 1 includes 100 exchanges. Staff contends splitting the data into three groups distributes the exchanges fairly evenly. By using this approach the price for the UNE loop is deaveraged into three new price levels. According to Staff the level of KUSF support associated with these locations can be more closely tailored to the cost of providing service in those exchanges. Alternatively, Staff recommends this issue be deferred. (Tr. Vol. 8 at 3389)

AT&T: AT&T's position is that identifying loop costs on a de-averaged basis is a reasonable approach for identifying the appropriate levels of KUSF support. According to AT&T SWBT's TELRIC cost studies, when inputs are corrected, should yield reasonably identified forward-looking costs of providing loops for not only SWBT but also for an efficient competitor. AT&T is concerned, however, that SWBT's loop sample data was not developed to meet the revised Staff definitions for disaggregation. In addition, AT&T maintains relying on SWBT booked investment by exchange would contradict many of the TELRIC principles in the cost studies to be presented. (Tr. Vol. 7 at 2824-25)

AT&T's recommended solution recognizes that it is reasonable to rely on deaveraged SWBT loop cost studies to help determine KUSF support for CLECs so long as TELRIC principles are maintained and all inputs are corrected. Deaveraging should be based on an appropriate loop sample (which was not provided in this proceeding). (Tr. at 2824)

CURB: CURB maintains it was not provided the information it needed to adequately evaluate geographic deaveraging options. SWBT's failure to provide loop sample data by wire center and type of loop/line (i.e., residence, business, CENTREX, payphone, etc.) along with other sampling details provided an impediment for detailed review of deaveraging scenarios. Also the number of access lines per wire center identified by type of line (i.e., residence, business, CENTREX, etc.) would have assisted in the analysis. LEC support should be derived from TELRIC and appropriate loop samples. CURB disagrees with Staff and SWBT assignment of exchanges to rural, suburban and urban geographic zones based on the existing SWBT tariff classifications which have nothing to do with cost. CURB proposes that wire centers be assigned to exchanges/geographic areas based on consideration of specific costs, density of the exchange/wire center, network design and forward-looking considerations. (Tr. at 3200-07)

CURB prefers to see loop sample information on a wire center basis before it makes any specific recommendation on deaveraging. CURB favors deaveraging rate design based on at least a consideration of number of access lines in the wire center, density of access lines in the wire center, network design in the wire center and forward-looking considerations such as growth. CURB would probably favor deaveraging among 3 or 4 primary cost groupings. (Tr. at 3302-03)

SWBT: SWBT argues that the concept of basing CLEC KUSF support upon SWBT's costs will cause problems of potential over-funding support for certain exchanges. SWBT states the KCC is appropriately reviewing SWBT's costs studies models for SWBT and the number of zones used to determine the loop sample. However, SWBT contends it is inappropriate to use SWBT's costs as a basis for determining CLEC's KUSF support. SWBT maintains it has properly replied to CURB's argument in its RFI responses. (Tr. at 2384-85)

Discussion: Staff proposes establishing deaveraged prices for the loop cost based on three zones. The evidence presented is not sufficient to calculate the cost per loop more specifically, such as per wire center. Although in future proceedings SWBT should provide evidence to calculate the cost per loop on a more specific basis, Staff's recommendation is the best solution available at this time. SWBT should provide proposed prices for loops for the three zones recommended by Staff.

Issue No. AC-0002, Alignment with the Kansas Universal Service Fund (KUSF)

Staff: Staff argues that in the cost studies, SWBT split zones 1 and 2 at 6,000 access lines. Zone 2 currently includes exchanges with 6,000 to 99,999 lines. KUSF provides support for rural exchanges using a cutoff of 10,000 access lines. The KUSF support and the zones for UNE prices do not align. Staff contends this will not work for providing portability of support. According to Staff exchanges in the 6,000-9,999 range receive too much support while exchanges with over 10,000 lines receive none, even though the loop rate is the same for both groups. Staff asserts it would be desirable, though not absolutely necessary, that support levels and UNE price differences correspond. The profitability of serving exchanges with higher UNE loop costs without KUSF support might become an issue. The CLEC is faced with a price difference in zone 2 that may inhibit its ability to enter the market in the areas comprised in zone 2. (Tr. at 3374-79)

Staff's recommended solution has two parts designed to work together. The first is to change the UNE study so that zone 2 includes only rate group 4 (6,000 to 15,999 lines) and provide an amount of support equivalent to the difference between a benchmark level and the zone 2 rate. Zone 1 should be recognized as more rural and provide an amount of support equivalent to the difference between a benchmark level and the zone 1 rate. To evaluate the impact, rerun zone 2 loop data split between rate groups 4 and 5. The second part of the solution is to change the KUSF so that the per line payout is two tiered. Tier 1 would be 0001 to 5,999 lines (matches zone 1, and rate groups 1,2 and 3). Tier 2 would be 6,000 to 15,999 lines (matches to the new zone 2, and rate group 4). Additionally, rate group 5 should be merged with the metro rate groups in the urban zone when the UNE loop study is finalized. No KUSF support should be provided for rate group 5. (Tr. Vol. 8 at 3374-79)

Mr. Lammer's July 30, 1998 response to Commission Q.5 suggests that, "rather than choosing one partial solution now, and six months later contramanding it, Staff recommends deferring this decision." Additionally, Staff suggests that restricting Zone 2 to rate group 4 only (Tr. Vol. 8 at 3374) and merging rate group 5 into Zone 3 (Tr. Vol. 8 at 3376) would cure both problems that exist. However, these adjustments work only if the KUSF is re-structured into a two-tiered arrangement whereby Zone 1 and Zone 2 have different support levels in recognition that Zone 1 is more expensive to serve. (Tr. Vol. 8 at 3376-38) SWBT agrees with Staff's recommendation, as long as the KUSF is altered as described. (Staff Brief at 10, Tr. at 2386)

AT&T: AT&T agrees that KUSF support levels and UNE price differences should correspond. (AT&T Brief at 21) AT&T does not object to aligning rate groups and cost zones. However, limiting the UNE loop costs to only three zones may not be the best solution. Instead of shifting rate groups among cost zones, perhaps additional cost zones could be developed.

AT&T points out that whether the Staff approach or another is chosen, SWBT's data in support for its studies is not presently available or adequate to make the changes. SWBT has indicated its loop sample was not identified by wire center, therefore regrouping the data is impossible, and even if possible, would affect the statistical validity of the sample. Thus, new samples need to be taken and other appropriate inputs determined (e.g., distribution fill factors). (Tr. at 2826-28)

AT&T believes that the Commission should require that the amount of KUSF support per loop as determined in this proceeding is subject to the Commission's determinations of forward-looking economic costs in Docket No. 98-SWBT-677-GIT, the investigation into SWBT's cost of local service. This would allow the Commission to give CLECs the opportunity to receive the same level of support per loop as the Commission determines SWBT should receive. In the event the Commission determines that it will address the issue of the portability of KUSF support to facilities based CLECs, AT&T requests that the Commission consider this issue expeditiously. (AT&T Brief at 22)

CURB: CURB is not opposed to Staff's concept of matching up geographic deaveraged areas with KUSF support, to the extent this eliminates discrimination in receipt of KUSF support by competitors. However, CURB does not agree with the loop sample and dollar amounts used by SWBT to determine the cost of the loop in the various geographic zones — especially zone 1 which is the rural zone. (Tr. at 3206-07)

If the broad geographic zones continue to be used, CURB favors leaving rate group 5 with the metro zone (Zone 3), if rate group 4 is to be set aside to be the only rate group in Zone 2. This recommendation is based on the information provided by SWBT to all other parties regarding the various re-grouping alternatives as requested by Staff. All of this estimation process uses an unverified loop sample based on broad geographic zones which contributes to unusual and inconsistent costing scenarios. (Tr. at 3302-07)

CURB recommends that the geographic deaveraging issues be deferred to the pending Commission investigation of the KUSF in Docket No. 98-SWBT-677-GIT. (CURB Brief at 10, Tr. at 3208-10; 3308; 506-507) CURB witness Ostrander's July 30, 1998 response to Commission Q.6 summarizes the differences between CURB and Staff regarding the geographic deaveraging issues.

SWBT: SWBT is willing to consider modifying its methodology so that Zone 2 entails Rate Group 4 and Zone 3 includes Rate Groups 5+ for the loop if KUSF is based on that description. However, SWBT argues that KUSF support should be based upon actual embedded costs, not TELRIC. (Tr. at 2385-86)

Discussion: As an interim solution, subject to the availability of additional information in future proceedings, loop costs should be established for three zones as proposed by Staff. The per line amount for KUSF support will be determined after the Commission reviews the KUSF.

Issue No. AC-0003, Portability for Facility-Based Carriers

Staff: Staff asserts that determination of the UNE prices by zone will assist in the development of support portability for those purchasing UNE's. However, determination of the appropriateness of KUSF support for facility based providers (those not using UNE's) is a much broader topic. Reviewing the cost studies points out how difficult it is to properly align support with the particular customer served (i.e. rural customers living in town within one mile of the central office are not the ones causing the high cost and large KUSF support, though support is designated for all the residence and single line business lines). (Tr. Vol. 8 at 3382-85)

Staff recommends that the format for payout be limited to CLECs that purchase UNEs from SWBT and not be extended to others that might deploy facilities of their own. Additionally, Staff recommends to reserve the resolution of KUSF portability for the facility based provider (not including UNE purchasers) to Phase 3 of the Competition Docket (190,492-U). That docket will have a broader participation by CLECs and wireless providers who might be interested in this topic. This topic also needs extensive economic input. The Commission could also benefit from the methods employed by the FCC to address this issue. In the meantime, the Commission ordered support of \$36.88 per line would apply. (Tr. Vol. 8 at 3382-85, 3389)

CURB: CURB's position is that the portability issue of KUSF support should be deferred to Phase 3 of Competition docket which concurs with Staff's position. Since the amount of KUSF will need to be determined by comparing retail costs to retail prices to determine the level of any subsidization, it makes sense to defer this issue to a KUSF/retail docket. CURB recommends that this issue be deferred to a retail/universal service docket. (Tr. at 3210, 3308)

AT&T: AT&T argues that KUSF support will be important to UNE purchasers as well as to facilities based providers of local service. UNE rates will fully reimburse SWBT for its average costs by zone. UNE rates become the principal components of CLEC's cost and could form the basis

of KUSF reimbursements for CLECs. AT&T's recommended solution is that KUSF support for UNE purchasers should be considered wherever KUSF support level and rules are considered. (Tr. at 2829, 3115-16)

SWBT: SWBT recommends the CLECs which provide service over their own facilities and are seeking KUSF support should file cost studies supporting their company's costs. This would create the right economic incentive for competitive entry - the new entrant's costs are demonstrably less than the incumbent's. The KUSF support should not be based upon the incumbent LEC's forward-looking unbundled element costs studies. This would eliminate the need to modify SWBT's costs models. LEC support should be based upon actual embedded costs, not TELRIC. (Tr. at 2291-99)

SWBT believes this KUSF question is perhaps better referred to another docket. However, SWBT does agree that a CLEC using SWBT unbundled loops will be entitled to receive KUSF in the amount difference between SWBT urban and rural loop price. According to SWBT if the CLEC uses its own facilities, the amount would be based upon its own costs, not SWBT's. To this extent, SWBT does not generally oppose realignment of the KUSF zones. (SWBT Brief at 10; Tr. at 2385-86)

SWBT agrees with Staff that KUSF support for facility based providers is much broader than SWBT's UNE prices, and that KUSF support should be based upon each CLECs actual costs. (Tr. at 2295-96; 2475-76)

Discussion: All parties agreed the determination of the KUSF support for facilities based carriers (CLECs not using UNEs) should be deferred to another proceeding. The Commission concludes the determination of KUSF support for facilities-based carriers, as well as KUSF support for CLECs purchasing UNEs, will be deferred to the appropriate proceeding.

Issue No. AC-0004, Zone 1 cost variance

Staff: Staff asserts that Kansas rural loop costs appear to be significantly overstated, relative to analogous cost estimates prepared by SWBT in other states. Staff recommends the Commission correct errors in SWBT's studies as necessary to correct for this problem. Staff concludes that the major problem is that the cable weighting process SWBT uses in developing inputs to LPVST effectively double counts certain cable quantities. This problem should be corrected. Specifically, the 26- and 24- gauge cable should be treated in the same manner as the 22- and 19-gauge cable, thereby consistently applying gauge-specific weights. According to Staff correction of this one modeling error greatly reduces or eliminates the discrepancy between rural loop costs in Kansas and the analogous rural costs adopted by the Missouri and Texas Commissions. (Tr. at 3509-10)

CURB: CURB questions why zone 1 costs for loops in rural areas vary significantly from zones 1 and 2 especially when compared to Missouri. CURB contends SWBT should be able to explain and document these variances. (Tr. at 3206-07)

AT&T: AT&T recognizes CURB's questions of the variation of loop costs across zones. AT&T does not have a recommended solution. AT&T takes no position on this issue.

SWBT: SWBT argues that the costs are different and thus the variation. SWBT does not recommend a solution since this should not be an issue. (Tr. at 2386-89)

Discussion: The cable weighting problem in SWBT's cost studies should be corrected as proposed by Staff. Staff has indicated that correction of this one modeling error greatly reduces or eliminates the discrepancy between rural loop costs in Kansas and the analogous rural costs adopted by the Missouri and Texas Commissions.

AD Maintenance Factors

Issue No. AD-0001, Maintenance factors based on 1995 booked costs

Staff: Staff argues that in developing forward-looking long-run UNE cost estimates, it is appropriate to exclude from the recurring cost studies any maintenance costs that would be performed by the CLEC instead of SWBT, as well as any costs that are recovered through non-recurring charges paid by the CLEC. (Tr. at 3459-60)

Staff's recommended solution is to make appropriate adjustments to SWBT's proposed maintenance factors, to the extent necessary. According to Staff SWBT should be required to reduce its plant maintenance factors to be consistent with an efficient forward-looking network design, featuring ubiquitous deployment of Feeder/Distribution Interfaces. Dr. Johnson estimates that this change would reduce the Company's buried cable maintenance factor by approximately 0.001. Staff's position is that SWBT should be ordered to reduce its plant maintenance factors to be consistent with an all FDI network design. (Staff Brief at 7, Tr. at 3459-60)

AT&T: AT&T's position is that SWBT's maintenance factors are based on 1995 booked costs, which include all embedded non-recurring costs and are not adjusted for avoided retail costs. SWBT's proposed recurring prices would have the CLECs pay SWBT for SWBT's customers' non-recurring costs. AT&T's recommended solution is to eliminate SWBT embedded customer-generated costs from maintenance factors based on AT&T study (under development) or on SWBT internal study produced in response to AT&T RFI 4.40. (Tr. at 2409-10)

CURB: CURB's position is that maintenance should reflect forward-looking costs, remove non-recurring costs or costs otherwise duplicated in other cost studies, along with any costs to be incurred by CLECs (testing, etc.) instead of SWBT. SWBT's maintenance expense is not forward-looking and it unduly relies on embedded historical data without reflecting future trends and efficiencies in plant. CURB recommends modifications to the maintenance factors as necessary to reflect forward looking costs and remove non-recurring and duplicative costs, along with costs to be incurred by CLECs. (Tr. at 3211)

SWBT: SWBT argues that SWBT's maintenance factors are based upon current relationship of expense/investment (1995). These are brought forward to current values by the CC/BC (current cost/book cost) application to forward-looking investment. This is not an embedded cost structure but a fair and reasonable estimate of costs to provide required forward-looking network activities, such as testing, that SWBT expects to continue to perform. (Tr. at 2141-43)

Discussion: As argued by Staff, AT&T and CURB, it is appropriate to exclude from the recurring cost studies the costs for all maintenance that would be performed by a CLEC instead of SWBT and to exclude costs that are recovered through non-recurring charges paid by the CLEC.

Issue No. AD-0002, Should the Maintenance Factor for General Purpose Computers be based on data provided by SWBT to AT&T prior to January 12, 1998?

AT&T: AT&T argues that since SWBT provided only a highly redacted single page extracted from an inter-linked group of over a dozen spreadsheets, and never provided an electronic copy of the spreadsheets, the Maintenance Factor for General Purpose Computers should be based on data provided by SWBT to AT&T prior to January 12, 1998. AT&T contends that SWBT asserts its computer Maintenance Factor is based on company-wide data but did not support the factor. AT&T recommends the use of company-wide SWBT data provided in this case, to develop the General Purpose Computer maintenance factor. (Tr. at 2519)

SWBT: SWBT argues that the Maintenance Factor for General Purpose Computers as filed by SWBT is the appropriate factor. SWBT asserts support data for this factor has been provided (see

Supplemental response to BJA No. 6-3(e)). SWBT contends AT&T has not provided any factor. SWBT's recommended solution is to use SWBT's inputs. (Tr. at 2144)

Discussion: AT&T has not provided a sufficient basis for making an adjustment to the Maintenance Factor for General Purpose Computers based on Company-wide SWBT data. Therefore, AT&T's recommendation is rejected.

Issue No. AD-0003 Issue Deleted

Issue No. AD-0004, How should Maintenance Factors be adjusted to eliminate "M" and "P"-coded expenses?

Staff: Staff argues that in developing forward-looking long-run UNE cost estimates, it is appropriate to exclude from the recurring cost studies any maintenance costs that would be performed by the CLEC instead of SWBT, as well as any costs that are recovered through non-recurring charges paid by the CLEC. It is also appropriate to exclude retail costs from the UNE cost studies. Staff's solution is to make appropriate adjustments to SWBT's proposed maintenance factors, to the extent necessary. (Tr. at 3458)

AT&T: AT&T contends a portion "M" and "P" costs should be adjusted to eliminate "M" and "P"-coded expenses that represent embedded non-recurring charges. AT&T's recommended solution is to eliminate not less than 40% of all non-right to use fee "M" and "P" costs from maintenance factors. (Tr. at 2520, 2831)

CURB: CURB argues that certain M-coded maintenance expenses should be removed from the maintenance factor since these costs are related to non-recurring activities and charges and should not be double-recovered through the maintenance factor. It appears that at least 39% of the M-coded maintenance expense should be removed based on a SWBT study. This percentage may be conservative. (Tr. at 3211-12)

SWBT: SWBT disputes the existence of any "M" double recovery but has agreed to an adjustment for "customer initiated" changes in the factor. (Tr. at 2141-42; 2143) With this adjustment, the maintenance factor would decline by about 3% of the total 8db loop cost. As indicated at the question and answer session February 26th, SWBT is willing to adjust for expenses that have been included in non-recurring cost studies. SWBT has determined that 39% of the "M" and "P" costs excluding right to use fees are related to customer-initiated service activity. Any further adjustment is inappropriate. SWBT is willing to adjust the nonrecurring portion of the maintenance expenses based on its study as to the expenses that are related to customer-generated service orders. (Tr. at 2139-40, 3614)

Discussion: As supported by AT&T and CURB, some of the "M" and "P" coded maintenance costs should be removed. SWBT agreed to an adjustment for "customer initiated" service activity, which amounts to approximately 39% of the "M" and "P" costs excluding right to use fees. Based upon the evidence presented, removal of 39% of the "M" and "P" costs is appropriate and is adopted.

Issue No. AD-0005, Should Maintenance Factors be adjusted to reflect avoided testing expense and if so what portion of testing expense should be eliminated?

Staff: Staff argues that in developing forward-looking long-run UNE cost estimates, it is appropriate to exclude from the recurring cost studies any maintenance costs that would be performed by the CLEC instead of SWBT, as well as any costs that are recovered through non-recurring charges paid by the CLEC. It is also appropriate to exclude retail costs from the UNE cost studies. Staff's solution is to make appropriate adjustments to SWBT's proposed maintenance factors, to the extent necessary. (Tr. at 3456-59)

AT&T: AT&T's position is that new entrants can be expected to perform many of their own testing functions. The percent of testing expense expected to be avoided as reflected in the resale discount is a conservative estimate of testing expense to be avoided in the UNE environment. This should be based on the avoided cost discount approved for Kansas. (Tr. at 2521-23, 2832)

CURB: CURB recommends that the maintenance factor be adjusted for the removal of certain retail avoided costs for testing expense which should not be passed along to competitors in the wholesale environment. (Tr. at 3211)

SWBT: SWBT's forward-looking cost studies must account for all anticipated activities and expenses. Since SWBT does not anticipate avoided testing, any adjustment is inappropriate. The testing activity in the factor should not be adjusted; this represents the testing SWBT would be required to perform, regardless of any testing AT&T may perform. SWBT's recommended solution is to use SWBT inputs. (Tr. at 2143-44)

Discussion: AT&T and CURB are correct in that, to some degree, testing will be performed by CLECs and avoided by SWBT. The percent of testing to be avoided as reflected in the wholesale for resale discount is a reasonable estimate to use for the avoided testing expense. SWBT's re-run cost studies should reflect the removal of testing expense based upon the avoided percentage reflected in the resale discount calculation.

Issue No. AD-0006, Impact of SWBT's assumption that FDIs are ubiquitously deployed.

Staff: Staff argues that SWBT assumes FDIs are ubiquitously deployed, increasing investment. If this is in fact the minimum cost forward-looking configuration, the corresponding reductions in maintenance/operations costs should more than offset the extra investment. Staff recommends to reduce plant maintenance factors by at least as much as the cost of the extra FDIs, reflecting the net savings achieved through the forward-looking, least cost network configuration. Staff contends SWBT should be required to reduce its plant maintenance factors to be consistent with an efficient forward-looking network design, featuring ubiquitous deployment of Feeder/Distribution Interfaces. Dr. Johnson estimates that this change would reduce the Company's buried cable maintenance factor by approximately 0.001. (Tr. at 3456)

AT&T: AT&T maintains SWBT assumes FDI's are ubiquitously deployed. AT&T argues changes should be made in the maintenance factors. However, AT&T contends such adjustments are difficult to discern. AT&T states its proposed solution, reducing the investment for FDI, as expressed in Issues CA-0013 and CA-0016 should be followed. See also AT&T's Maintenance Factor adjustments under AD issues. (Tr. at 2524)

SWBT: SWBT's response is that the impact of FDIs on feeder efficiency is not necessarily a one-to-one relationship of "extra" FDIs being equivalent to some equal amount of expense savings. Rather it is an overall network efficiency concept. Since the maintenance factor is applied against broad classifications of investment dollars, the appropriate savings are reflected as overall investment levels decrease. SWBT's recommended solution is to use SWBT inputs. If any maintenance changes do occur, those would be reflected in future maintenance factor calculations. (Tr. at 2220; 2232-33; 2235-38)

Discussion: An adjustment to the maintenance factor should be made as proposed by Staff. SWBT's cost studies includes the investment for the ubiquitous deployment of FDIs. Therefore, the maintenance factor should be adjusted to reflect the reduction in maintenance expense based on a network design where FDIs are ubiquitously deployed.

Issue No. AD-0007, Maintenance factors detailed account information is not provided by SWBT.

AT&T: AT&T's position is that SWBT has not provided adequate sub-account information supporting its maintenance factors. AT&T doubts that enough information will ever be available from SWBT to adequately convert SWBT's factors to a forward-looking basis. However, AT&T has identified numerous concerns and is continuing to quantify them on the basis of SWBT data already provided. See issues AD-0001, AD-0002, AD- 0004, AD-0005, and AD-0009. (Tr. at 2525)

CURB: CURB argues that maintenance factors detailed account information is not provided by SWBT. SWBT will not reasonably provide information by sub-account/matrix (wages, benefits, rents, other), or information for supporting amounts in the account in order to determine if amounts are forward-looking and properly excludes non-recurring costs, costs unrelated to wholesale, non-Kansas costs, overhead duplication, non-recurring cost duplication, etc.

SWBT: SWBT has provided support documentation for its calculation of factors. These factors are based on the financial statements of the company, which are audited both internally and externally. This is the appropriate data to use. (Tr. at 2145-47)

Discussion: This issue essentially involves whether SWBT provided sufficiently detailed information. The record is sufficiently complete to decide the substantive issues raised by the parties and the Commission can address adjustments to SWBT's cost studies in conjunction with the discussion of other issues.

Issue No. AD-0008, TBO reflected at forward-looking levels.

Staff: Staff's position is that in developing forward-looking long-run UNE cost estimates, it is appropriate to exclude SWBT's SFAS 106 Post Retirement Benefit Obligation costs since the TBO reflects prior period costs which are not warranted in a forward-looking cost study. (Tr. at 3338-40)

Staff recommends that the amortization of SWBT's Transition Benefit Obligation should be excluded for the cost elements added to labor in developing overall hourly labor rates. The Commission should require the elimination of all TBO costs in the development of UNE prices. (Tr. at 3338-40)

AT&T: AT&T's position is that SWBT has included post-retirement benefit transitional benefit obligation costs in its maintenance factors. AT&T proposes that the entire TBO should be excluded from loaded labor rate development since it does not reflect a forward-looking cost. (Tr. at 2526-27; 2833)

CURB: CURB argues that TBO costs are not forward-looking efficient costs or wholesale costs for which competitors should pay. The amounts of TBO to be removed from maintenance accounts 6212, 6232, 6362, 6421, 6423, 6523 and 6533 are set forth at the response to AT&T data request 4.15. For maintenance factors these TBO costs are significant and represent in excess of \$8 million in the 1995 costs which are used in the cost study. (Tr. at 3211; 3213)

SWBT: SWBT's position is that TBO expenses will continue to be accounted for over a period of 20 years in Kansas. This has been approved by the KCC. These expenses are legitimate expenses of SWBT and should remain in the calculation of labor rates. (Tr. at 2145-47)

Discussion: Consistent with issue AB-0007, TBO costs should be deleted from labor rates. The TBO costs are not consistent with the forward-looking methodology.

Issue No. AD-0009, Should expenses related to the SFAS 106 Post Retirement Benefits Transitional Benefit Obligation be eliminated from maintenance factors?

Staff: Staff's position is that in developing forward-looking long-run UNE cost estimates, it is appropriate to exclude SWBT's SFAS 106 Post Retirement Benefit Obligation costs since the TBO

reflects prior period costs which are not warranted in a forward-looking cost study. Staff recommends that the amortization of SWBT's Transition Benefit Obligation should be excluded for the cost elements added to labor in developing overall hourly labor rates. The Commission should require the elimination of all TBO costs in the development of UNE prices. (Tr. at 3338-40)

AT&T: AT&T's position is that expenses related to the SFAS 106 Post Retirement Benefits Transitional Benefit Obligation should be eliminated from maintenance factors to the extent the SFAS 106 Post Retirement Benefits Transitional Benefit Obligation expenses can be identified. (SWBT has done so in response to an AT&T RFI) The TBO represents historic expenses and are not forward-looking. New forward-looking Post Retirement Benefit expense accruals are already included in maintenance costs. (Tr. at 2526-28, 2834)

CURB: CURB argues that TBO costs are not forward-looking efficient costs or wholesale costs for which competitors should pay. The amounts of TBO to be removed from maintenance accounts 6212, 6232, 6362, 6421, 6423, 6523 and 6533 are set forth at the response to AT&T data request 4.15. For maintenance factors these TBO costs are significant and represent in excess of \$8 million in the 1995 costs which are used in the cost study. (Tr. at 3211)

Discussion: Consistent with the resolution of other issues, TBO representing historical costs not consistent with forward-looking costs, should be removed from the maintenance factors.

AE Other Expense Factors
Issue No. AE-0001, Distribution Fill Factors

Staff: Staff argues that a long-run cost study should optimize the amount of plant investment to match the volume of output and a long-run planning horizon provides the opportunity to achieve higher fill factors than those used by SWBT. SWBT insists that "total current demand and its relationship to current capacity serve as the basis for the current existing network fill factor" because "in a dynamic environment, actual fill is quite stable over time." (Tr. at 2221; 2168) Contrary to SWBT's claim of "static dynamics," Dr. Johnson's study of distribution cables over a period of 17 years revealed a steady growth of line usage. Thus, according to Staff the midpoint of the 17-year period of average fill percentage should be used, consistent with long-run economic costing approach. (Staff Brief at 8; Tr. at 3493-3494; 3579)

Staff's recommended solution is to make appropriate upward adjustments to SWBT's proposed fill factors, to be more consistent with the underlying concept of a forward-looking long-run planning horizon. Staff believes the Commission should adopt Dr. Johnson's fill factor of 53% for distribution cable, while SWBT's proposed fill factor for feeder cable appears reasonable and should be adopted as is. (Staff Brief at 9)

AT&T: AT&T argues that SWBT's cost studies use their existing utilization rates or fill factors. For distribution, SWBT assumes less than one-third capacity utilization. SWBT has used fill factors of 6% and 10% for a variety of equipment. It is not reasonable to believe that SWBT would purchase and use equipment at 6% or 10% capacity in a competitive marketplace. AT&T proposes to use a more realistic long-run forward-looking utilization rates and fill factors. (Tr. 2529-30, 2835-37)

CURB: CURB's position is that fill factors should reflect a more realistic long-run forward-looking planning horizon which are greater than what SWBT proposes. CURB proposes a distribution fill of 50%, feeder fill of 80% and DLC/fiber fill of 85%. (CURB Brief at 14; Tr. at 3216; 3316; 500)

CURB does not agree with SWBT's use of actual fill because this understates the fill factor and does not reflect the forward-looking fill factors endorsed by the FCC. In addition, according to CURB the use of actual fill will tend to cause competitors to pay more than their fair share of spare capacity,

which ultimately has to be recovered in unreasonably high retail rates from the consumer. (CURB Brief at 16; Tr. at 3216-3219)

SWBT: SWBT maintains actual utilization or fill should be used in forward-looking studies for UNEs. These fills are representative of SWBT's network and are a reasonable projection of actual utilization based upon that network. The fills are conservative since they do not reflect migration of customers due to facility-based competition. "Optimization is not appropriate."

SWBT asserts its current achieved fill is the best reflection of expected actual fill. (Tr. Vol. 6 at 2440-42; 2414) SWBT independent consultant, J. Weber, surveyed the issue and opined that SWBT's use of current fill (loop) represents achievable results and is consistent with other industry expectations. (Tr. Vol 6 at 2414, 2416-22)

Discussion: In determining the fill factor, future utilization of the facilities should be considered. Staff's recommendation to use the mid-point fill factor reflecting increased utilization over time is reasonable. CURB also recommends a forward-looking fill factor which considers projection data and trends. One factor to consider in projecting distribution fill is the increase in second lines. Historical data shows an increase in second lines. (Tr. at 3272-73, Exh. JAZ-2A) Staff's recommended distribution fill factors represent reasonable utilization rates on a long-term forward-looking basis. SWBT should use Staff's recommended distribution fill factors in its TELRIC cost study runs.

Issue No. AE-0002, Common cost factors.

Staff: Staff argues that in developing forward-looking long-run UNE cost estimates, it is appropriate to limit common costs to be consistent with the level that would be incurred by an efficient carrier that only operates in a wholesale environment. Staff proposes to make appropriate adjustments to SWBT's proposed common cost factors, to the extent necessary. (Tr. at 3478-79)

AT&T: AT&T proposes to modify SWBT's Common Cost factor inputs to eliminate double counted marketing, customer services and operator services costs. AT&T's position is that SWBT's Common Cost factor double counts marketing, customer service, and operator services costs which are recoverable as separately charged elements. AT&T's adjustment simply reflects the correct levels of retail avoided costs, computational fixes to bring the factor in line with the development of TELRIC costs, and forward-looking adjustments based on known and expected cost trends and merger savings. (Tr. at 2538-48, 2839-40, AT&T Brief at 26)

CURB: CURB's position is that common costs should be forward-looking not embedded and reflect appropriate efficiencies, as well as reflect appropriate non-recurring wholesale costs of an efficient carrier and not include any double-recovered costs. CURB considers common costs to be one of its top five priority issues. (CURB Brief at 17)

CURB recommends a conservative common cost factor of 10%, although a lower common cost factor could be justified in this case. There are specific and unique conditions and events in Kansas which require specific adjustments to common costs. The three largest issues are the SBC/PacTel merger, improper TBO costs included in the cost study and the removal of Bellcore costs. CURB excluded 20% of the TBO costs and 50% of the Bellcore costs from the common costs. (Ostrander direct, Appendices B through H, Tr. at 3227-3240)

SWBT: SWBT argues that the 1996 Telecom Act provides that reasonable rates should be based upon the costs of the unbundled network. TELRIC includes a "reasonable measure of forward-looking common cost" allocated among UNEs using a fixed allocator. SWBT contends that AT&T suggests the use of total revenues to derive the common cost allocator ratio. (Tr. 2176-77, 3706)

SWBT proposes continual use of their methodology. The forward-looking common costs recoverable in UNE rates are assumed to be in the same proportion as common cost to booked cost. That is, SWBT determined what the relationship is of common cost to booked cost, and applied that same relationship to common cost and total TELRIC cost. According to SWBT, what AT&T is seeking is a structural modification to the algorithm in the model.

Discussion: Consistent with related issues, common costs should reflect the removal of TBO costs and the impact of the SBC/PacTel merger. CURB's recommendation of a 10% common cost factor is reasonable and reflects a compromise of the various proposals and adjustments. SWBT should use a 10% common cost factor in its TELRIC cost studies.

Issue No. AE-0003, Support asset costs.

AT&T: AT&T's position is that SWBT inappropriately adds the same support asset costs to both recurring costs and many labor rates. According to AT&T, where support asset costs are appropriate to certain labor rates, SWBT frequently employs the wrong support asset factor, resulting in overstated labor rates.

AT&T proposes to use zero support assets factor in "plant" labor rates and use only the operator services support asset factor in all operator services labor rates. AT&T recommends, as does Staff, that the support assets component of plant-related labor rates be eliminated. AT&T contends this has the effect of reducing loaded labor rates for plant personnel for the TELRIC studies significantly. (Tr. at 2549-56, AT&T Brief at 27)

SWBT: SWBT argues that some salary related support asset (SA) expenses are in both plant labor rates and the support asset factor but any adjustment would be de minimis. SWBT's recommended solution is that even though any adjustments would be de minimis, if any are made, they should be made only to the support asset factor. (Tr. at 2147-50)

Discussion: Some support asset expenses are double counted. SWBT should remove the salary related SA expenses in its TELRIC cost study in the calculation of the support asset factor.

Issue No. AE-0004, Adjust the fill factors to be consistent with a true long-run planning horizon?

Staff: Staff's position is that SWBT uses utilization rates or fill factors which are derived from embedded network data, without adequate adjustment to conform to the underlying premise of a TELRIC study. A long-run cost study should optimize the amount of plant investment to match the volume of output. A long-run planning horizon provides the opportunity to achieve higher fill factors than those used by the Company. (Tr. 3453; 3434-38)

SWBT: SWBT argues that Staff implies that in long-run cost studies fill factors and growth have linear relationships; i.e., as volume or demand grows, then fill will increase. In reality, this relationship is more complex and does not always result in increased fill with increased demand. In fact, the converse is often true. The plant investment is by necessity a dynamic function which accounts for customer migration, the need to place facilities in advance of demand, the requirement to be ready and willing to serve ("carrier of last resort" obligations), and the relative immobility of network investments which leads to under-utilization of some facilities in some locations, all of which result in a lumpy cable investment. Moving to the long-run will not eliminate any of the necessary practices that accompany dynamic network construction and operation. (Tr. 2168-71) SWBT recommends the solution in AE-0001.

Discussion: As noted above in issue AE-0001, SWBT should use Staff's recommended distribution fill factors in its TELRIC cost study runs. Those factors are consistent with the long-run cost study and TELRIC concept.

Issue No. AE-0005, Should the common cost factor be based on revenues as the denominator starting point?

Staff: Staff argues that the common cost factors developed by SWBT are too high for application to SWBT's UNE cost studies, because the cost studies include a return on equity, but the denominator in the common cost factor development excludes return on equity. Staff recommends to modify the denominator of the common cost factor to include return on equity. Dr. Johnson recommends use of a common cost factor of approximately 16%. (Tr. at 3419)

AT&T: AT&T recommends that LRIC costs include profit. Revenues include profit. The matching principle requires that the factor be computed on the same basis (revenues) as it will be applied (LRIC). AT&T's adjustment simply reflects the correct levels of retail avoided costs, computational fixes to bring the factor in line with the development of TELRIC costs, and forward-looking adjustments based on known and expected cost trends and merger savings. (Tr. at 2557-58; AT&T Brief at 26)

SWBT: SWBT disagrees with AT&T's use of revenues as the factor denominator which ignores that common costs are applied to TELRIC costs, not revenues, and would tend to reward AT&T for SWBT retail marketing success. SWBT's denominator includes the cost of debt, but not the cost of equity. Total revenue is not appropriate to use, since it includes all profit and violates principles of cost-causation. Further, SWBT's method for estimating forward-looking common cost requires the allocator to be multiplied by the forward-looking TELRIC estimates. (Tr. at 2178-79)

Discussion: While there is merit in AT&T's recommendation that the common cost factor use revenues as the denominator, as discussed in issue AE-0002, CURB's recommendation of a 10% common cost factor is reasonable and reflects a compromise of the various proposals and adjustments. Because of that, no additional adjustments to the common cost factor are needed.

Issue No. AE-0006, Should Support Assets for Network Operations and Customer Operations be added to the Common Cost factor calculation?

AT&T: AT&T proposes that SWBT's method erroneously understated its common costs by excluding these costs from the common cost factor. However, based on discovery responses AT&T determined SWBT did include support assets for network operations. AT&T's adjustment reflects the correct levels of retail avoided costs, computational fixes to bring the factor in line with the development of TELRIC costs, and forward-looking adjustments based on known and expected cost trends and merger savings. (Tr. at 2559; AT&T Brief at 26)

SWBT: SWBT acknowledges that the support assets factor should be applied to the Network Operations and the Customer Operations accounts. SWBT proposes to apply SWBT's support assets factor to these accounts.

Discussion: As discussed in issue AE-0002, the Commission concludes CURB's recommendation of a 10% common cost factor is reasonable and should be used in the SWBT TELRIC cost studies. Because of that, no additional adjustments to the common cost factor are needed.

Issue No. AE-0007, Should common costs incorporate the SWBT Kansas cost trend from 1995 to midpoint of 1997 to 1999 study period?

AT&T: AT&T argues common costs incorporate the SWBT Kansas cost trend from 1995 to the mid-point of 1997 to 1999 study period. SWBT's 1995 data was a point-in-time estimate. According to AT&T, SWBT's unit common costs have been declining for years and there is no reason to expect the decline to stop. AT&T's adjustment simply reflects the correct levels of retail avoided costs, computational fixes to bring the factor in line with the development of TELRIC costs,

and forward-looking adjustments based on known and expected cost trends and merger savings. (Tr. at 2560, 2842; AT&T Brief at 26)

SWBT: SWBT disagrees with AT&T. The input is the cost allocator which is the ratio of common cost to attributable cost, not the cost per unit of output. There is no evident time trend for the allocator and it is inappropriate to speculate on future common cost decreases. (Tr. at 2177-78)

SWBT proposes that what AT&T is seeking is a structural modifications to the algorithm in the model. Not only is SWBT's operative assumption reasonable, contrary to AT&T's assertion, AT&T should not be given "another bite at the model apple."

Discussion: As discussed in issue AE-0002, CURB's recommendation of a 10% common cost factor is reasonable and should be used in the SWBT TELRIC cost studies. Because of that, no additional adjustments to the common cost factor are needed.

Issue No. AE-0008, Should common costs incorporate AT&T's proposed "Best In Group" adjustment?

AT&T: AT&T states it has reconsidered this issue and is not recommending this adjustment. (Tr. at 2561)

SWBT: SWBT argues that common costs should not incorporate AT&T's proposed "Best in Group" adjustment. (Tr. 2177-78)

Discussion: It appears AT&T has abandoned this issue. Furthermore, as discussed in issue AE-0002, CURB's recommendation of a 10% common cost factor is reasonable and should be used in the SWBT TELRIC cost studies. Because of that, no additional adjustments to the common cost factor are needed.

Issue No. AE-0009, Should common costs incorporate a one-time Telesis Merger benefit adjustment?

AT&T: AT&T argues that common costs should incorporate a one-time Telesis Merger benefit adjustment. The SBC-Telesis merger doubled the size of SBC. It is reasonable to expect scale economy improvement in common costs. SWBT has new contracts with Pacific for common functions and states clearly in its 1997 annual report to shareholders that it expects substantial savings as a result of the merger. AT&T's adjustment simply reflects the correct levels of retail avoided costs, computational fixes to bring the factor in line with the development of TELRIC costs, and forward-looking adjustments based on known and expected cost trends and merger savings. AT&T recommends a 5% reduction in common costs to reflect savings resulting from the merger. (Tr. Vol. 6 at 2541, 2562, AT&T Brief at 26)

CURB: CURB recommends that common costs should incorporate a one-time Telesis Merger benefit adjustment. CURB's theory represents a reasonable adjustment of only \$4.1 million. According to CURB, this adjustment is reasonable because it has been well over a year since the merger, SBC began realizing savings from the merger in 1998 and SBC has documented actual savings from the merger in its 1997 Annual Report to shareholders and investors. (CURB Brief at 24; Tr. at 3239-40)

SWBT: SWBT disagrees with AT&T. The merger occurred after the data year upon which the allocator was based. Common cost savings have not yet been achieved, so are speculative at this point in time. There is no reason why SWBT should pass along such savings (or expenses) to AT&T before they occur. SWBT maintains that AT&T's PacTel merger adjustment is quite speculative. There is no clear trend to date that would indicate common costs are likely to have a known, measurable and significantly lower future cost result. (Tr. at 2178)

Discussion: As discussed in issue AE-0002, CURB's recommendation of a 10% common cost factor is reasonable and should be used in the SWBT TELRIC cost studies. SBC claims that there will be savings resulting from the SBC/PacTel merger. Thus, SWBT's cost studies should reflect benefits from the SBC/PacTel merger. The 10% common cost factor reflects a compromise of the various proposals and adjustments.

Issue No. AE-0010, Should a restated Support Asset factor for 6700 Accounts be used in the development of the common cost factor?

AT&T: AT&T proposes that a restated Support Asset factor for 6700 Accounts should be used in the development of the common factor. AT&T contends SWBT's common cost factor development fails to use the wage-related support asset factor developed for other cost studies. According to AT&T, all adopted support asset factor adjustments should be reflected in the common cost factor as well. AT&T maintains its adjustment simply reflects the correct levels of retail avoided costs, computational fixes to bring the factor in line with the development of TELRIC costs, and forward-looking adjustments based on known and expected cost trends and merger savings. (Tr. at 2564; AT&T Brief at 26)

SWBT: SWBT contends it has not agreed to any changes in support asset factor development and continues to recommend the use of SWBT inputs. (Tr. at 2178, 3626)

Discussion: As discussed in issue AE-0002, CURB's recommendation of a 10% common cost factor is reasonable and should be used in the SWBT TELRIC cost studies.

Issue No. AE-0011, Should the power investment factor for General Purpose Computers be eliminated?

AT&T: AT&T argues that SWBT's power investment factor was developed for switching and circuit equipment, not general purpose computers and SWBT used booked cost of computers, which includes power equipment. SWBT's support asset factor includes 100% of SWBT's booked investment in this account. (Tr. at 2565)

SWBT: SWBT argues that its power investment factor for General Purpose Computers was based on switching and circuit equipment, which ARE computers. Power is required to support computer systems. Therefore, the power factor for general purpose computers should not be eliminated. The investments that were identified in these studies are not booked cost. (Tr. at 3628-29) SWBT recommends to continue use of SWBT inputs.

Discussion: As discussed in issue AE-0002, CURB's recommendation of a 10% common cost factor is reasonable and should be used in the SWBT TELRIC cost studies.

Issue No. AE-0012, What Support Asset Factors for Investment should be adopted if no adjustment is made for support asset costs incorporated directly in certain cost studies?

AT&T: AT&T recommends SWBT's support asset factors should be reduced slightly to account for the support assets already recovered through specific cost studies. Otherwise, the support assets should be eliminated from the specific studies. AT&T recommends, as does Staff, that the support assets component of plant-related labor rates be eliminated. This has the effect of reducing loaded labor rates for plant personnel for the TELRIC studies significantly. (Tr. at 2567, AT&T Brief at 27)

CURB: CURB's position is that support asset costs should reflect forward-looking nonrecurring costs with no duplication and appropriate calculations. (Tr. at 3221-22) CURB proposes an adjustment which supports costs meeting the above criteria.

SWBT: SWBT argues that any adjustment to support assets, as AT&T says, would be slight. This does not justify eliminating support assets from any studies. However, SWBT states that if any adjustment is made it should be to salary related computer costs. (Tr. 435-37, 3625-26) SWBT's recommended solution is to use SWBT inputs.

Discussion: As discussed in issue AE-0003, SWBT's TELRIC cost study runs should reflect the removal of the salary related support asset (SA) expenses in the calculation of the support asset factor. Because an adjustment is going to be made for support asset costs incorporated directly in SWBT cost studies, there is no need for an additional modification to adjust SA for investment.

Issue No. AE-0013, What Support Asset Factors for Labor should be adopted if no adjustment is made for support asset costs incorporated directly in certain cost studies?

AT&T: AT&T proposes that SWBT's support asset factors should be reduced slightly to account for the support assets already recovered through specific cost studies. Otherwise, the support assets should be eliminated from the specific studies. AT&T recommends, as does Staff, that the support assets component of plant-related labor rates be eliminated. (AT&T identifies the specific recommended adjustments.) This has the effect of reducing loaded labor rates for plant personnel for the TELRIC studies significantly. (Tr. 2568; AT&T Brief at 27)

SWBT: SWBT argues that any adjustment to support assets, as AT&T says, would be slight. This does not justify eliminating support assets from any studies. See also AE-0012. However, SWBT states that if any adjustment is made it should be to salary related computer costs. (Tr. at 3625-26)

Discussion: As discussed in issue AE-0003, SWBT's TELRIC cost study runs should reflect the removal of the salary related SA expenses in the calculation of the support asset factor.

Issue No. AE-0014, Should the Support Asset Factors be adjusted downward to account for support assets incorporated directly in certain cost studies and by how much?

AT&T: AT&T argues that SWBT double counts some computer assets. AT&T's recommended solution argues the numerous computer and office equipment assets in both the Support Assets factor and in specific studies should not be counted twice. Specific numerical adjustments are under development by AT&T. (Tr. at 2569)

SWBT: SWBT's position is that the computers accounted for in the non-recurring studies are estimates of computer purchases not included in support assets. The computer investments would be to support specific needs for UNE provisioning. However, SWBT states that if any adjustment is made it should be to salary related computer costs included in the support asset expense factors. (Tr. at 3625-56)

Discussion: As discussed in issue AE-0003, SWBT's TELRIC cost study runs should reflect the removal of the salary related SA expenses in the calculation of the support asset factor.

Issue No. AE-0015, Should Support Asset Factors be modified to reflect revised CAPCOST results?

AT&T: AT&T argues that support asset factors rely on the depreciation, return, and tax computations. If the latter changes, so should the former. (Tr. at 2570)

SWBT: SWBT disagrees with AT&T's position regarding depreciation and cost of money. CAPCOST results are correct as filed by SWBT. There is no need to adjust either CAPCOST or Support Asset Factors. (Tr. at 3636)

Discussion: Staff correctly states that all portions of the cost studies should use consistent assumptions concerning cost of capital and depreciation. Therefore, SWBT should be required to modify the support asset calculations to incorporate the appropriate cost of capital and depreciation rates herein. (See generally, issue BC-0001 through BC-0003 for cost of money, and issue BD-0001 for depreciation.) SWBT should re-run the CAPCOST model consistent with our findings on cost of capital and depreciation, and should use the factors produced by the CAPCOST model re-runs. As discussed in issue BD-0001, the CAPCOST runs should reflect a 99-year planning horizon.

Issue No. AE-0016, In developing forward-looking long-run UNE cost estimates, is it appropriate to limit common costs to the level that would be incurred by an efficient carrier that only operates in a wholesale environment?

Staff: Staff's recommended solution is to make appropriate adjustments to SWBT's proposed common cost factors, to the extent necessary. Dr. Johnson recommends a common cost factor of 16%. (Tr. at 3419)

AT&T: AT&T argues that in developing forward-looking long-run UNE cost estimates, it is appropriate to limit common costs to the level that would be incurred by an efficient carrier that only operates in a wholesale environment. AT&T proposes several modifications to the Common Cost inputs proposed by SWBT. AT&T's proposed modifications will correctly restate SWBT's common cost factor. See issues AE-0002, AE-0005 through AE-0010. (Tr. at 2571)

CURB: CURB recommends a conservative common cost factor of 10%, although a lower common cost factor could be justified in this case. There are specific and unique conditions and events in Kansas which require specific adjustments to common costs. The three largest issues are the SBC/PacTel merger, improper TBO costs included in the cost study and the removal of Bellcore costs. CURB excluded 20% of the TBO costs and 50% of the Bellcore costs from the common costs. In addition, CURB does not object to Staff's proposal to assign common costs on a per loop basis to avoid burdening rural loops and to provide the same amount of common overhead support for rural and urban loops. The Commission may want to consider applying a lower common cost factor to both local loop and collocation costs in order to promote faster and more efficient competition in these critical areas. (Tr. at 3223-36)

SWBT: SWBT argues that it has developed forward-looking common costs incurred by an efficient provider. SWBT's recommendation is to use SWBT's common cost factor. (Tr. at 2176-79)

Discussion: As discussed in issue AE-0002, CURB's recommendation of a 10% common cost factor is reasonable and should be used in the SWBT TELRIC cost studies.

Issue No. AE-0017, Is there a disproportionate assignment of overheads to customers in rural zone 1?

Staff: Staff argues that the studies are designed to apply a common cost loop overhead factor on a percentage basis (i.e. 15.64%) to all the basic UNE costs determined in the cost studies. When the loops are priced out by zone, the amount of common costs assigned to rural zone 1 is 4 times the amount assigned to lines in metro zone 3. According to Staff, this is a disproportionate assignment of overheads to these customers. The BCPM Model used a different method for assigning overheads; it assigned those associated with loops on a per access line basis. Staff indicates the current method has some significant implications for the amount of KUSF support needed on a per loop basis.

Staff recommends that the amount of common overheads to be assigned to all loops be determined first and then allocate the overhead costs on a per loop basis. This will result in rural loops providing the same amount of common overhead support as metro loops. (Staff Brief at 9) This will also

cause the rate for metro UNEs to rise since they will be assigned more common cost than under the straight percentage method, and rates for rural UNEs to decrease. (Tr. at 3390-91)

AT&T: AT&T argues that the common costs accrue disproportionately to UNEs in higher cost zones. AT&T's recommended solution is the application of a common cost factor on a uniform percent basis is the preferred approach, but a reasonably computed average common cost per loop amount would be acceptable. According to AT&T, higher cost rural UNE loop rates should be considered to be eligible for the KUSF. (Tr. at 2572)

CURB: CURB is in favor of Staff's proposal to allocate common costs on a per loop basis. CURB argues that such an allocation will benefit rural customers by reducing common costs allocated to the rural zone as compared to when an across the board allocation of common costs is done. (CURB Brief at 23; Tr. 3237-3238 and 3327-3328.) If the Commission disagrees with Staff's proposal, CURB argues for the allocation of a smaller percentage of common costs to the critical UNEs of loop and collocation. In the FCC's First Report and Order at section 696, the FCC recognizes that loops and collocation are two critical areas which are difficult for entrants to replicate promptly. (CURB Brief at 24; Tr. 3237-3238)

SWBT: SWBT contends that it developed a common cost allocator for ease of application of common costs. SWBT argues that the demand information to assign common costs to each UNE is not available and SWBT's common costs must be recovered in total. SWBT is not opposed to recovering different amounts from UNEs but the assignment would be arbitrary because demand information is not available. (Tr. at 2179)

Discussion: If common costs are assigned on a percentage basis to loop costs, there will be a disproportionate allocation of common costs to the loops in rural zones. It would be appropriate and reasonable to assign common costs to loops on a per-loop basis, because this will assign the same level of common costs to each loop and will not disproportionately burden loops in rural areas. Therefore, SWBT is directed to identify the total common costs for loops, using the 10% common cost factor per issue AE-0002, and divide the total common costs for loops by the number of loops to obtain a per-loop assignment of common costs. The per-loop assignment of common costs should then be applied to the loop costs, for each zone, in order to derive the TELRIC cost for loops.

Issue No. AE-0018, SWBT will not provide access to its Business Action Plan

AT&T: AT&T proposes that access to SWBT's Business Action Plan is critical to setting TELRIC rates particularly as SWBT's internal planning may substantially contradict SWBT's own TELRIC study assumptions. TELRIC studies should not be done on a static, frozen as of 1995, basis. TELRIC is forward-looking and SWBT's Business Action Plan could reveal a great deal about what the future holds. SWBT should provide access to its Business Action Plan. (Tr. at 2573)

CURB: CURB argued that SWBT would not provide access to its Business Action Plan to determine potential forward-looking impacts of competition, mergers, other planned efficiencies and related issues on labor costs, force levels, and related factors. However, SWBT did provide CURB access to its Business Action Plan. (Tr. at 3223-24)

SWBT argues SWBT's plans contain no specific information relating to the Kansas market or to any state's wholesale pricing elements or plans. The plan does not include any specific details regarding UNE pricing or elements. Any conclusions that might be drawn from this Plan may be inappropriate for Kansas. (Tr. at 2411-12)

Discussion: This is a discovery issue. SWBT's withholding of discoverable information from the parties in this proceeding will not be condoned. Furthermore, SWBT provided access to its Business Action Plan to CURB. CURB addressed the information in its testimony. (Tr. at 3223-24)

Issue No. AE-0019, Business Action Plan impact on maintenance factors.

AT&T: AT&T argues that SWBT will not provide access to its Business Action Plan. AT&T's recommended solution: See issue AE-0018.

CURB: CURB argues that SWBT will not provide access to its Business Action Plan to determine potential forward-looking impacts of competition, mergers, other planned efficiencies and related issues on maintenance costs, force levels, non-recurring costs, etc. (Tr. at 3223-24)

SWBT: SWBT's response to other parties positions on the Business Action Plan impact on maintenance factors can be found under the discussion for issue AE-0018.

Discussion: See issue AE-0018.

Issue No. AE-0020, Should SWBT common costs be adjusted to reflect forward-looking impact of PacTel/SNET merger?

AT&T: AT&T's position is that SWBT common costs should be adjusted to reflect forward-looking impact of PacTel/SNET mergers. (Tr. 2575) AT&T's proposed solution is the same as for issue AE-0009.

CURB: CURB's position is that SWBT's common costs should be adjusted to reflect forward-looking impact of PacTel/SNET merger. According to CURB, this adjustment is necessary to reflect the impact of the SBC/Pacific Telesis merger on SWBT's common costs to reflect forward-looking costs and the economies resulting from the merger. It has been well over a year from the SBC/PacTel merger so CURB believes it is reasonable to reflect these adjustments at this time into common cost calculations since these benefits are now being received by SBC. (CURB Brief at 24; Tr. 3239-40)

To calculate the adjustment CURB began with \$600 million in savings, about 20% of the SBC reported amount. 3.2% of the \$600 million in savings is allocated to Kansas - \$19.2 million. The 3.2% factor is derived from looking at various Kansas factors compared to SBC factors. Next CURB assumed that Kansas expenses are reduced by the \$19.2 million in the same proportion to which expenses are incurred. Then CURB applied the same retail avoided costs ratios. This results in a final number of \$4.1 million of merger benefits to be used to reduce common costs. Mr. Ostrander's direct testimony at Appendix B, Schedule C, provides detailed supporting calculations for this adjustment with further explanation in CURB's July 30, 1998, response to Commission Q.3.

SWBT: SWBT's response to the impact of PacTel/SNET merger on common costs is the same as that for AE-0009. SWBT's solution can be found under AE-0009.

Discussion: The SBC/PacTel merger is a known event, and a reasonable calculation of the benefits of the SBC/PacTel merger should be reflected in the determination of SWBT's forward-looking costs so that the UNE rates reflect the cost savings associated with the merger. CURB's calculation of the appropriate adjustment amount should be adopted. This adjustment is reflected in the 10% common cost factor adopted in issue AE-0002.

Issue No. AE-0021, Should the TBO be adjusted to reflect forward-looking levels in various support asset factors?

Staff: Staff's position is that in developing forward-looking long-run UNE cost estimates, it is appropriate to exclude SWBT's SFAS 106 Post Retirement Benefit Obligation costs since the TBO reflects prior period costs which are not warranted in a forward-looking cost study. Staff recommends that the amortization of SWBT's Transition Benefit Obligation should be excluded for the cost elements added to labor in developing overall hourly labor rates. Staff recommends the

Commission require the elimination of all TBO costs in the development of UNE prices. (Tr. at 3340; Staff Brief at 6)

CURB: CURB recommends a conservative common cost factor of 10%, which includes a reduction in the TBO costs. CURB initially excluded 20% of the TBO costs. CURB's position is that common costs should be forward-looking not embedded and reflect appropriate efficiencies, as well as reflect appropriate nonrecurring wholesale costs of an efficient carrier and not include any double-recovered costs. Therefore, CURB agrees with Staff that all of the TBO costs should be excluded. (Tr. at 3230, CURB Brief at 18)

AT&T: AT&T's position is that SWBT has included post-retirement benefit TBO costs in its support asset factors. AT&T's proposed solution is that TELRIC studies should not be done on a static, frozen as of 1995, basis. The entire TBO should be excluded from SWBT's TELRIC studies. It does not reflect a forward-looking cost. (Tr. at 2576, 2846)

SWBT: SWBT's position is that TBO expenses will continue to be accounted for over a period of 20 years in Kansas. This has been approved by the KCC. These expenses are legitimate expenses of SWBT and should remain in the calculation of labor rates. (Tr. at 2145-47)

Discussion: As discussed in issue AB-0006, the TBO is not a forward-looking cost and should be removed from the TELRIC cost studies. Although CURB's calculations resulting in a 10% common cost factor deducts less than 100% of the TBO costs, a common cost factor of 10% reflects a compromise of the various proposed adjustments.

Issue No. AE-0022, Common cost factors detailed account information is not provided by SWBT

AT&T: AT&T argues that SWBT will not reasonably provide information needed to determine if amounts are forward-looking. AT&T doubts that enough information will ever be available from SWBT to adequately convert SWBT's factors to a forward-looking basis. However, AT&T has identified numerous concerns and is continuing to quantify them on the basis of SWBT data already provided. See issues AE-0001, AE-0002, AE-004, AE-0005 and AE-0009. (Tr. at 2577)

CURB: CURB argues that common cost factors detailed account information is not provided by SWBT. According to CURB, SWBT will not reasonably provide information by sub-account/matrix (wages, benefits, rents, other), or information for supporting amounts in the account in order to determine if amounts are forward-looking and properly excludes nonrecurring costs, costs unrelated to wholesale, non-Kansas costs, impacts of R&D, Bellcore costs (Bellcore has been sold), maintenance duplication, nonrecurring cost duplication, etc. (Tr. at 3232-36)

SWBT: SWBT's response and recommended solution on this issue can be found under the discussion and solution for issue AE-0018. (SWBT Brief at 14)

Discussion: Based on the evidence of record, the parties have had access to sufficient information to present their calculations of the common cost factor. As stated in issue AE-0002, the Commission adopts a 10% common cost factor for purposes of the SWBT TELRIC studies.

Issue No. AE-0023, Business Action Plan impact on common cost factors.

AT&T: AT&T argues that SWBT will not provide access to its Business Action Plan. AT&T's recommended solution for this issue is found in the solution of issue AE-0009.

CURB: CURB argues that SWBT will not provide access to its Business Action Plan to determine potential forward-looking impacts of competition, mergers, other planned efficiencies and related issues on common costs (including general and administrative costs), allocations from corporate, nonrecurring costs, etc. (CURB Brief at 26, Tr. 3223)

SWBT: SWBT response to the Business Action Plan impact on common cost factors can be found in the discussion and solution section of issue AE-0018.

Discussion: As discussed at issue AE-0002 and AE-0022 the parties had access to sufficient information to present their calculations of the common cost factor. As stated in issue AE-0002, the Commission adopts a 10% common cost factor for SWBT's TELRIC studies.

AF Inflation Factor

Issue No. AF-0001, Should SWBT's Inflation factors be rejected, or adjusted for productivity?

Staff: Staff argues that productivity improvements offset inflation and that SWBT's proposed inflation factors do not adequately consider the offsetting benefits of productivity gains. Other SWBT jurisdictions, Texas and Missouri, have rejected similar inflation factor proposals put forward by SWBT. (Tr. at 3477)

Staff's recommended solution is to exclude the inflation factors, or make appropriate adjustments to SWBT's proposed inflation factors to reflect the benefits of productivity improvements. Staff believes that the cost studies should use internally consistent assumptions concerning volume of demand, wage rates, material costs, technology and productivity levels. SWBT has adjusted portions of its studies to reflect inflation, but has not adequately recognized the offsetting benefits of productivity gains. Staff maintains the productivity adjustments would largely or entirely offset the inflation factor. According to Staff, the simplest and most appropriate way to resolve this issue is to completely exclude the use of inflation factors, thereby eliminating the need to estimate the offsetting productivity improvements. (Tr. Vol. 8 at 3470-77)

AT&T: AT&T's position is that in addition to the common cost factor, SWBT's proposed UNE prices are based on a variety of annual inflation factors, many exceeding 3 percent. This inflation component is not offset by any productivity adjustment or increase in demand, which one would expect given the pace of technological advance in the telecommunications industry. Moreover, because SWBT already applies a rate of return that captures and compensates investors for expected inflation as part of its Capital Cost Factor, it should not be allowed to double recover for inflation. Significantly, both the Texas and Missouri Commission have rejected inflation factors in SWBT cost studies. (Tr. at 2579-81) AT&T proposes to eliminate all inflation factors from SWBT cost studies as has been ordered by the Texas, Arkansas, and Missouri Commissions. (AT&T Brief at 28)

CURB: CURB opposes the use of inflation factors since SWBT has not fairly reflected the offsetting impact of productivity, various expense reductions and efficiencies of forward-looking plant. According to CURB, SWBT's cost studies are not forward-looking since they do not reflect the positive trends occurring in the telecommunications industry and particularly for SWBT. CURB's position is that SWBT's 3% inflation factor is overstated. Correspond this overstatement with the absence of any offsetting productivity factor, and the result is excessive UNE costs. If a 1.5% telecommunications inflation factor is utilized, this would be more than offset by the conservative 2.3% productivity factor adopted by the Commission in SWBT's price cap plan. (CURB Brief at 27; Tr. at 3243-3244) Mr. Ostrander's review of the SWBT Business Action Plans found nothing that caused him to believe a removal of the inflation factor of SWBT would harm the Company. (CURB Brief at 28, Tr. at 3244)

CURB contends that contrary to SWBT's argument, productivity and efficiency gains are not already reflected in SWBT cost studies simply by using the most efficient and recent technology in place. In fact, the most efficient technology is not in place in the SWBT models to begin with (such as IDLC, etc.). SWBT has provided no specific proof that a certain level of productivity is included in the models. (CURB Brief at 27, Tr. at 3244)

CURB proposes that all SWBT inflation factors be removed from SWBT cost studies in lieu of offsetting the inflation factor by a productivity factor. If the Commission decides to allow an inflation factor, then a productivity factor should be used. If this should happen, CURB recommends the Commission set the productivity factor to exceed the inflation factor proposed by SWBT. CURB, Staff and AT&T all support this same position. (CURB Brief at 26, Tr. at 3243-3244, 3470-3477 and 2579-2585)

SWBT: SWBT argues that the rate of return merely recognizes investor expectations for a return on investment. In addition, SWBT experiences increased costs of material, labor and other resources. It is these increases that are reflected in the inflation factors. Productivity improvements are reflected through use of forward-looking technology, and by the current cost/booked cost (CC/BC) adjustment. While recognizing productivity improvements, SWBT must recognize that inflation does occur. Removing inflation would lead to double-counting productivity gains and to costs that are appropriate only for a one-year period. (Tr. at 2447-48) SWBT's cost studies appropriately include inflation for the study period. Texas and Missouri assumptions are irrelevant in the proceeding.

Additionally, the interconnection agreements will have a "term period." Since UNEs can be purchased at any time over that term, SWBT used an inflation adjustment to reflect the average expected change in costs over that three year term. (Tr. at 2180, 2157-58)

Discussion: If an inflation factor is adopted, a productivity factor should also be adopted. SWBT's cost studies do not include an explicit productivity factor. Staff states if a separate adjustment for productivity were to be made, that adjustment could more than offset the inflation adjustment. Missouri, Arkansas, Texas and Oklahoma eliminated the inflation factor to offset the lack of a productivity factor. The United States District Court, Western District of Texas recently affirmed the Texas Public Utilities Commission's decision. *SWBT v. AT&T*, No. A97-CA-132SS (W.D. TX August 31, 1998) Removing the inflation adjustment from SWBT's TELRIC cost studies represents a reasonable and conservative way of addressing these issues.

Issue No. AF-0002, TPI factors lack detail support.

AT&T: AT&T argues that the Telephone Plant Index (TPI) factors utilized by SWBT lack adequate detailed supporting documentation. AT&T proposes that the primary result of using SWBT's TPI values is seen in its CC/BC ratios. Several of these raise very obvious questions about the validity of SWBT's inputs. However, the use of the CC/BC ratios is integral to SWBT's cost study method. Replacing them could entail a very long process. AT&T reluctantly supports SWBT's use of TPIS in the development of CC/BC ratios but opposes the use of "forward-looking" TPI values to compute "inflation" effects on investments. (Tr. at 2582)

CURB: CURB opposes the use of general TPI factors as plant asset inflation factors without some corresponding and specific accountability for productivity and efficiency of various types of plant. TPI is not a reasonable forward-looking adjustment. (Tr. 3246-50)

CURB recognizes that TPI and CC/BC ratios are a foundation of the SWBT cost studies, and any alternatives may be difficult and time consuming to implement. Furthermore, CURB has no ready substitutes for SWBT's TPI factors. This is part of the problem with using SWBT's mainframe model, which is not flexible and various assumptions cannot be readily changed. However, rather than propose a blanket removal of all TPI, and revising the CC/BC ratios, CURB recommends that the Commission place SWBT on notice that this issues should be addressed in future proceedings. CURB believes SWBT's TPI factors and methodology are flawed and will cause overstatement of UNE costs. The Commission should use its discretion in balancing this concern with its decision on other adjustments to arrive at reasonable UNE costs. (CURB Brief at 28-29)

SWBT: SWBT argues that sufficient detail was provided. Kansas data is used. See issue AA-0003 for more discussion. SWBT argues that there is no stated problem and thus, this is not an issue warranting a solution.

Discussion: As conceded by AT&T and CURB, the use of the CC/BC ratios is integral to SWBT's cost study method and replacing them could entail a very long process. SWBT should not be required to undertake that process in re-running its TELRIC cost studies; however, as recommended by CURB, this issue will be addressed in future proceedings and SWBT should maintain and provide the detail necessary to address this issue in future proceedings.

Issue No. AF-0003, Do SWBT's cost studies reflect productivity improvements?

Staff: Staff states the cost studies do not recognize increased productivity. (Tr. at 3470) Staff recommends the Commission exclude the use of inflation factors. (Tr. at 3476)

AT&T: AT&T argues that SWBT's cost factors are based on embedded 1995 data which does not and cannot reflect prospective changes in productivity, and that in fact, the cost studies do not reflect productivity improvements. AT&T proposes to eliminate all inflation factors from SWBT cost studies as has been ordered by the Texas, Arkansas, and Missouri Commissions. (Tr. at 2583-85; AT&T Brief at 28)

CURB: CURB argues that contrary to SWBT's argument, productivity and efficiency gains are not already reflected in SWBT cost studies simply by using the most efficient and recent technology in place. The most efficient technology is not in place in the SWBT models to begin with (such as IDLC, etc.) and SWBT has provided no specific proof that a certain level of productivity is included in the models. (CURB Brief at 27; Tr. at 3244) SWBT admits this much in its June 30, 1998 response to Commission Q.9 (Mr. Lehman) Mr. Lehman states, "[h]owever, the SWBT methodology is an alternative to an independent estimate of productivity gains, so it is not possible to directly say whether SWBT is measuring all of the productivity gains SWBT is likely to experience." CURB addresses this issue in its August 5, 1998 response to Commission Q.9.

SWBT: SWBT argues that its cost studies account for productivity improvements through identification of forward-looking investments, time estimates, etc. Cost factors are only one aspect of the studies. As to the factors, the use of the CC/BC ratio in factor development recognizes productivity improvements. (Tr. 846-847; 2180-81)

Discussion: SWBT's cost studies recognize productivity to a limited degree in an indirect manner, by applying cost factors to TELRIC investment. However, SWBT's cost studies reflect inflation directly, but do not reflect productivity in a similar direct manner. The degree to which SWBT has reflected a productivity offset to inflation appears to be inadequate. As discussed in issue AF-0001, Staff's, AT&T's and CURB's recommendation that the best way to address the lack of productivity offset is to zero-out, or remove, the impact of the inflation factors from SWBT's TELRIC cost studies shall be adopted.

Issue No. AF-0004, Do CC/BC adjustments by SWBT reflect productivity improvements?

AT&T: AT&T argues that CC/BC adjustments by SWBT do not reflect productivity improvements. SWBT has stated that by their very nature, CC/BC ratios purportedly reflect the replacement cost of a given asset by a like asset. For example, a CC/BC ratio for analog switching reflects what it would cost SWBT to replace the analog switch with another analog switch. (Tr. at 2586)

CURB: CURB recognizes that TPI and CC/BC ratios are a foundation of the SWBT cost studies, and any alternatives may be difficult and time consuming to implement. Furthermore, CURB has no ready substitutes for SWBT's TPI factors. This is part of the problem with using

SWBT's mainframe model, which is not flexible and various assumptions cannot be readily changed. However, rather than propose a blanket removal of all TPI, and revising the CC/BC ratios, CURB recommends that the Commission place SWBT on notice that this issue should be addressed in future proceedings. (CURB Brief at 28-29)

SWBT: SWBT argues that its cost studies account for productivity improvements through identification of forward-looking investments, time estimates, etc. Cost factors are only one aspect of the studies. As to the factors, the use of the CC/BC ratio in factor development recognizes productivity improvements. (Tr. 846-847; 2180-81)

Discussion: As discussed in issue AF-0002, and as AT&T and CURB have conceded, the use of the CC/BC ratios is integral to SWBT's cost study method and replacing them could entail a very long process. SWBT will not be required to undertake that process, at this time, in re-running its TELRIC cost studies. As discussed in issues AF-0001 and AF-0003, elimination of the inflation adjustment is a reasonable way of addressing the issues concerning inflation and productivity offset.

BA CapCost Model (includes rate of return, depreciation, taxes, etc.)

Issue No. BA-0001, Should depreciation, return, and tax values be based on projection lives and future net salvage percentages from the FCC / KCC 1997 depreciation update?

AT&T: AT&T asserts the capital cost factor may have single largest affect on SWBT's cost studies. AT&T argues that depreciation, return and tax values should be based on projection lives and future net salvage percentages from the FCC/KCC 1997 depreciation update. FCC / KCC 1997 depreciation parameters fully reflect forward-looking cost principles. According to AT&T, SWBT's proposed parameters and plant lives flatly contradict SWBT current planning guidelines and rely on erroneous substitution analysis that presume the development of technologies that are not yet invented. SWBT has the opportunity to argue its case for revised depreciation rates with the FCC and state Commissions at least triennially, with annual updates. Until such time as SWBT can convince the FCC it needs higher depreciation rates, AT&T believes UNE purchasers should not be the only ones burdened with those costs. Depreciation rates within the FCC-adopted depreciation parameters (asset lives, net salvage, etc.) should be adopted. (Tr. 2587-2608; AT&T Brief at 29-30)

CURB: CURB recommends adoption of current Kansas authorized depreciation lives/rates (which are the FCC-approved rates/lives), along with any 1998 FCC decision regarding SWBT's 1997 annual updates. Attachment A to CURB's brief compares the CURB proposed lives to SWBT's proposed lives. Attachment A is a copy of page 9 of Ms. Knox's July 30, 1998 response to Commission Q.14. CURB proposes adoption of the lives in the column titled, "FCC Presc. Kan96 PLIFE". (CURB brief at 29) Mr. Ostrander indicates that of all cost study assumptions addressed in numerous UNE proceedings across the United States, the most consistently adopted position by states is to use FCC-authorized (and state-approved) depreciation rates. (CURB Brief at 30; Tr. 493-494.)

CURB argues that FCC-authorized depreciation rates should be adopted because related "projection" lives produce forward-looking rates. (Tr. 2591; 2593-2597.) In SWBT's July 30, 1998 response to Commission Q.15, SWBT's response indicates the SWBT composite depreciation rates are around 6.5%. The 6.5% composite depreciation rate is in line with SWBT's forward-looking composite depreciation rate found in the Business Action Plan and is consistent with Mr. Ostrander's position on this issue. (CURB's response to Commission Q.15.) CURB has considered the estimated impact of depreciation in its proposed loop costs shown at Appendix BCO-1 in Mr. Ostrander's rebuttal testimony.

SWBT: SWBT argues the its FCC depreciation parameters do not yield economic depreciation, whereas FCC prescribed rates are based upon retirement patterns of embedded plant which do not adequately include the impacts on obsolescence due to competition, changes in

technology and changes in customer demand. The economic lives used by SWBT in its cost studies are a better representation of expected depreciation for forward-looking cost studies.

SWBT proposes that the economic lives used by SWBT in its cost studies are a better representation of expected depreciation for forward-looking cost studies. SWBT uses economic lives in its studies. AT&T argues that “economic lives” is merely a buzz word and that it is sufficient if forward-looking prescribed lives that have an eye towards the future technological changes are used. (Rhinehart Rebuttal) Economic lives is not just a buzz word; the FCC has already recognized that its prescribed parameters are not the economic lives needed for TELRIC studies. (SWBT Brief at 5) SWBT proposes to use SWBT inputs which are economic lives. (Tr. at 2103-33)

Discussion: CURB's recommendation that the FCC-authorized (and state-approved) SWBT depreciation rates for Kansas reflect forward-looking considerations and should be used in the TELRIC cost studies should be adopted. Further, a number of other regulatory commissions have reached a similar conclusion.

BC Cost of Capital

Issue No. BC-0001, -0002, What Cost of Money should be used?

Staff: Staff's position is that SWBT's studies rely on a cost of money of 10.69% which was presented in Docket 97-SCCC-167-ARB. Staff believes 10.69% is not representative of the current capital markets and is not forward-looking. Staff proposes a 9.20% weighted average cost of capital should be used. If the Commission does not accept the recommendation of 9.20%, it ought to consider a cost of money within the range of 8.825% to 9.675%. This is calculated using a 11.75% cost of equity and a 6.65% cost of debt and a capital structure of 50% equity and 50% debt. Staff determined the cost of debt was determined by taking the weighted average of 1 to 29 term bonds divided into 4 groups. Staff determined the cost of equity using US West Communications Group as a basis and taking the average from one capital asset pricing model (CAPM) and two discounted cash flow (DCF) analysis. (Tr. at 3342)

AT&T: AT&T believes that 10.69% is not representative of the current capital markets and is not forward-looking. AT&T states SWBT stipulated to a 10.00% cost of money in Oklahoma. AT&T proposes a 10.0% cost of money be adopted. (Tr. at 2609-10)

CURB: CURB believes that an appropriate range for cost of money is 9.63% to no greater than 10%. According to CURB, SWBT's proposed cost of money is excessive and does not adequately represent a forward-looking view since its calculation goes back to 1995. (Tr. at 3263-66)

SWBT: SWBT agrees that 10% was a compromise between AT&T and SWBT in Oklahoma. However, in Kansas the cost of money is different. SWBT argues that it has provided documentation as to the 10.69% cost of money. According to SWBT, Staff's and CURB's recommended 9.2% is not forward-looking. Staff's proposal is a historical presentation — “just as in a rate case.” SWBT contends this type of regulatory approach is outmoded and backward looking. Thus, Staff finds itself in the odd position of using historical regulatory analysis to tell the competitors what they should be seeking in the forward-looking competitive markets. SWBT's recommended solution is to use the appropriate Kansas cost of money which is 10.69%. SWBT contends 10.69% represents the forward-looking cost of money for SWBT. According to SWBT, the 10.69% cost of capital is based upon an equity to debt ratio of 58/42, a 13% cost of equity and a 7.5% debt cost. (Tr. 2002-03, 2465-69; SWBT Brief at 6)

Discussion: SWBT should use a 10% weighted average cost of capital in its Kansas TELRIC cost studies. The 10% is within the range of the rates recommended by the parties, and was used in a compromise between SWBT and AT&T in Oklahoma. The provision of UNEs by SWBT will continue to be an essentially monopolistic function, because SWBT will be the only supplier. A

10% weighted average cost of capital is reasonable for use in the Kansas. The 10% weighted average cost of capital is based upon an equity to debt ratio of 58/42, as proposed by SWBT, and a 12.25% cost of equity and a 6.80% cost of debt. A 12.25% cost of equity and 6.8% cost of debt are within the ranges presented by Staff.

Issue No. BC-0003, How does SWBT determine the risk inherent in the cost of capital determination for wholesale operations' cost of capital, and how and why is risk presumed to change and in comparison to what entities?

Staff: Staff argues that SWBT is requesting a return on equity component equal to that earned by the S&P 500 Index. This risk is measurably higher than the risk of its parent company, SBC (Beta of .90). Staff recommends use of the risk of US West Communications Group, which is more in line with SWBT. This beta is .70. (Tr. at 3353)

AT&T: AT&T argues that SWBT's risk as a wholesale provider is lower than its risk as a retail provider. SWBT has the only ubiquitous facilities-based network in its territory. Regardless of the retail provider, AT&T believes SWBT is likely to be the wholesale provider for the near term. (Tr. at 2611; 2847)

CURB: CURB agrees that the use of USWCG beta of .70 is reasonable for SWBT operations in this case because it is more indicative of relative risk and market position of SWBT in Kansas regarding the provision of virtual-monopoly UNEs to competitors. SWBT's current UNE business is closer to approximating the USWCG risk rather than the total risk of SBC. According to CURB, SWBT's relative risk has not become a significant or growing factor in relation to its provision of UNEs and this should not be reflected as such in cost of capital calculations. (Tr. at 3263-66)

CURB believes that SWBT only faces the potential for effective competition in Kansas and since this has not occurred yet, they do not believe that SWBT has faced any measurable increase in risk in the big picture. In fact, with the deregulation and increase in competition, it appears to CURB that SWBT may benefit more than increase risk, because all indications from the Company point to an increase in business and not an increase in risk. (Tr. at 3263-66)

SWBT: SWBT argues its proposed cost of capital is accurate and should be adopted. (Tr. at 2465)

Discussion: See issue BC-0001. The provision of UNEs by SWBT will continue to be an essentially monopolistic function, since SWBT will be the only supplier. A 10% cost of money is reasonable for use in the Kansas TELRIC studies and reflects a risk factor for SWBT consistent with its function as the only wholesale provider.

BD Depreciation

Issue No. BD-0001, Depreciation asset lives.

AT&T: AT&T's position is that SWBT employs depreciation rates based on far shorter network asset lives than the lives most recently approved by the FCC; in many instances, the lives used fall far below the FCC range. According to AT&T, in Texas, SWBT also proposed significant misuse of the CAPCOST program, basing depreciation, return and tax factors on only a 3-year planning period. The Texas Commission ordered a 99-year planning period. (Tr. at 2612-13)

AT&T proposes to use asset lives from 1997 Depreciation Update filed with the FCC and a 99-year planning period in CAPCOST. SWBT has the opportunity to argue its case for revised depreciation rates with the FCC and state Commissions at least triennially, with annual updates. Until such time as SWBT can convince the FCC it needs higher depreciation rates, AT&T believes UNE purchasers should not be the only one burdened with those costs. Depreciation rates with FCC-adopted depreciation parameters (asset lives, net salvage, etc.) should be adopted. (AT&T Brief at 29-30)

CURB: CURB recommends adoption of current Kansas authorized depreciation lives/rates (which are the FCC-approved rates/lives), along with any 1998 FCC decision regarding SWBT's 1997 annual updates. Attachment A to CURB's brief compares the CURB proposed lives to SWBT's proposed lives. Attachment A is a copy of page 9 of Ms. Knox's July 30, 1998 response to Commission Q.14. CURB proposes adoption of the lives in the column titled, "FCC Presc. Kan96 PLIFE". (CURB brief at 29.) Mr. Ostrander indicates that of all cost study assumptions addressed in numerous UNE proceedings across the United States, the most consistently adopted position by states is to use FCC-authorized (and state-approved) depreciation rates. (CURB Brief at 30, Tr. 493-494; 3252-61)

CURB argues that FCC-authorized depreciation rates should be adopted because related "projection" lives produce forward-looking rates. (Tr. 2591 and 2593-2597) In SWBT's July 30, 1998 response to Commission Q.15, SWBT's indicates the SWBT composite depreciation rates are around 6.5%. The 6.5% composite depreciation rate is in line with SWBT's forward-looking composite depreciation rate found in the Business Action Plan and is consistent with Mr. Ostrander's position on this issue. (CURB's response to Commission Q.15.) CURB has considered the estimated impact of depreciation in its proposed loop costs shown at Appendix BCO-1 in Mr. Ostrander's rebuttal testimony.

SWBT: According to SWBT, its parameter results yield economic depreciation, whereas the FCC depreciation parameters were not designed to yield economic depreciation and have not been reviewed to determine that they do. SWBT believes the FCC prescribed rates which are based upon retirement patterns of embedded plant which do not adequately include the impacts on obsolescence due to competition, changes in technology and changes in customer demand.

SWBT proposes that the economic lives used by SWBT in its cost studies are a better representation of expected depreciation for forward-looking cost studies. SWBT uses economic lives in its studies. AT&T argues that "economic lives" is merely a buzz word and that it is sufficient if forward-looking prescribed lives that have an eye towards the future technological changes are used. (Rhinehart Rebuttal, pg. 9) According to SWBT "economic lives" is not just a buzz word; the FCC has already recognized that its prescribed parameters are not the economic lives needed for TELRIC studies. (SWBT Brief at 5, Tr. at 2103-33)

Discussion: As discussed in issue BA-0001, CURB's recommendation that the FCC-authorized (and state-approved) SWBT depreciation rates for Kansas reflect forward-looking considerations and should be used in the TELRIC cost studies should be adopted. SWBT should also verify that the CAPCOST runs reflect a 99-year planning horizon.

CA Loop and Cross Connect Studies Issue No. CA-0001, Loop investment and loop averaging

Staff: Staff's position is that the "banding" approach used by SWBT generally develops loop lengths which are consistent with the underlying sample data. The exception is copper feeder lengths in the first band, where SWBT's 1,000 foot assumption is significantly greater than the average of the sample data falling within this band. (Tr. at 823)

Staff recommends the "banding" approach be retained. However, while Staff concludes that the banding method used by the Company is generally appropriate and valid, there are two minor exceptions — 750 feet should be used as the class mark for copper feeder loops in the first band and 15,250 feet should be used as the class mark in the first band for fiber feeder loops. (Staff Brief at 13, Tr. 3501-05)

AT&T: AT&T's position is that SWBT's LPVST program for determination of loop investment uses flawed loop length averaging. According to AT&T, this cost model has a bias built into it that causes loop costs and the cost of shorter loops to be overstated. SWBT's loop cost model

does not determine cost based upon actual loop lengths, but assumes that all loops from one to 1500 feet in length are 1000 feet in length. (Tr. at 2657-59, AT&T Brief at 32)

Mr. Zubkus testified that SWBT's loop studies violate requirements of the Federal Act and provisions of the State Act that prices for unbundled network elements be based on cost and be non-discriminatory because such prices would greatly exceed the cost that SWBT incurs when it provides such services to itself. According to AT&T, SWBT's loop studies fail to produce accurate estimates of TELRIC and overstate the cost. (Tr. at 2657-59, AT&T Brief at 31)

AT&T's recommended solution is to use the AT&T LVPST work-alike program to determine loop investment based on the actual sample, not by banded lengths. Mr. Zubkus testified that it would be a fairly simple process to redo the algorithms to look at the actual loop lengths as opposed to the banding process. In fact, a spreadsheet model can easily be developed to replace LPVST. (AT&T Brief at 32) AT&T's response to RFI BJA-11 shows that SWBT's banding method can substantially overstate certain loop lengths. (Tr. at 2657-59)

SWBT: SWBT argues that AT&T's position concerning the first band (1-1500 feet) is incorrect, since loop lengths within this band are not uniformly distributed; there are relatively few very short loops and the average for the band is close to 1000 feet. The actual difference between the AT&T proposal versus the SWBT bands is minimal (less than 1%) and utilizing the SWBT banding approach is a valid efficient modeling approach. (Moore, pg. 6-7.) According to SWBT, the average actual length of the first band is less than 2 feet different from the 1000 feet used by SWBT; Staff's 750 feet recommendation is not as reasonable a choice. SWBT states its "banded" model platform is reasonable and should be retained. (Tr. at 2222-24, SWBT Brief at 16)

SWBT argues: that each sample loop length is grouped into a kilofeet rather than actual loop length; this banding has de minimis impact on the study results; this is the model parameters previously approved, and it is not an input issue. SWBT contends any change would require a revision to the existing model. (Tr. at 2224)

Discussion: The Commission concludes that SWBT's "banding" approach should be modified. SWBT may use either Staff's recommended adjustment or use the actual loop lengths as proposed by AT&T. Staff recommended SWBT should adjust the class mark to 750 feet for copper loops in the first band, and should use 15,250 feet as the class mark in the first band for fiber feeder loops.

Issue No. CA-0002, Sharing of pole and conduit investment.

Staff: Staff argues that SWBT does not always install its own poles; sometimes it rents space from another entity (e.g., an electric utility). SWBT also rents pole attachment space to others (e.g., to a CATV firm). Sharing of this type will be of increasing significance in the future, as more and more carriers share the same rights of way (e.g. electric, cable television, long distance and multiple local telephone carriers). Staff proposes that SWBT's forward-looking cost studies should recognize a forward-looking view of structure cost sharing, or future revenue stream from other entities, which will offset SWBT's pole and conduit costs. Staff believes that the overall effect of SWBT's pole factor seems reasonable. However, Staff recommends the use of slightly different factors for the three geographic zones — 0.82 in zone 1, 0.68 in zone 2 and 0.60 in zone 3. According to Staff, these are more representative of the true pattern of costs, considering the different cable sizes that are typically present in rural and urban areas. (Tr. at 3420)

AT&T: AT&T's position is that SWBT makes no adjustment for prospective sharing of pole and conduit investment in the non-Texas studies. In order to minimize tearing up streets and yards, telephone, electric and cable providers will have to make arrangements to share poles and conduit space. New telecom entrants will have to make these arrangements as well.

AT&T's recommendation is that SWBT's forward-looking studies should recognize this long-run future sharing of costs, or future revenue stream from other providers, which will offset SWBT's pole and conduit costs. Since there has been no adjustments made to the unbundled loop study to account for vendors utilizing poles and conduit space, AT&T believes modifications should be made to SWBT's outside plant supporting structure factors for conduit and poles to account for leased space to others. According to AT&T, SWBT should be required to forecast future vendor utilization and remove such costs from their unbundled loop cost study. In addition, SWBT should model aerial and buried feeder using tapered candles. According to AT&T, this will remove the overstatement of the cost of the feeder since the design does not take into consideration economies of scale. SWBT should use multi-line NID investment for its 2-wire 8db loop. (Tr. at 2669-74)

CURB: CURB argues that SWBT has not reflected facility sharing on a forward-looking basis in its cost study. However, due to problems on how to reflect this in the SWBT model, this issue is still being reviewed. CURB recommends that adjustments should be made as necessary to consider the forward-looking aspects of sharing of facilities. (Tr. at 3270)

SWBT: SWBT argues that its UNE loop cost study is sufficient with regard to sharing of its own structures. Pole and conduit costs included in the study are a small part of the overall UNE loop cost. The impact of current lease arrangements (revenues from sharing SWBT's structures) on the overall loop costs is insignificant. For that reason, the sharing of SWBT's structures is not a part of SWBT's model platform. SWBT does not anticipate any significantly lesser or greater degree from the leasing of its structures in Kansas, (nor has AT&T provided any data to support that it will be adding significant facilities to provide local service in Kansas, those that might require sharing). In addition, many sharing arrangements are also reciprocal in that no monetary transactions take place. SWBT's recommended solution is to retain SWBT's model platform structure. (Tr. at 2224-25)

Discussion: SWBT's sharing should reflect Staff's proposed factors for the three geographic zones: 0.82 in zone 1, 0.68 in zone 2, and 0.60 in zone 3, to better reflect the true pattern of costs. Rents that SWBT receives under its current pole lease arrangements should be quantified on a per-loop basis, and that amount should be subtracted from the per loop TELRIC cost, to avoid double recovery by SWBT of pole rental charges.

Issue No. CA-0003, Cross connects costs.

AT&T: AT&T argues that SWBT's costs for cross connects inappropriately includes switched maintenance access system (SMAS) test points not requested by new entrants. New entrants should not be forced to pay for functions that they do not want. AT&T proposes to require SWBT to perform distinct cross connect studies, one with test points and one without test points. The CLEC purchasing the cross connect will then have a choice of the level of service it expects from SWBT.

AT&T also contends that when SWBT develops the cost for any unbundled element, SWBT includes for that element the assets required to terminate the element at a frame. The calculation for the cost of an unbundled element includes all assets required to establish that element plus the assets required to terminate the element at a cross connect frame. AT&T's concern from a cross-connect cost study perspective comes when SWBT calculates the investments to support the cross connect element and includes the same assets that have already been included in the elements being cross connected. Thus, AT&T maintains the recurring cost associated with equipment is duplicative of the investment that has already been captured in the elements being cross connected and should only be considered once. (Tr. at 2653-54)

AT&T further contends that intermediate distribution frame (IDF) investment and the recurring cost it generates should be considered separately. Loop cross connects with testing should have a recurring costs associated with them, while loop cross connects without testing should not. SWBT believes that it must include IDF investment whenever an unbundled element is being extended to a collocation cage. This is unnecessary according to AT&T, because it is far more efficient to cable

directly from the collocation cage to the main distribution frame (MDF) rather than going through an intermediate frame. Placing an IDF between the MDF or digital cross-connect panel (DSX) and the collocation cage inserts an additional point of failure and can complicate maintenance between AT&T and SWBT.

SWBT: SWBT disagrees with AT&T's position concerning the inclusion of SMAS test points in its cross connect studies. SWBT must account for the costs it incurs to provide service to new entrants for UNE services. AT&T's proposed changes would not reflect how SWBT provides UNEs.

SWBT argues that in an unbundled arrangement, providing SMAS test points is necessary. For SWBT's purposes, it must have a SMAS point of service quality assurance. (SWBT Brief at 18) These allow SWBT test system to access the loop, separate the loop and the connection to the collocation equipment, and perform transmission tests from a remote location, as done on loops serving SWBT customers. This is necessary to provide comparable levels of maintenance and repair services on loops serving the LSP's customers to levels that SWBT achieves for its end users. This is not an input issue. (Tr. at 2225-26)

Discussion: AT&T's argument that there is a duplication of investment cost for cross-connects is not persuasive, and no adjustment to SWBT's TELRIC cost studies is required. The Commission has not yet determined whether the IDF is required for interconnection. SWBT should run the studies with and without the investment for the IDF.

Issue No. CA-0004, SWBT's present TELRIC levels far exceed numerous current tariffed loop rates for business (e.g., Centrex, private line, and others) which were claimed to be compensatory when established.

Staff: Staff argues that AT&T has not drawn an appropriate comparison between costs and rates. A portion of loop costs is recovered from interstate switched access charges, intrastate switched access and toll charges, and other services (e.g. custom calling), as well as any support that might be received from the state or federal universal service funds. In evaluating this issue, the appropriate comparison is between the total loop and switching UNE costs applicable to a typical customer relative to the total stream of revenues that SWBT or a CLEC can typically generate from such a customer. (Tr. at 3509-10) Staff recommends that to the extent a discrepancy between costs and revenues exists, it should be resolved by developing appropriate forward-looking long-run UNE cost estimates.

AT&T: AT&T's position is that SWBT's present "TELRIC" levels far exceed numerous current tariffed loop rates for business (e.g., Centrex, private line, and others) which were claimed to be compensatory when established. Given that these private line and Centrex service tariffs include the cost of a loop (along with other equipment), this demonstrates that SWBT's cost studies are not true LRIC or TELRIC studies. Further, according to AT&T, AT&T and other CLECs will not be able to effectively compete in the private line and Centrex market, because end-user customers would face the choice of purchasing these services from SWBT at a rate that is at least 50% lower than the rate that AT&T could offer. AT&T states there is no reason for the cost estimates in the cost studies to be erroneously higher than the end user service prices of SWBT.

AT&T recommends the development of proper TELRIC loop investments. After making what corrections AT&T could, they still derived a **\$10.93** cost for a 2-wire, 8db loop. The costs are still overstated and above what TELRIC cost estimates would be. (Tr. at 2653-56)

Birch: Birch requests the Commission consider what SWBT would charge a retail customer and what SWBT would charge a CLEC for the same service. Birch contends competition will not flourish if SWBT's retail rates are less than CLEC's costs. (Tr. at 3172-74, Birch Brief at 8)

SWBT: SWBT disagrees with AT&T's assertion that retail rates and the identified LRIC studies are appropriate comparisons for UNE cost studies. According to SWBT, the implication that UNE prices should be able to compete with all retail service prices is false - many retail services are not available everywhere, many retail services are parts of a bundle of services purchased by a consumer, and some retail prices are set below cost for public interest purposes.

SWBT argues that the LRIC costs would differ from the TELRIC+ costs due to timing, common cost and joint cost identification. According to SWBT, at the retail service level, a greater proportion of total company costs are joint and common costs and have no specific identification in LRIC costs. In TELRIC studies for UNEs, the study detail is at a lower level of cost identification resulting in higher specific identification of joint and common with a specific UNE, an identification not attendant to LRIC service studies. (Tr. at 2386-89)

Discussion: Birch's and AT&T's arguments that UNE prices for providing service by a CLEC ideally should leave a margin available that allows a CLEC to compete contains substantial merit. After reviewing the results of SWBT's Kansas TELRIC cost study re-runs, the Commission reserves the right to examine the results in view of this concern.

Issue No. CA-0005, Mileage Element for Unbundled Local Loops

Staff: Staff's position is that increasing the cost of some unbundled local loops to reflect a distance sensitive component should be done. This would increase the price of the loops outside the base rate area by \$4.60. This is the amount currently paid by SWBT's retail customers subject to a mileage charge. Staff believes that underlying wholesale prices should reflect recovery of the higher costs, at least to the extent that the Commission has found it to be appropriate (i.e. the mileage charge) to recover those higher costs in the past.

Staff's recommended solution is to use this same pricing in the wholesale market. Staff believes that the mileage rate should be reflected in the CLEC wholesale market by making a corresponding increase to loop costs outside the base rate area. According to Staff, imposition of this charge better aligns costs and rates and mimics what would occur in a fully competitive market. (Staff Brief at 16-17) CLECs would pay more for rural located loops to reflect the higher costs involved. This increases the price of the loops outside the base rate area by \$4.60. The higher price for rural loops should reduce the price of the loop inside the base rate area by a like amount. Staff has distributed an analysis which shows the adjustment for each UNE zone. (Tr. at 3385-88)

AT&T: AT&T proposes that costing should be the result of applying valid costing methods, not arbitrary policy decisions. AT&T believes this is a deaveraging issue and SWBT's cost study methods presented in this case are inadequate to make a cost-based determination of this issue. According to AT&T, all high cost UNE loops should be eligible for KUSF support. (Tr. at 2850)

CURB: CURB recommends rejection of Staff's proposal to increase rural, suburban and urban costs/rates by \$4.60 per line (for those customers outside the base rate area). This issue, along with other deaveraging issues, should be deferred and subject to more detailed review in the Commission's KUSF investigation in Docket No. 98-SWBT-677-GIT. In addition, CURB would recommend that the Commission propose that parties explore the option of an inside the base rate cost and a mileage element as an alternative to the present situation. (Tr. at 3271, CURB Brief at 36)

SWBT: SWBT argues that the mileage rate element is a retail rate not a UNE element. The application of this retail rate is not a UNE cost based change, based upon the cost record at this point. (SWBT Brief at 18) If SWBT's UNE loop rate is reduced by an amount equivalent to the average mileage revenue, the revenues SWBT receives from its retail customers will be used to reduce the price of a wholesale UNE. According to SWBT, the Staff's proposal results in SWBT's retail customers supporting its wholesale service. It is anti-competitive and violates the 1996 Telecom Act

which requires SWBT to unbundle its network at its costs plus a reasonable return. SWBT notes that no CLEC has requested this type of adjustment in any arbitration proceedings. SWBT contends Staff's suggestion represents a change to the model platform and would involve additional billing capability not now available in the SWBT billing programs. (SWBT Brief at 19, Tr. at 2389)

Discussion: The analysis presented by Staff contains merit. It is evident that the loops costs vary by the loop length. However, the Commission lacks sufficient evidence to determine the appropriate adjustment. CURB's proposal to examine the \$4.60 adjustment identified by Staff in more detail is adopted. Whether such an adjustment is appropriate and the amount of such an adjustment should be considered in future proceedings.

Issue No. CA-0006, Aerial Structure Costs

Staff: Staff contends that SWBT estimates aerial structure investments by applying a uniform factor to cable investment, regardless of loop density. According to Staff, this procedure tends to overstate aerial structure costs in areas with many loops per pole, and it may understate aerial structure costs on routes with few loops per pole. Staff's position is that aerial structure costs should not be modeled as a linear function of cable investment.

Staff's proposed solution is to apply factors which vary with loop density or average cable sheath size. Staff believes that the overall effect of SWBT's pole factor seems reasonable. However, Staff recommends the use of slightly different factors or the three geographic zones — 0.82 in zone 1, 0.68 in zone 2 and 0.60 in zone 3. These are more representative of the true pattern of costs, considering the different cable sizes that are typically present in rural and urban areas. (Tr. at 3420)

AT&T: AT&T raised this issue in the Texas Arbitration and convinced the Texas Commission to require SWBT to develop a method of determining pole and conduit costs that was independent of the LPVST model. SWBT's method in Texas explicitly recognized Commission-ordered prospective levels of sharing of poles and conduit. According to AT&T, the Texas Commission also required SWBT to base its investment values on booked investment adjusted by CC/BC ratios rather than the much inflated Broad Gauge estimates of cost. (Tr. at 2669-70)

SWBT: SWBT asserts that Staff's statement is incorrect. SWBT proposes that the factor is applied to the average cost per pair foot of aerial cable which is calculated by taking into account all cable sizes and/or densities. This is not an input issue but a revision to SWBT's architecture of the model selected by the Commission in Phase 1. (Tr. at 2227-28; SWBT Brief at 19)

Discussion: As discussed in issue CA-0002, SWBT's sharing should reflect Staff's proposed factors for the three geographic zones: 0.82 in zone 1, 0.68 in zone 2, and 0.60 in zone 3. The approach used by the Texas Commission also contains merit. The Texas Commission required SWBT to base its investment values on booked investment adjusted by the CC/BC ratio, rather than the much inflated Broad Gauge estimates of cost. SWBT should be required to make a similar adjustment for its Kansas TELRIC cost studies.

Issue No. CA-0007, Conduit Costs

Staff: Staff's position is that SWBT estimates conduit investments by applying a uniform factor to cable investment, regardless of loop density. Staff proposes to apply factors which vary with loop density or average cable sheath size. Staff contends SWBT's trenching cost estimates do not adequately reflect differences in rural and urban conditions. However, given the limited information available from SWBT, Staff was unable to develop an alternative approach. Accordingly, Staff did not recommend changes in this area. (Tr. at 3420)

SWBT: SWBT contends the parties have abandoned this issue. (SWBT Brief at 19)

Discussion: No adjustment is required.

Issue No. CA-0008, Cost of spare cable capacity

Staff: Staff argues that SWBT develops an allowance for the cost of spare cable capacity by dividing estimated cable investment per pair foot by a percentage "fill" factor; this procedure tends to overstate the cost of providing spare cable capacity because it ignores economies of scale associated with installation of larger cable sheath sizes relative to smaller sizes.

Staff recommends to modify the SWBT approach to correct for this modeling error. Long-run fill factors should be substantially higher than those typically present in an incumbent LEC's network, but no greater than the "target" levels used by network engineers to determine when relief is needed. Staff's specific recommendation is to use a distribution fill factor of approximately 53%. Staff states, for feeder cable, a 73% fill factor is reasonable, which is roughly equivalent to SWBT's proposed feeder fill factors. (Tr. at 3419-20)

AT&T: AT&T's position is that SWBT ignores economies of scale associated with installation of larger cable sheath sizes relative to smaller sizes. AT&T concurs with the Staff assessment and has determined that SWBT fails to recognize varying sizes of feeder cable investment in its loop studies but has been unable to determine how to modify SWBT's inputs to correct the problem.

SWBT: SWBT continues to contend that Staff Consultant's statement is incorrect. SWBT argues that the investments to which the fill factor is applied are average investments per zone and take into account all cable sizes and/or densities. This is not an input issue and could result in significant changes to the SWBT model platform. (Tr. at 2228-29)

Discussion: Staff's recommendation is reasonable and SWBT should be required to use a distribution fill factor of 53%. See also issue CA-0018. Because Staff's recommended feeder fill of 73% is roughly equivalent to SWBT's proposed feeder fills, there should not be an adjustment to the feeder fill for the cost of spare cable capacity. It is unclear how changing the distribution fill could result in significant changes to SWBT's model platform, due to the fact that distribution fill factors should be one of the inputs that is adjustable. If SWBT continues to believe that significant changes to its model platform would be necessary to effectuate this seemingly straight-forward adjustment, it should report back to the Commission explaining clearly why such significant changes would be necessary prior to making such changes to the model platform.

Issue No. CA-0011, Cross connect investments.

AT&T: AT&T takes the position that cross connect investment has already been fully captured in the recurring costs for the unbundled elements being cross connected. Allowing recovery here would constitute a double-count of the investment. (Tr. at 2653-54)

SWBT: SWBT argues that this equipment is necessary and is not included in any other study. SWBT contends that plug costs are not included in other elements and the IDF is a necessary technical component required for unbundled elements. (Tr. at 2229-30, 2050-51)

Discussion: The Commission has not yet determined whether the IDF is required for interconnection. SWBT should run the studies with and without the investment for the IDF. See CA-0003 and CA-0012.

Issue No. CA-0012, Should SWBT be entitled to recover investment for IDF frames?

AT&T: AT&T's position is that this investment is entirely unnecessary and creates additional points of failure for customers in the interconnected network.

SWBT: SWBT maintains the intermediate frame and associated cabling is the efficient placement and will be required for unbundling. SWBT argues that plug costs are not included in other elements and the IDF is a necessary technical component required for unbundled elements. (Tr. at 2051-52, 2231-32)

Discussion: The Commission is reviewing whether utilization of the intermediate distributing frame (IDF) is a necessary technical component required for unbundled elements in Docket No. 97-SWBT-411-GIT. SWBT should run the studies with and without the investment for the IDF.

Issue No. CA-0013, Should 30% of loops be considered feeder cable only connecting directly to drop or building cable?

AT&T: AT&T's position is that yes, 30% of loops should be considered feeder cable only connecting directly to drop or building cable. Without feeder/distribution interfaces, customers are directly connected to the central office over feeder plant.

SWBT: SWBT counters this argument stating that AT&T assumes incorrectly that distribution cables are feeder cables (that have higher fills and larger, less expensive cables). This is not the true characteristics of these cables. Cables are still feeder and distribution regardless of the nature of the interface between the two. (Tr. at 2232-33)

Discussion: AT&T's argument is not persuasive that an adjustment is needed for this issue and, therefore SWBT should not be required to make AT&T's proposed adjustment to the Kansas TELRIC cost studies.

Issue No. CA-0014, Should the cost for premise termination (Network Interface Device or NID) be a weighted average of single and multiple termination NIDs?

AT&T: AT&T argues that SWBT assumes that all 2-wire 8db loops would use a premise termination that is capable of handling only one or two loop terminations. Thus, in the unbundled loop study, SWBT assumed a single line network interface device NID. (AT&T Brief at 35) This raises the price of the unbundled loop most often used by entrants. AT&T believes that 8db loops connect to both single and multiple termination devices. Multiple termination devices are less expensive per termination. Assuming only single termination devices inappropriately inflates cost. (Tr. at 2667-68)

AT&T recommends that the Commission should reject SWBT's premise. Since SWBT only purchases multiline NIDs the correct way to model NID costs for 2-wire 8db distribution subloops is to use multiline NIDs. (AT&T Brief at 35) The Commission should order SWBT to identify all activities associated with the installation of the NID and identify where these costs are being recovered. Additionally, AT&T recommends to follow AT&T's costing principles which would result in an approximately 39% to 42% cost reduction in an 8db loop, which is probably the most critical element that AT&T would order in a competitive situation. (AT&T Brief at 33)

CURB: CURB argues that loops should reflect proper costs for NIDs considering single/multiple termination devices. CURB's recommended solution is to make adjustments as necessary to consider this issue.

SWBT: SWBT's position is that the cost for premise termination should be a weighted average of single and multiple termination NIDs. The result of such a weighting would be minimal - less than 1% of cost. (SWBT Brief at 20, Tr. at 2233) SWBT's recommended solution is to retain SWBT'S input.

Discussion: SWBT should identify all activities associated with the installation of the NID and identify where those costs are being recovered. The Commission adopts AT&T's and CURB's

recommendations that loops should reflect proper costs for NIDs, including considering single and multiple termination devices. AT&T has indicated that the 8db loop is probably the most critical element that AT&T would order in a competitive situation and that such loops would connect to both single and multiple termination devices. SWBT should reflect a weighted average of single and multiple termination NIDs in Kansas TELRIC cost studies.

Issue No. CA-0015, Should the mix of non-integrated or universal digital loop carrier (UDLC) and integrated digital loop carrier (IDLC) be changed to reflect 100% IDLC?

AT&T: AT&T contends that IDLC is more forward-looking than UDLC. To be consistent with LRIC, IDLC should be assumed. AT&T contends SWBT cost studies should reflect that 70% of the loops are cooper and 30% of the loops are TR-303. (Tr. at 2854-56)

CURB: CURB's position is that the loop should properly reflect the least-cost most efficient technology, which should reflect IDLC. SWBT's network should reflect IDLC as an efficient forward-looking component. However, adequate representation of IDLC is not present in SWBT's network. Use of IDLC on a more comprehensive basis would reflect an efficient, forward-looking, least cost network. CURB stated that, in response to a data request, SWBT provided a booklet that forecasted 31% use of fiber based DLC by 2003, most of which will be TR-303 equipment. (Tr. at 3272)

CURB recommends at a minimum that 33% and at a maximum 100% of SWBT's access lines be considered IDLC. (CURB's July 30, 1998 response to Commission Q.9.) CURB believes that scenarios should be provided to the Commission showing the impact that a 33%, 50% and 100% mix of IDLC would have on the studies. Whether 33%, 50% or 100% is used may depend on the cost outcomes and the Commission's interpretation of what constitutes forward-looking long-run cost studies. Cost studies with higher mixes of IDLC should produce reductions in costs, not increases in costs as SWBT's testimony may seem to indicate. (CURB Brief at 40-41; CURB's Reply dated August 5, 1998 to Commission Q.2)

SWBT: SWBT maintains this is an issue about combining, not just a question of efficiency. SWBT contends there is no UNE such as unbundled IDLC. (SWBT response of Deere Q.4) Integrating the loop with the switch, as is the case with IDLC, is combining, not unbundling. Any percent of IDLC will not reflect the unbundled network design. In addition, IDLC is not an efficient design for unbundling, or any other UNE application. SWBT contends the question is whether the Central Office terminals that are required for DLC be removed from the loop studies, assuming IDLC. SWBT asserts that the Central Office terminals that are required for DLC should not be removed from the loop studies, assuming IDLC. SWBT recommends to retain SWBT's input. SWBT stated that approximately 20% of the lines using DLC are served with IDLC. See also Response to Deere Q.2.

Discussion: CURB's recommendation (Tr. 802-804) that IDLC represents the forward-looking technology and should be reflected in the cost studies is reasonable. CURB presented evidence that forecasted 31% use of fiber based DLC, most of which will be TR-303 equipment. A mix of 25/75 IDLC to copper represents a conservative forward-looking design. SWBT should use a 25/75 mix of IDLC and cooper. SWBT should remove a proportional amount of the investment for central office terminals that are required for DLC.

Issue No. CA-0016, Should 30% of the investment in Feeder/Distribution Interfaces (FDIs) be eliminated because 30% of loops have no distribution cable?

Staff: Staff contends that SWBT assumes FDI's are ubiquitously deployed, increasing investment. If this is in fact the minimum cost forward-looking configuration, the corresponding reductions in maintenance/operations costs should more than offset the extra investment. According to Staff, plant expense factors should be reduced by at least as much as the cost of the extra FDIs, reflecting the net

savings achieved through the forward-looking, least cost network configuration. Staff recommends that buried cable expense factor should be reduced to reflect the net savings achieved through ubiquitous deployment of FDIs. (Tr. at 3499-500)

AT&T: AT&T argues 30% of the investment in FD Is should be eliminated because 30% of loops have no distribution cable. SWBT's FDI investment should be reduced by 30% because by SWBT's own admission 30% of its distribution pairs do not use FDIs.

SWBT: SWBT contends that Feeder/Distribution Interface is not included in the study based upon current relationship. The study should reflect efficient forward-looking costs, similar to efficient fiber and copper relationships. (Tr. at 759)

Discussion: SWBT's argument that FDI represents a forward-looking technology and should be reflected in the TELRIC studies is reasonable. AT&T's proposed adjustment should not be adopted.

Issue No. CA-0017, Should loop costs be estimated using actual sample loop lengths?

Staff: Staff's position is that it isn't necessary to replace the "banding" approach with actual sample data, since it generally develops loop lengths which are consistent with the underlying sample data.

Staff's recommended solution is to retain the "banding" approach. Staff concludes that the banding method used by the Company is generally appropriate and valid with two minor exceptions — 750 feet should be used as the class mark for copper feeder loops in the first band and 15,250 feet should be used as the class mark in the first band for fiber feeder loops. (Tr. at 3500-05)

AT&T: AT&T's position is that loop costs should be estimated using actual sample loop lengths. This is necessary to avoid overstatements of loop costs. AT&T's LPVST work-alike model corrects this deficiency by determining loop investments for each loop. (Tr. at 2657-59)

AT&T's recommended solution is to use the AT&T LVPST work-alike program to determine loop investment based on the actual sample, not by banded lengths. Mr. Zubkus testified that it would be a fairly simple process to redo the algorithms to look at the actual loop lengths as opposed to the banding process. In fact, a spreadsheet model can easily be developed to replace LPVST. (AT&T Brief at 32) AT&T's response to RFIBJA-11 shows that SWBT's banding method can substantially overstate certain loop lengths. (Tr. at 2657-59)

SWBT: SWBT views AT&T's proposed issue here as one and the same as CA-0001. SWBT's loop studies utilize actual sample lengths. According to SWBT, AT&T has not produced a study which SWBT can use to validate AT&T's assertion; there is no overstatement; and one thousand (1000) feet for Band 1 is appropriate. SWBT contends that this is not an input issue. The SWBT model platform was previously approved. (Tr. 2238-39)

Discussion: The Commission concludes that SWBT's "banding" approach should be modified. SWBT may use either Staff's recommended adjustment or use the actual loop lengths as proposed by AT&T. Staff recommended SWBT adjust the class mark to 750 feet for copper loops in the first band, and should use 15,250 feet as the class mark in the first band for fiber feeder loops.

Issue No. CA-0018, What value should be used for the distribution fill factor?

Staff: Staff's position is that to be consistent with the long-run economic costing approach, distribution fill factors should be higher than the overall average fill level typically present in SWBT's network, but no greater than the "target" levels used by network engineers in determining whether distribution cable must be reinforced.

Staff proposes to make appropriate adjustments to SWBT's distribution fill factors, to be consistent with a forward-looking long-run planning horizon. Long-run fill factors should be substantially higher than those typically present in an incumbent LEC's network, but no greater than the "target" levels used by network engineers to determine when relief is needed. Staff's specific recommendation is to use a distribution fill factor of approximately 53%. For feeder cable, a 73% fill factor is reasonable, which is roughly equivalent to SWBT's proposed feeder fill factors. (Tr. at 3490-94)

AT&T: Both AT&T and Staff agree that SWBT's "actual" fill factor used in SWBT's cost studies is inconsistent with TELRIC principles. (AT&T Brief at 33) To comply with TELRIC's cost causation principle, the fill factor should be the fill factor expected at full utilization not that which reflects significantly under utilized distribution. (AT&T Brief at 33) According to AT&T, SWBT's actual fill factor is unrealistically low in light of competition and expected growth; SWBT has experienced significant line growth in second lines; and consequently, fill factors should climb in this competitive and growth environment. (Tr. at 2660-66)

AT&T recommends a **50%** fill factor to reflect the use of one half of SWBT's distribution plant. This is the fill factor AT&T expects SWBT will experience during competition having to gradually become more efficient due to the change from monopolistic to competitive environment. In SWBT's Kansas Megalink Custom Incremental Cost Study, SWBT uses a fill factor of **61.9%**. The fill factors in the two studies should be the same.

SWBT: SWBT's position is that the network that will be unbundled is the actual SWBT network. These fills are representative of that SWBT network and are a reasonable projection of actual utilization based upon that network. According to SWBT, the fill factors are actually conservative since they do not reflect migration of customers due to facility-based competition. Target levels are not reflective of cost. (Tr. at 2074-75, 2220)

Discussion: As noted in issue CA-0008, SWBT should use a 53% distribution cable fill factor in its Kansas TELRIC studies.

Issue No. CA-0019, Should drop length inputs vary across geographic zones?

Staff: Staff's position is that SWBT uses a uniform assumed drop length of 125 feet that does not vary by geographic zone. According to Staff, SWBT has not provided adequate justification for this particular length, nor the lack of variability; drop lengths necessarily tend to vary depending upon the distance from the street to the customer's premises; and longer drops are necessary in rural areas relative to urban areas. Staff recommends to select more appropriate drop length assumptions, which should vary across geographic zones. (Tr. at 3421)

AT&T: AT&T's position is that SWBT uses a uniform assumed drop length of 125 feet that does not vary by geographic zone. AT&T makes no recommended solution on this issue.

CURB: CURB contends that drop costs/lengths should reflect reasonably accurate information supported by more precise information and be adjusted as necessary. CURB recommends to make adjustments to reflect more accurate information as necessary.

SWBT: SWBT contend that Staff is incorrect in its assertions. The preponderance of drops are in metropolitan exchange areas. As such, the loop study would appropriately reflect the drop data requested. SWBT'S field experience indicates that actual drop length by geographic zones does not vary significantly. This is a model platform design not an input issue. SWBT argues for the retention of model platform and 125 feet input. (Tr. at 2239-40)

Discussion: There is no need to change SWBT's drop length input value of 125 feet at this time. However, in future proceedings SWBT should provide information more detailed information for

drop lengths. For the Kansas TELRIC studies, SWBT should retain the 125 foot drop length input value.

Issue No. CA-0020, Should drop costs reflect a “fill” factor?

Staff: Staff’s position is that SWBT develops the cost of drops by dividing estimated cost per foot by a percentage "fill" factor; this procedure can overstate the cost of drops because it does not accurately reflect differences in the cost of drop wire and cable used to serve different size customers. Staff proposes to modify the SWBT approach to correct for this modeling error.

AT&T: AT&T argues that SWBT overstates the cost of drops through use of a fill factor. AT&T makes no recommended solution on this issue.

SWBT: SWBT argues that the SWBT fill input for drops is appropriate. SWBT only applies a fill to multi-premises drops. This fill reflects that not all pairs are always utilized and provides for an estimated average across all different size customers. SWBT proposes to retain SWBT’s methodology.

Discussion: Because SWBT only applies a fill to multi-premises drops, no adjustment is necessary.

Issue No. CA-0021, Should Contractor/Trenching costs be adjusted to appropriately reflect higher trenching costs in congested urban areas?

Staff: Staff argues that in its loop cost studies SWBT assumes uniform contractor costs for trenching that do not vary by geographic zone. According to Staff, the cost of trenching varies between downtown, suburban and rural areas due to differences in the frequency of encountering man-made obstacles. For example, in downtown urban areas additional costs are incurred because a relatively large percentage of the trenching effort will involve tunneling under or around sidewalks, streets, and other utility lines. Given the limited information available from SWBT, Staff was unable to develop an alternative approach. Accordingly, there are no recommended changes in this area. (Tr. at 3498-99)

AT&T: AT&T’s position is that SWBT assumes uniform contractor costs for trenching that do not vary by geographic zone. However, AT&T makes no specific recommendation on this issue.

SWBT: SWBT’s position is that contractor costs do not need to be adjusted since these costs do vary in SWBT’S studies by type of plant, e.g., underground, buried, and aerial. The costs of such placements are applied to cable investment for the various types and multiplied by a Cable Mix percentages, by geographic zone, in the cost model which represents the relative placements of those types of plant. Therefore, the effect of contractor cost assignments and the Cable Mixes applied results in placement costs that are not uniform across geographic zones. SWBT proposes to retain SWBT’s methodology. (Tr. at 2241-42)

Discussion: No adjustment was recommended, thus no adjustment is required.

Issue No. CA-0022, Feeder Stub Calculations

Staff: Staff’s position is that SWBT develop total feeder cable lengths, and feeder stub lengths, using inventory data related to existing FDI and Digital Loop Carrier (DLC) locations in its embedded network. According to Staff, the procedure used by SWBT does not necessarily provide reliable measures of feeder cable lengths or feeder stub lengths for use in a forward-looking long-run cost study.

Staff recommends to modify SWBT procedures in order to develop more accurate feeder cable lengths and/or feeder stub lengths. According to Staff, buried cable expense factor should be reduced

to reflect the net savings achieved through ubiquitous deployment of FDIs. Staff contends the Company's study double counts the feeder stub length, which can be solved by eliminating the feeder study costs, thereby effectively assuming that fiber feeder will be used over the entire distance to the FDI. In the alternative, instead of eliminating the feeder stub investment, the fiber cable calculations could be modified to eliminate the overlap. (Tr. at 3505-08)

AT&T: AT&T argues that SWBT develops total feeder cable lengths and feeder stub lengths using inventory data related to existing FDI and DLC locations in its embedded network. AT&T makes no specific recommendation on this issue.

SWBT: SWBT contends that BJA's proposal is too vague for additional explanation. SWBT argues that no adjustment is needed — the model adequately results in reasonable cost identification. (SWBT Brief at 21) SWBT proposes continued use of SWBT's input and procedures.

Discussion: As proposed by Staff, an adjustment is necessary. The adjustment presented by SWBT witness Moore during his presentation (SWBT 7/16/98 Loop Session Exhibit, page 22) represents a reasonable correction for this, and SWBT should reflect such a correction in its Kansas TELRIC study runs.

Issue No. CA-0023, Residual calculation of distribution cable costs

Staff: Staff argues that SWBT estimates distribution cable investments per pair foot on a residual basis, by subtracting feeder cable investments per pair foot from total cable investments per pair foot, and that the procedure used by SWBT does not necessarily provide reliable estimates of the cost of distribution cable, particularly if errors exist in the estimated total cable investments per pair foot or the feeder cable investments per pair foot. However, Staff is unable to correct the problem without creating additional problems. (Tr. at 3512)

CURB: CURB contends that SWBT estimates distribution cable investments on a residual basis without supporting documentation. CURB proposes that SWBT develop more accurate calculations.

SWBT: SWBT argues that the process has reliable results. SWBT states total plant consists of feeder plant plus distribution plant. SWBT contends the derivation of distribution investment can be calculated by subtracting the feeder plant from the total plant. SWBT's recommended solution is to continue use of SWBT's input and procedures. (Tr. at 2243-45)

Discussion: Although SWBT's method may be flawed, Staff recognized the difficulty in correcting the problem. No adjustment was proposed; therefore, no adjustment is ordered.

Issue No. CA-0024, Intermediate Loop Investment Calculations

Staff: Although Staff identified this issue, Staff did not make a recommendation.

SWBT: SWBT contends that there are an abundance of FDIs that make up SWBT's loops in Kansas that serve as an adequate basis for assessing the average size of FDIs. SWBT's recommended solution is continued use of SWBT's input and procedures. (Tr. at 2245)

Discussion: No adjustment was proposed.

Issue No. CA-0025, Loop Cable Sheath Sizes

Staff: Staff asserts that when computing cable investments per pair feet, SWBT includes various cable sheath sizes using inventory data related to existing copper cables in its embedded network. According to Staff, the procedure used by SWBT does not necessarily provide reliable estimates of

the most cost effective or appropriate mixture of cable sheath sizes for use in a forward-looking long-run cost study. Staff contends this weighting methodology creates a serious double counting problem; 22- and 19-gauge cable data are used twice — once with reference to their own gauges and once with reference to the 26- and 24-gauge cable investment; and such double counting places much too much weight on the small sheath sizes. (Tr. at 818, Staff Brief at 14)

Staff strongly recommends that the Commission order SWBT to correct this double counting error by applying only 26-gauge sheath feet inventory data to 26-gauge cable investment and only 24-gauge sheath feet inventory data to 24-gauge cable investment, while continuing to apply the 19 and 22 gauge inventory data to their respective cable investments during the weighting process, as recommended in Staff's testimony. (Staff Brief at 16)

AT&T: AT&T's position is that SWBT computes cable investments per pair foot for various cable sheath sizes using inventory data related to existing copper cables in its embedded network. AT&T concurs with the Staff assessment and has determined that SWBT fails to recognize varying sizes of feeder cable investment in its loop studies but has been unable to determine how to modify SWBT's inputs to correct the problem.

CURB: CURB argues that SWBT's calculations are based on embedded information and more appropriate sizing of cable is necessary. CURB proposes that SWBT develop more accurate calculations as necessary.

SWBT: SWBT argues that the process has reliable results. BJA's proposal is too vague for additional explanation. SWBT proposes the use of SWBT's input and procedures. (Tr. at 2245-46)

Discussion: Cable sheath sizes used in SWBT's cost studies should reflect the most cost effective and appropriate mixture of cable sheath sizes for use in a forward-looking long-run cost study. Staff's recommended adjustment is appropriate and necessary, and SWBT's TELRIC study runs should reflect the correction presented by Staff.

Issue No. CA-0026, Is SWBT's Kansas model methodology the same as in other states?

AT&T: AT&T's position is that the overall validity of loop costs and virtually all models is not documented. SWBT refuses to demonstrate that the loop cost methodology it is using in Kansas is virtually the same as it has used in other states.

AT&T contends that SWBT fails to take into consideration sharing of pole and conduit investments as it was ordered to in Texas. SWBT uses aerial structure and conduit investment methods in its Kansas studies that are also inconsistent with its Texas methods. See issues CA-0002, CA-0006, and CA-0007. SWBT should be required to expressly recognize forward-looking adjustments for pole and conduit sharing as well as pole and conduit investment determinations consistent with its Texas methods.

CURB: CURB argues that SWBT has not been able to document any cases of validity testing of its model. There is no way for parties to perform independent testing on the model since it is not available in PC form. Additionally, SWBT has not been responsive to running any scenarios for CURB in order to validate the model. CURB concludes that there is no way to vouch for the model given the current form.

CURB recommends that the Commission put SWBT on notice that if it wishes its cost studies to be considered (among other alternatives) for future use in Kansas, then SWBT must prepare a PC-based portable cost model which meets the requirements of the criteria at paragraph 250 of the FCC's May 8, 1997 order on universal service. This model must be provided on a non-proprietary basis and be generally available to all parties in a proceeding. Several states such as Georgia and Minnesota have

required that the incumbent RBOC provide portable PC-based cost models in working order. (CURB Brief at 42, Tr. at 3279)

CURB points out that the problem with SWBT's mainframe based model in this proceeding is that it was not possible for CURB to independently test the model, and SWBT was not willing to run any alternative scenarios for CURB. In fact, if validation tests had been performed on the SWBT model, certain inherent problems in the SWBT model might have been identified and corrected before this stage of the proceeding. (Tr. at 3279) Cost study proceedings where these portable PC-based models could be used include future UNE cost proceedings (after expiration of current arbitration agreements or upon complaint) before the Commission, current KUSF cost proceedings and in deciding which future cost studies to send to the FCC for interstate universal service determination. (CURB's July 30, 1998 response to Commission Q.10)

SWBT: SWBT asserts that only Kansas information is used in SWBT's inputs. CURB's point is not accurate. SWBT recommends to continue use of SWBT's factors. (Tr. at 2246)

Discussion: SWBT should be required to conform certain aspects of its Kansas TELRIC studies with the findings of the commissions in Texas and Missouri. See e.g., issue CA-0006. Given the problems that the parties have experienced with getting SWBT to run different scenarios on its mainframe-based cost models, and the inability of the parties (other than AT&T) to replicate SWBT's results, SWBT should promptly complete its process of converting its models to run on PCs and otherwise developing PC-based cost models that can be utilized by Staff and other parties. While the Commission approved the use of SWBT's mainframe-based models in this proceeding, there is a need for parties to have better access to SWBT's cost study models in order to test them and run different scenarios.

Issue No. CA-0027, Is there a cap on certain loop (and other) landline costs where it is assumed that once costs/rates surpass a certain level it becomes more feasible to offer (or for customer to subscribe to) non-landline alternatives?

AT&T: AT&T questions on the issues matrix whether there is a cap on certain loop (and other) landline costs where non-landline alternatives are assumed. AT&T, however, makes no specific recommendations on this issue.

SWBT: SWBT argues for the dismissal of this issue.

Discussion: There is provision for inputting a cap on loop investment in the HAI and BCPM models, and SWBT should implement a similar input variable in its own loop models to the extent that one does not already exist. The record is lacking in evidence on what level of loop cost should be capped, thus, any capping adjustment should not be required at this time. However, SWBT and the parties should address the issue of an appropriate loop cost cap in future Kansas cost study proceedings involving the determination of loop costs for TELRIC and KUSF purposes.

Issue No. CA-0028, SWBT will not provide access to its Business Action Plan to address least-cost, most-efficient technology as it relates to the loop and other cost studies, along with related depreciation rates and lives issues.

AT&T: AT&T's position is that the Business Action Plan impact on loop least-cost is the most-efficient technology. However, SWBT will not provide access to its Business Action Plan.

AT&T maintains that access to SWBT's Business Action Plan is critical to setting TELRIC rates, particularly as SWBT's internal planning may substantially contradict SWBT's own TELRIC study assumptions. TELRIC studies should not be done on a static, frozen as of 1995, basis. TELRIC is forward-looking and SWBT's Business Action Plan could reveal a great deal about what the future holds. SWBT should provide access to its Business Action Plan.

CURB: CURB originally argued that SWBT Business Action Plan affect on least-cost, most-efficient technology as it relates to the loop and other cost studies, along with related depreciation rates and lives issues is significant. However, SWBT provided CURB access to its Business Action Plan.

SWBT: SWBT's response to these arguments can be found in the discussion and solution section for issue AE-0018.

Discussion: As noted elsewhere, this issue relates to a discovery dispute. CURB was provided access to SWBT's Business Action Plans and addressed SWBT's plan in its testimony. Therefore, this issue should be considered moot.

Issue No. CA-0029, Number of second lines and related growth has not been made available by SWBT.

Staff: Staff's position is also that the number of second lines and related growth has not been made available by SWBT. The type of information requested by CURB could be useful in understanding and resolving various issues concerning the cost studies. Staff recommends that to the extent SWBT has not provided information in a timely manner which would assist the parties and the Commission in understanding the cost studies, and/or making appropriate adjustments to the inputs and other aspects of the studies, this should be considered in resolving the issues in this proceeding.

AT&T: AT&T contends that the number of second lines and related growth has not been made available by SWBT. AT&T has reviewed SWBT's response to AT&T Request For Information 4.43 related to demand forecasts and has determined that SWBT has failed to consider the effects of second-line demand in its TELRIC fill factors. SWBT's fill factors should be restated to forward-looking levels.

CURB: CURB's position is that SWBT did not provide the number of second lines (or the related growth in this area) in order to test fill (capacity) and address overall reasonableness of loop costs.

SWBT: SWBT argues that it does not track second line growth. SWBT's recommendation is to delete this item.

Discussion: This issue relates to a discovery dispute that is moot. The information was provided and appears at page 3272 of the transcript and in Exhibit JAZ-29.

Issue No. CA-0031, SWBT has denied access to its retail CENTREX cost studies which should be used to gauge unbundled loop costs, overheads and pricing.

Discussion: This discovery dispute was resolved and AT&T was provided access.

Issue No. CA-0032, SWBT has denied access to its capital/construction budgets which can be used to determine least-cost, most-efficient forward-looking technology plans, as well as being used in conjunction with analysis of proposed depreciation lives and rates.

AT&T: AT&T asserts that SWBT has denied access to its capital/construction budgets. AT&T contends access to SWBT's capital construction plans would be very helpful in setting TELRIC rates, particularly as SWBT's internal planning may substantially contradict SWBT's own TELRIC study assumptions. According to AT&T, TELRIC studies should not be done on a static basis. TELRIC is forward-looking and SWBT's construction budgets could reveal a great deal about what the future holds. Information in SWBT's construction plans should be factored into the studies.

CURB: CURB argues that SWBT's construction budgets would be useful for evaluating the reasonableness of depreciation rates and lives, but has not received such information from SWBT. CURB has spent considerable time and effort trying to get access to the best and most timely documents in order to validate SWBT's requested rates/lives. However, this information has not been forthcoming. (CURB Brief at 43-44)

SWBT: SWBT has provided what information was available via an information request. SWBT recommends to delete this issue.

Discussion: This issues involves a discovery dispute. SWBT has provided what information was available via a data request.

Issue No. CA-0033, Evaluation of type of service issues

AT&T: AT&T contends that access lines by type of service to evaluate weighting/loop sample cannot be determined. However, AT&T takes no position on this issue.

CURB: CURB asserts that access lines by type of service to evaluate weighting/loop sample cannot be determined. CURB contends that SWBT will not provide number of access lines/loops by type of service (residence, business, CENTREX, payphone, etc.) in order to determine some weighting of loops by type of service and to apply recurring/nonrecurring charges to loops to compare potential wholesale revenues compared to current retail revenues as a test of reasonableness. SWBT also will not provide historical information on access lines to evaluate forward-looking growth, etc.

SWBT: SWBT argues that UNEs are not determined or provided by class of services. CURB's description is inappropriate. SWBT recommends to delete this issue.

Discussion: UNEs prices are not based upon the class of service the CLEC intends to offer. It does not appear that additional information would affect the recommendations and results.

Issue No. CA-0034, Has SWBT provided adequate support for its loop sample?

AT&T: AT&T contends that the loop sample is not justified and SWBT has not provided supporting documentation for its loop sample. However, AT&T takes no position on this issue.

CURB: CURB's primary concern is that SWBT's current loop sample cannot be validated since details of the sample are not reasonably available. SWBT has not stratified its loop sample which creates questions about the validity of the sample. Mr. Ostrander explains the problems with obtaining and validating SWBT's loop sample in much detail in his direct, supplemental and rebuttal testimony. (Tr. 3274-3278, 3281-3289 and 3329-3333.)

CURB argues that SWBT's similar approach to loop sample was rejected in Texas and SWBT was required to provide a loop sample by wire center which is what CURB recommends for this case. Additionally, loop costs could be misstated depending upon types of loops which are omitted from the sample or not adequately represented. Since SWBT does not know what information its sample includes on a wire center basis there could be unintentional errors. SWBT's sample is not a sample on a wire center basis so it lacks the precision and accuracy required to set reasonable costs which can be validated.

CURB originally recommended a reasonable sample of loops based on a wire center basis, but a sample of 100% of Kansas loops would remove all potential error. However, CURB is proposing an alternative to resolve its existing concerns with SWBT's loop sample. CURB will consider its concerns satisfied in this area (for purposes of this proceeding) if the Commission adopts Staff's proposal to correct errors identified in SWBT's cable investment calculations. Staff's adjustments

essentially correct the problem of unreasonably high rural loop costs. The problem of high loop costs was the major concern CURB was trying to alleviate in its attempted review of SWBT's loop sample. Staff addresses the problem with SWBT's cable investments in issue areas AC-0004 and CA-0023. Dr. Johnson addresses this issue in his direct testimony and in his presentation to the Commission. (Tr. 3421, 4052-4057) This issues is also addressed in the Staff's July 30, 1998 response to Commission Q.4.) It is imperative that Staff's adjustment be adopted in order to bring Kansas rural loop costs back in line with the cost of rural loops in surrounding states and with urban and suburban loop costs in Kansas. (CURB Brief at 45)

SWBT: SWBT argues that as discussed in the February workshops, SWBT does not separately identify class of service when conducting loops UNE costs studies. CURB's request pertains to retail services and not UNE costs. SWBT recommends to delete this issue. (Tr. at 2246-47)

Discussion: SWBT should be required to make the adjustments recommended by Staff in issues AC-0004 and CA-0023. Making these adjustments reasonably addresses concerns raised by CURB. The Staff-recommended adjustments are sufficient at this time for purposes of SWBT's Kansas TELRIC study runs.

Issue No. CA-0035, Broad Gauge Study Issues

Staff: Staff argues that the Broad Gauge cost information reflects numerous assumptions and calculations which were not provided with the cost studies or supporting workpapers and source documents. Staff is endeavoring to analyze the Broad Gauge costs to identify anomalies, inconsistencies or other potential problems.

Staff proposes to the extent SWBT has not provided information in a timely manner which would assist the parties and the Commission in understanding the cost studies, and/or making appropriate adjustments to the inputs and other aspects of the studies, this should be considered in resolving the issues in this proceeding.

AT&T: AT&T contends that SWBT has not provided adequate support for its Broad Gauge cost estimates. AT&T takes no position on this issue.

CURB: CURB asserts that there are issues in the broad gauge study regarding sampling, averaging of costs and related adequate cost basis, as well as difficult versus easy placement determination.

SWBT: SWBT responds with asserting that CURB's description is vague and does not provide sufficient detail for SWBT to respond. SWBT recommends that this issue be deleted.

Discussion: As noted in issue CA-0023, SWBT should reflect Staff's cable gauge adjustment in SWBT's Kansas TELRIC studies.

Issue No. CA-0036, Do copper/fiber cross-over calculations consider proper economic considerations in the calculations?

AT&T takes no position on this issue.

SWBT recommends to use SWBT's input.

Discussion: No adjustment to SWBT's copper/fiber cross-over calculations is necessary.

DA Switching Studies

Issue No. DA-0001, Embedded costs.

AT&T: AT&T asserts that SWBT's cost studies use its existing network configuration and, thereby, implicitly use embedded cost. For example, SWBT uses all of the existing equipment in its network today with the exception of analog switches. The costs of equipment purchased ten to fifteen years ago are included in the cost studies. Much of this equipment was purchased during years of rate-of-return regulation. AT&T contends that one cannot assume that this type of equipment or the quantity thereof would be purchased or provisioned in a competitive industry. SWBT has made no attempt to determine the type of equipment or the quantity of equipment that would be provisioned in a competitive marketplace.

AT&T argues that SWBT uses historical, inefficient switch configurations as input into the switched cost information system (SCIS) model. SWBT uses old technology for integrated digital loop carrier rather than forward-looking currently available GR303 compliant IDLC. Use of the current IDLC would result in lower costs since the GR393 IDLC aggregates subscriber lines and brings them into the switch on cost-efficient trunk terminations. Additionally, SWBT assumes a historical mix of host and remote switches instead of forward-looking efficiencies of using a large number of remotes. According to AT&T, SWBT's historical data input assumptions result in higher costs being calculated by SCIS. AT&T recommends that cost studies should reflect the type and quantity of equipment that would be provisioned in the long-run in a competitive marketplace. (Tr. at 2722-23)

SWBT: SWBT argues that the 1996 Telecom Act requires SWBT to unbundle its network. The SWBT forward-looking costs are based upon this unbundled network. AT&T argues that using the existing infrastructure network is equivalent to using embedded cost since it is based on equipment installed during historical periods. This assertion is false on two grounds - first, SWBT does make forward-looking adjustments to its existing network (according to its actual forward-looking network plans), and second, to the extent that the existing network is reflected in SWBT cost studies, this is not the same thing as embedded cost. SWBT has not projected what equipment might be installed in future periods. (Tr. at 2315-17)

SWBT contends that SWBT uses the existing wire center locations and infrastructure which will be unbundled. The costing of this network is forward-looking, since it relies upon current prices and treats all costs as variable in the long-run. SWBT's studies do not presume the existence of technology or infrastructure that is not in place or will not be unbundled. SWBT does provide an embedded study as well for validity checks of its forward-looking costs.

Discussion: AT&T's observation that SWBT's switching cost studies use historical costs appears to be correct. As discussed under issue DA-0002, SWBT should reflect the new and replacement switch discounts recommended by Staff, which appropriately reflect forward-looking information and the long-run concept.

Issue No. DA-0002, Switching equipment discounts.

Staff: Staff asserts that the "new switch" discounts should be given the greatest weight. However, it is also reasonable to give limited weight to the "growth" discounts. The relative weight given to each discount should be consistent with the long-run planning concept.

Staff recommends to give the greatest weight to the "new switch" discounts and limited weight to the "growth" discounts. Staff recommends that 80-85% weight be given to the new switch discount and 15-20% weight be given to the growth discount. Specifically, Staff recommends replacing the indirect weighting implicit in SWBT's life cycle methodology with a direct weighting of 82.5% for new switch equipment and 17.5% for replacement equipment discount. (Staff Brief at 20) This provides a reasonable result, and avoids the complexities involved in the Company's proposed life cycle weighting approach. (Staff Brief at 20) However, if the Commission approves the Company's methodology, Staff recommends that a blended growth rate be used, which gives one third weight to a line-based growth rate of 4%, one third weight to a minutes-of-use-based (MOU-based) growth rate of 12% and one third weight to a growth rate of zero, which is the appropriate

growth rate associated with the fixed and getting started portions of the switching investment. (Tr. at 3518)

AT&T: AT&T's position is that SWBT has consistently proposed switching equipment discounts that are far below the replacement discounts that are appropriately used in TELRIC studies. SWBT has refused to provide a complete copy of its contracts with switch vendors. According to AT&T, SWBT purchases equipment not on a state-by-state basis, but on a total company basis; SWBT's reported discounts have varied considerably (by a factor of between 2 and 3) from one state to another. In addition, SWBT's cost studies include a "feature hardware additive" to account for equipment costs associated with vertical features. The costs of the feature equipment included in the switching studies are overstated and include equipment that is also captured in other cost studies.

AT&T contends the SCIS/MO and SCIS/IN models contain vendor "list" prices, which are not consistent with what is really paid. Local exchange carriers negotiate a substantial discount off the list price. This is the price that should be reflected in the study. The level of discount affects all cost categories and affects all switching unbundled element rates as well. If the discount factors used as SCIS inputs do not replicate the actual price in SWBT's negotiated agreements with switch vendors, the results produced by SCIS will misstate SWBT's switching investment. These factors have a direct, one-to-one relationship to SCIS output, thus, the importance. AT&T's recommended solution is to use replacement cost switch discounts in the cost studies. See also issues: DA-0012, DA-0013 (discounts) and DA-0005 to DA-0007 (feature hardware). (Tr. at 2724-25)

CURB: CURB contends that switch discounts should reflect proper forward-looking discounts for initial/growth placement of switches, consider discounts SWBT is getting under best circumstances (not any "minimum" discounts) and consider future impact of purchasing power of SWBT included with PacTel and SNET. CURB proposes to adjust discounts as necessary.

SWBT: SWBT responded to AT&T's request for switch vendor contracts in RFI 5.26 and 5.27; these contracts are highly confidential and were made available for review. SWBT switching studies will include discounts based on current contracts with switch vendors. Discounts vary less than 1% between SWBT states for these contracts due to the cost of money factors. SWBT separately models the costs of feature related hardware (FRH) not included in SCIS. FRH investment is based on an inventory of FRH; the amounts are not overstated. (Tr. at 2317-20)

SWBT's recommended solution is to maintain the SWBT model structure. The discounts should be those in the current vendor agreements and those consistent with the current vendor price lists. The discounts are developed by examining the new system and growth discounts over the life cycle of a typical switch.

Discussion: As argued by AT&T, there is a problem with the switching equipment discounts used in SWBT's cost studies; however, AT&T's proposed solution -- to treat all switching equipment as new, in order to reflect higher discounts -- is unrealistic and extreme. SWBT should use the new and replacement switch discounts recommended by Staff, which appropriately reflect forward-looking information and the long-run concept. Staff's recommendation reflects a reasonable weighting between new switches (which have greater discounts) and add-on switching equipment (which has a lower discount).

Issue No. DA-0003, Non-traffic sensitive costs.

Staff: Staff's position is that allocation of costs to switching versus port can affect the prices for each. Staff argues that a careful review of the usage and non-usage sensitive costs is required. However, Staff states, in general, SWBT's proposal is a plausible way of arriving at a reasonable set of weights. (Tr. at 3521-22)

AT&T: AT&T argues that SWBT improperly includes non-traffic sensitive costs in traffic sensitive, minute-of-use costs and rate elements for local switching. As usage increases, such as for the Internet, SWBT would reap the windfall of increased revenues when its costs were not actually increasing at all. This would put new entrants at a great competitive disadvantage. AT&T contends that the non-traffic sensitive parts of the switch should be included in the loop port charge, not in the switching minute of use charge. (Tr. at 2726-27)

SWBT: SWBT asserts that this is a model platform issue, not an input issue. Non-traffic sensitive costs are a function of the switch parameters; it is not an input issue -- but where should the costs be recovered. The point of debate is the switch processor. The switch characteristic clearly defines the processor as traffic sensitive and it is included in the traffic sensitive category; only the port related equipment is not traffic sensitive. The proposed methodology change departs from the architecture of the model selected by the Commission in Phase 1. SWBT's position is that SWBT has correctly designated costs between traffic sensitive and non-traffic sensitive. SWBT disagrees that the Port cost should be changed as AT&T proposes (to add GSI) to account for costs AT&T considers non-traffic sensitive. (Tr. at 2334-35, 2075-76)

Discussion: SWBT's explanations appear to be reasonable and will not require the adjustment proposed by AT&T.

Issue No. DA-0004, SCIS spare and test equipment factors.

AT&T: AT&T's position is that SWBT inappropriately uses default settings in SCIS related to spare and test equipment, thereby ignoring its own internal efficient practices of centralized sparing. This causes the results of SCIS to overestimate SWBT's switch replacement cost. According to AT&T, SWBT uses centralized spares, which can be used at any number of end offices, instead of maintaining spare parts at every office. Furthermore, SWBT does not necessarily order the manufacturer's complete test equipment suite with every central office purchase. (Tr. at 2728)

AT&T's recommended solution is to revise setting in SCIS to recognize efficient use of centralized spares. A Bellcore representative has stated that up to 90% of spare parts might not be needed when centralized sparing is used. AT&T recommends a conservative estimate of 50% savings from the SCIS default spare parts inventory. (AT&T Brief at 41) See also Issues DA-0011 and DA-0014.

SWBT: SWBT argues that it is appropriate to account for spares and the testing equipment located at the central office location as getting started costs in addition to the centralized spares. The proposed methodology change departs from the architecture of the model selected by the Commission in Phase 1. To confirm the correct amount is accounted for in SCIS, SWBT inventoried centralized spare and compared it with the amount in SCIS; spare is properly accounted for in the SWBT model. There might be more than one way to account for spare, but SWBT used a reasonable basis and validated it by separate inventory. (SWBT Brief at 25; Tr. at 2329-33, Smith Reply p. 2)

SWBT recommends that it uses centralized sparing and keeps some spares at central office location for efficiency and service reliability; there is no duplication. SWBT states SCIS appropriately includes central office (C/O) spares in the getting started cost; this is not an input issue.

Discussion: AT&T's recommendation that the switching cost studies should reflect the efficient forward-looking practice of using centralized sparing is reasonable. However, SWBT has indicated that its model already reflects the use of centralized sparing, validated by a separate inventory. SWBT's inclusion of some spares at central office locations for service reliability is not unreasonable, and the Commission declines to accept AT&T's proposed adjustment.

Issue No. DA-0005, Should certain feature hardware items be eliminated from the feature hardware investment computation?

AT&T: AT&T argues that SCIS already includes the cost of universal tone receivers. Including them again as feature hardware double counts cost. According to AT&T, voice mail translators are not switching equipment and should not be included in switching cost studies. (Tr. at 2731-32)

SWBT: SWBT argues that feature related hardware (FRH) is not an input issue; but a platform issue. SWBT determines FRH cost outside the SCIS model, as it did in the prior proceeding, by reference to its continuing property records and current list cost of the FRH. SWBT contends its model accounts for FRH in a reasonable manner. SWBT acknowledges that universal tone receivers are already included in SCIS and should not be included as feature related hardware. SWBT contends it has correctly included voice mail translators in the FRH because this hardware is needed to provision voice mail service. SWBT is currently reconsidering this issue. (Tr. at 2075, 2326-27, SWBT Brief at 25)

Discussion: SWBT acknowledges that universal tone receivers are already included in SCIS and should not be included as feature related hardware. SWBT should remove the cost of universal tone receivers and voice mail translators from its switching cost studies.

Issue No. DA-0006, What should be the source for feature additive hardware investment values?

AT&T: AT&T contends SWBT used SCIS/IN when calculating analog and digital trunk port elements. However, SWBT used the CPR of plug-in inventory system/detailed continuing property records (PICS/DCPR) to determine the costs for feature hardware. AT&T contends this is inconsistent with LRIC principles. PICS/DCPR data reflects embedded cost and is developed inconsistently with all other SCIS data. According to AT&T, SWBT's use of different studies results in substantial variances and inconsistency within SWBT's UNE costs. The feature hardware trunk costs produced by SWBT using PICS/DCPR generate a cost that is three times greater than the cost of the very same equipment in SWBT's trunk port studies using the SCIS/IN model. In the present case, SCIS/IN can be used to compute all of the feature related hardware components that AT&T suggests should be included in the cost study. (See DA-0005 for items that should be excluded.) AT&T contends SWBT should use SCIS/IN to compute the feature related hardware investment value to ensure consistency of costing methodology between all of the other switching cost studies and feature related hardware cost study. (Tr. at 2735-36, AT&T Brief at 42-43)

SWBT: SWBT states it used its continuing property records (CPR) data as a starting point to develop the feature related hardware (FRH) investment components. SWBT then applied a CC/BC ratio to the FRH investment. SWBT contends this method is consistent with the forward looking principle of a LRIC study. SWBT asserts that switch costs are not declining as AT&T suggests. (Tr. at 2328)

Discussion: AT&T recommendation that SWBT should use a consistent source for feature additive hardware investment values is appropriate. SWBT should use the SCIS/IN as the source to compute the feature related hardware components in its Kansas TELRIC cost studies.

Issue No. DA-0007, What should the feature hardware additive factors be?

AT&T: AT&T asserts that feature hardware cost study methodology should be consistent with the rest of cost study methodology; therefore, these costs should be developed using SWBT's SCIS programs. (Tr. at 2737)

SWBT: SWBT contends that AT&T's proposed changes depart from the methodology of SWBT's model and are not a change to the input as AT&T suggests. SWBT states the CPR data was only used as a starting point to develop the feature related hardware investment components, not the actual dollar amounts. A Current Cost/Book Cost (CC/BC) ratio was then applied to the feature related hardware investment to convert it to current investment prices used in TELRIC. The current

FRH (feature related hardware) investment was then divided by current total switch investment from SCIS. SWBT's recommended solution is to retain SWBT's method. (Tr. at 2326-27)

Discussion: AT&T's proposal that SWBT should use its SCIS programs to develop feature hardware costs to be consistent with the rest of the cost study methodology is adopted.

Issue No. DA-0008, Should the fixed, getting started cost of a switch be assigned to, and recovered from, the non-traffic sensitive port element?

Staff: Staff maintains this is a plausible way of arriving at a reasonable set of weights. However, it is inappropriate to apply a line-related growth rate to the "getting started" or fixed portion of the total switching investment. According to Staff, by definition, this part of the switch does not grow much over the life cycle of the switch, and thus the initial deep discount is virtually all that is relevant to this part of the switch. (Tr. at 3521)

AT&T: AT&T argues that the first cost of the switch is fixed and should be recovered through the non-traffic sensitive (NTS) line port switching unbundled element. AT&T contends this is not a "model platform issue" since SCIS identifies switching investment values for several switch components. According to AT&T the current generation of digital switches has more processing capacity than can possibly be utilized, as shown by SWBT's own utilization calculations. The reason the fixed costs are incurred are because of the ports or lines. Today, switches are port limited and a second switch must be installed in the wire center when the switch reaches the maximum number of ports. Therefore, the Getting Started Costs should be allocated and recovered on the port side of the calculation. Staff and SWBT ignore the cost causation concept and allow costs to be recovered on a per minute basis when, admittedly, these costs do not vary on a per minute basis. (Tr. at 2738-40, AT&T Brief at 44-45)

According to AT&T, SCIS outputs become inputs for both minute-of-use and port studies. AT&T contends AT&T and SWBT each account for all the switch investments, but simply classify different portions of the total investment as non-traffic sensitive. AT&T's attribution of investment to the NTS classification follows TELRIC principles better than does SWBT's.

SWBT: SWBT argues that the getting started investment (GSI) is associated with the limiting resource of the switch, the processor. The processor real time capacity is associated with the switch capacity to process calls and features. SWBT has appropriately included GSI in the MOU cost. The proposed methodology change departs from the architecture of the model selected by the Commission in Phase I. SWBT argues that this is not an input issue. SWBT's recommendation is to retain SWBT's model platform. (Tr. at 2329-2333)

Discussion: SWBT and Staff's recommendation is reasonable. The getting started investment should be recovered in the MOU cost.

Issue No. DA-0009, What Minutes of Use should be used for Switching cost development?

Staff: Staff contends 1997 actual data, 1998 forecast data and average minutes of use (MOU) for the period 1996-1998 are all reasonable proxies for expected demand. Staff states the forecast is based on average of growth rates for 1995-1996 and 1996-1997 and results in a conservative forecast of 1998 MOU. Analog and tandem minutes of use should be accounted for, in addition to digital minutes used in the study. See, Staff MOU study, amended DRS-1 and DRS-2 exhibits. Springe Response to Q1 - Q7. (Staff Brief at 22)

AT&T: AT&T asserts that if a point-in-time cost is used, point-in-time minutes should be used. If life cycle costs are adopted by the Commission, full life cycle minutes should be used. SWBT's minutes of use values are for a point-in-time, however, the switch investment discount

SWBT proposes is developed on a life-cycle basis. AT&T contends it point-in-time minutes of use and point-in-time replacement cost discount are consistent.

According to AT&T, if the large Getting Started Cost of a switch is fixed over the entire life of the switch, as SWBT proposes, then the Getting Started Costs should be also allocated over the total demand expected at the end of the switch's life. If the fixed cost is allocated only over current minutes (1995 minutes) any future increase in the number of minutes will result in a windfall for SWBT. SWBT must correct this error by recovering fixed investments over the forecast demand expected. AT&T recommends a mid-life convention (a standard cost model procedure) be used. This method would levelize SWBT's total recovery and does not present a windfall to one party or the other. (AT&T Brief at 46)

AT&T contends if minutes of use are used to allocate the getting started investment, minutes at the midpoint of the switch's life should be used. However, AT&T urges that the getting started investment should be allocated to ports, not minutes. (AT&T Brief at 47)

CURB: CURB asserts that the costs should be forward-looking. CURB questions whether SWBT's MOU include all proper forecasted minutes (for example, local calling plans, EAS, TRS) and other considerations to make volumes forward-looking.

SWBT: SWBT argues that its minutes of use (MOU) were based on total local, toll and access minutes as measured for an annual period. These minutes of use reflect usage for the switches in Kansas, some which are new and some which have been in service for a length of time and have had growth added to them. SWBT contends SCIS models the switches based on current demand on each switch. The MOU in the local switching study matches the investment generated by SCIS and the annual costs which are generated from it. SWBT recommends retention of SWBT's inputs. (Tr. 2324-25)

Discussion: SWBT should use Staff's forecast for 1998 switching minutes of use. Staff's proposal represents an appropriate input for a forward-looking cost study and should be used in SWBT's Kansas TELRIC cost studies. Usage of 1997 actual or a mid-point does not reflect the most efficient local exchange network and overstates usage cost per minute.

Issue No. DA-0010, Should the feature hardware additive be split into traffic sensitive and non-traffic sensitive components?

AT&T: AT&T takes the position that some feature hardware is traffic sensitive and some is non-traffic sensitive. The hardware additives should be developed to reflect this so that they can be applied to the correct traffic sensitive and non-traffic sensitive unbundled elements. (Tr. at 2743-44)

SWBT: SWBT argues that this is a model platform, not an input issue. Feature related hardware is considered part of the MOU cost since the local switching element includes all features and functionality of the switch. AT&T inappropriately has allocated feature related hardware to the ports. SWBT recommends to retain SWBT'S inputs. (Tr. at 2328-29)

Discussion: It is appropriate to recover the costs of the feature related hardware as part of the MOU cost. The adjustment proposed by AT&T is unnecessary.

Issue No. DA-0011, How much of the "Other Investment" for DMS 100 switches should be included in Getting Started (GS) Investment?

AT&T: AT&T recommends SWBT reduce the sparing by 50% to account for SWBT's centralized sparing policy that requires as much as 90% less spares than generic spares included by Bellcore. (Tr. at 2745-46)

SWBT: SWBT contends it is appropriate to account for spares and the testing equipment located at the central office location as getting started costs in addition to the centralized spares. SWBT uses centralized sparing and keeps some spares at central office location for efficiency and service reliability; but there is no duplication. According to SWBT, SCIS appropriately includes central office spares in the getting started cost. The SCIS amounts, compared with existing inventories, were comparable to actual central office inventories. SWBT recommends that the SCIS amounts are comparable to existing inventories of spares. (Tr. at 2329-30)

Discussion: As discussed under issue DA-0004, AT&T's proposed adjustment for sparing, which relates to the Other Investment, should be rejected.

Issue No. DA-0012, What is the appropriate switch discount for 5E switches?

Staff: Staff argues that the "new switch" discount should be given the greatest weight. However, Staff concedes it is also reasonable to give limited weight to the "growth" discount. The relative weight given to each discount should be consistent with the long-run planning concept. Specifically, 80-85% weight be given to the new switch discount, and 15-20% weight be given to the growth discount. This provides a reasonable result, and avoids the complexities involved in the Company's proposed life cycle weighting approach. However, if the Commission approves SWBT's methodology, Staff recommends that a blended growth rate be used, which gives one third weight to a line-based growth rate of 4%, one third weight to a MOU-based growth rate of 12% and one third weight to a growth rate of zero, which is the appropriate growth rate associated with the fixed and getting started portions of the switching investment. (Tr. at 3517-20)

AT&T: AT&T's position is that the SCIS discount input should be developed to generate per-line investments that are reflective of the most recent, best-price, competitive bid contracts for switch replacements. At a minimum, the appropriate replacement discounts can be approximated by reference to the Texas Arbitration Testimony of SWBT's Hugh Raley. AT&T contends SWBT's life cycle approach to discounts proposed in Kansas for switching is inconsistent with the balance of SWBT's TELRIC cost models. See especially loop and transport studies. SCIS is not a life cycle cost model, it captures only a current point-in-time investment. (Tr. at 2747-49)

SWBT: SWBT asserts that the appropriate discount to use in SCIS for 5ESS switches is based on current vendor contracts with Lucent and represents a weighted average of initial lines and growth lines. The SCIS model replicates investment for existing demand based on switches in different stages of their life cycles. One cannot physically "flash cut" and replace the entire network, which is what AT&T is proposing by using only the discounts for initial switch replacement. The model adopted used a weighted average of initial and growth lines. The proposed methodology change departs from the architecture of the model selected by the Commission in Phase 1. SWBT recommends to retain life cycle input. (Tr. at 2317-20)

Discussion: As discussed in issue DA-0002, SWBT should use the weighted discounts for new and add-on equipment proposed by Staff.

Issue No. DA-0013, What is the appropriate switch discount for DMS 100 switches?

Staff: Staff argues that the "new switch" discount should be given the greatest weight. However, Staff concedes it is also reasonable to give limited weight to the "growth" discount. The relative weight given to each discount should be consistent with the long-run planning concept. Specifically, 80-85% weight be given to the new switch discount, and 15-20% weight be given to the growth discount. This provides a reasonable result, and avoids the complexities involved in the Company's proposed life cycle weighting approach. However, if the Commission approves SWBT's methodology, Staff recommends that a blended growth rate be used, which gives one third weight to a line-based growth rate of 4%, one third weight to a MOU-based growth rate of 12% and one

third weight to a growth rate of zero, which is the appropriate growth rate associated with the fixed and getting started portions of the switching investment. (Tr. at 3517-20)

AT&T: AT&T recommends that the SCIS discount input should be developed to generate per-line investments that are reflective of the most recent, best-price, competitive bid contracts for switch replacements. At a minimum, the appropriate replacement discounts can be approximated by reference to the Texas Arbitration Testimony of SWBT's Hugh Raley. According to AT&T, SWBT's life cycle approach to discounts proposed in Kansas for switching is inconsistent with the balance of SWBT's TELRIC cost models. See especially loop and transport studies. SCIS is not a life cycle cost model, it captures only a current point-in-time investment. (Tr. at 2750-52)

SWBT: SWBT argues that the appropriate discount to use SCIS for DMS100 switches is based on current vendor contracts with Nortel and represents a weighted average of initial lines and growth lines. The SCIS model replicates investment of existing demand based on switches in different stages of their life cycles. One cannot physically "flash cut" and replace the entire network, which is what AT&T is proposing by using only the discounts for initial switch replacement. The model adopted used a weighted average of initial and growth lines. The model adopted used a weighted average of initial and growth lines. The proposed methodology change departs from the architecture of the model selected by the Commission in Phase 1. SWBT recommends to retain life cycle input. (Tr. at 2317-20)

Discussion: As discussed in issue DA-0002, SWBT should use the weighted discounts for new and add-on equipment proposed by Staff.

Issue No. DA-0014, How much of the "Other Investment" for 5E switches should be included in the Getting Started ("GS") Investment?

AT&T: AT&T recommends that negative inputs reduce the sparing by 50% to account for SWBT's centralized sparing policy that requires as much as 90% less spares than generic spares included by Bellcore. (Tr. at 2753-54)

SWBT: SWBT argues that it is appropriate to account for spares and the testing equipment located at the central office location as getting started costs in addition to the centralized spares. SWBT uses centralized sparing and keeps some spares at central office location for efficiency and service reliability; but there is no duplication. SWBT contends SCIS appropriately includes central office C/O spares in the getting started cost. The SCIS amounts, compared with existing inventories, were comparable to actual C/O inventories. The SCIS amounts, are comparable to existing inventories of spares. AT&T provides no support for a 50% reduction in spares. SWBT recommends to retain SWBT'S input. (Tr. at 2329-33)

Discussion: As discussed under issue DA-0004, AT&T's proposed adjustment for sparing, which relates to the Other Investment is rejected.

Issue No. DA-0015, Should there be a charge to AT&T, over and above switch port and usage charges, to obtain the blocking/screening and recording functions that SWBT provides to its own customers served by the local switch? If so, what should the charge be?

AT&T: AT&T contends that blocking and screening functions are inherent capabilities of the local switch. Therefore, according to AT&T, there should not be an additional recurring charge for these functionalities. (Tr. at 2755)

Staff: Staff's position is that there should be consistency between various aspects of the cost studies and tariffs. SWBT's switching cost studies include various features and functions that AT&T may not use, or may use relatively infrequently. If AT&T is going to be charged extra for these blocking/screening and recording functions, it would be appropriate to exclude all such "specialized"

switching functions (including Centrex features) from the underlying usage costs and charges. This would ensure that CLECs only pay for the specialized functions they use, in quantities that are consistent with their actual usage levels. Staff's recommendation is to use a non-discriminatory, consistent approach in determining which features should be included in the minute of use charges and which features should be costed and priced separately.

SWBT: SWBT argues that the cost involved in providing blocking and screening is very directly impacted by AT&T's announced intentions to also utilize Customized Routing for its UNE switch ports. Whether SWBT is required to build additional Line Class Codes (LCCs) determines if there will be cost involved. Until AT&T's specific requirements are known, SWBT is unable to determine what must be done. For this reason, ICB pricing would be appropriate. SWBT recommends to retain ICB pricing. (Tr. at 2315, 2390)

Discussion: ICB pricing, which may include recurring charges, is appropriate due to the customized nature of utilizing these functions. However, SWBT should not include the switch costs related to these functions that are already included in the switch cost studies when developing the ICB price for these features.

Issue No. DA-0017, Should switching remotes be handled as separate items in the Local Switching study?

AT&T: AT&T argues that the import of SWBT's proposal is unclear, however, inclusion of remotes with host switches is a reasonable simplifying assumption. Separation of these investments could have some implications on deaveraging of costs as a remote may be in a different zone than its host. However, if remotes are handled separately, then minutes of use should also be handled separately. (Tr. at 2756)

SWBT: SWBT contends that switching remotes should be handled as separate items in the Local Switching Study. Remotes should be treated as separate entities to help distinguish costs of groups within the state. (Tr. at 2315-17)

Discussion: SWBT may handle switching remotes as separate items. SWBT should verify that the investment and MOU treatment is consistent.

Issue No. DA-0018, Should 1A ESS and AXE switches be represented as another digital switch?

SWBT: SWBT contends that 1A ESS and AXE switches should be represented as another digital switch.

AT&T: AT&T agrees that 1A ESS and AXE switches should be represented as another digital switch. However, AT&T contends that SWBT should develop SCIS model inputs that reflect the characteristics of the actual switches being "replaced" and/or reflects the correct engineering choice for replacement (e.g., substitute a DMS100 remote for an AXE host). Simple substitution of switches of similar size will not correctly identify forward-looking costs to serve the customers in the locations served by the substituted switches. (Tr. at 2757)

Discussion: Both AT&T and SWBT agree that 1A ESS and AXE switches should be represented as another digital switch. SWBT should include SCIS model inputs as proposed by AT&T.

Issue No. DA-0019, How should the tandem investment in the Local Switching study be treated to avoid its inclusion in Local Switching MOU cost?

Staff: Staff argues that SWBT already includes the cost of tandem switches in the study, but fails to include the corresponding minutes of use. Staff recommends inclusion of the tandem minutes of use to correspond to the inclusion of tandem switch investment. Additionally, Staff argues that the

cost of replacing analog with digital switches should be included in the study, as well as the corresponding minutes of use. (Springe response Q3-Q7)

SWBT: SWBT asserts tandem investment cannot be separated from the end office investment in switches that provide both functions. The best way to more accurately reflect the Local Switching MOU investment is to introduce tandem minutes for those shared switches so that the tandem investment is offset by its minutes. This leaves the Local Switching MOU calculation more clean. (Tr. at 2325)

AT&T: AT&T agrees that with the difficulty of separating tandem investments from local switching investments, it is best to include both tandem investments and tandem minutes of use in the computation of the local switching rate. A separate tandem switching rate is still needed that should be a meld of pure tandem minutes of use with the local switch rate from the combination local/tandem switches.

Discussion: As noted in issue DA-0009, SWBT should use Staff's recommended minutes of use in its Kansas TELRIC studies. No adjustment to the tandem investment is necessary, as SWBT included the investment in its studies.

Issue No. DA-0020, Should adjustments be made to the local switching MOU to account for double counting of intraoffice minutes?

Staff: Staff argues that SWBT already includes the cost of tandem switches in the study, but fails to include the corresponding minutes of use. Staff recommends inclusion of the tandem minutes of use to correspond to the inclusion of tandem switch investment. Additionally, Staff argues that the cost of replacing analog with digital switches should be included in the study, as well as the corresponding minutes of use. (Springe response Q4-Q7)

AT&T: AT&T contends that the intraoffice minutes should be adjusted to remove the second MOU count, provided that SWBT will only bill one MOU charge for intraoffice calls. (Tr. at 2759)

SWBT: SWBT's position is that adjustments should be made to the local switching MOU to account for double counting of intraoffice minutes. SWBT proposes to add the tandem minutes to the end office minutes and readjust the intraoffice minutes. (Tr. at 2325)

Discussion: As noted in issue DA-0009, SWBT should use Staff's recommended minutes of use in its Kansas TELRIC studies.

Issue No. DA-0021, Should customized routing be priced on an individual case basis (ICB)?

AT&T: AT&T does not think that customized routing should be priced on an ICB basis. Firm rates should be established. The work involved in setting up customized routing would include only software changes in the 5ESS and DMS-100. This would not necessitate an ICB pricing arrangement. New entrants should know, if at all possible, what their costs will be as they prepare to enter the local market. (Tr. at 2760)

Staff: Staff's position is that this may involve ICB charges. Lack of rules in this area may create uncertainty for CLECs and deter entry into the market. Staff recommends that some reasonable guidelines for ICB costs be developed.

SWBT: SWBT's position is that customized routing and the costs associated with it are dependent upon the CLEC's specific and unique requirements. SWBT recommends that ICB is the appropriate basis for pricing. (Tr. at 2390)

Discussion: Individual case basis (ICB) pricing should be avoided wherever possible. CLECs need to know with a high level of certainty in advance what UNEs will cost. ICB-based pricing introduces an element of uncertainty that can affect CLEC's competitive position. On the other hand, Staff has indicated that customized routing appears to be one element where the costs would be dependent upon the CLEC's specific and unique requirements, and agrees that ICB pricing may be appropriate for this element. Staff's recommendation that the parties work cooperatively with each other to develop mutually agreeable and reasonable guidelines for developing ICB costs is reasonable and is adopted as set forth in this Order.

Issue No. DA-0022, Should switches consider best of breed?

CURB: CURB contends that switch pricing should consider best of breed among Kansas switches as least-cost, most-efficient forward-looking technology in place - - especially considering any difficulties in obtaining proper switch discounts.

SWBT: SWBT argues that switch costs overall are represented by the least cost, most efficient options in the market. This composite cost is more realistic than using only one switch cost as representative. Switches are specified for different applications and conditions. SWBT recommends continued use of SWBT's input.

Discussion: In Issue DA-0002, the Commission required SWBT to use the switching discounts recommended by Staff, which should result in appropriate forward-looking switching investment amounts for use in SWBT's Kansas TELRIC models. An additional adjustment beyond that for CURB's "best of breed" proposal is not required. Further, CURB did not present a quantification of this recommendation.

Issue No. DA-0023, Should SWBT SCIS inputs be modified to use a 100% discount ("i.e., "killer discount") for frame equipment?

AT&T: AT&T argue that SWBT SCIS inputs should be modified to use a 100% discount for frame equipment. According to AT&T, SWBT's cost study methods fully and separately account for frame equipment in the switched port studies and in the loop studies; failing to use the killer discount in SCIS for frame equipment double counts this investment. (Tr. at 2763)

SWBT: SWBT argues that SWBT SCIS should not be modified to use a 100% discount for frame equipment. SWBT does include frame investment split between the loop and port studies. Removing the frame by applying the "killer discount" would be incorrect. The switch port portion of the frame should be in SCIS to flow through to the port study. SWBT recommends to retain SWBT's frame investment in the loop and port studies. (Tr. at 2335)

Discussion: AT&T's evidence that SWBT has double-counted the frame investment in its port and loop cost studies does not support use of a 100% discount. The Commission agrees with SWBT that the frame equipment should not be totally removed in SCIS via application of AT&T's "killer discount." SWBT should demonstrate that the total frame investment recovered does not exceed 100%.

Issue No. DA-0024, Should SWBT use life cycle costing principles for its switching cost studies even though it does not determine life cycle minutes or ports and the SCIS model is a snapshot in time model?

AT&T: AT&T asserts that SWBT should not use life cycle costing principles for its switching cost studies even though it does not determine life cycle minutes or ports and the SCIS model is a snapshot in time model. SWBT uses snapshot in time costing principles in all of its cost studies. The only exception is the melding of new and growth prices for switching but, ironically, not for

switching minutes or ports. The forward-looking snapshot in time practice should be applied to determination of switch discounts. (Tr. at 2763-66)

SWBT: SWBT argues that it should use life cycle costing principles for its switching cost studies. According to SWBT, AT&T has confused the life cycle discount calculation and the investment modeled in SCIS. SCIS develops investment for each switch based on a point in time. The minutes used in the study match the investment. SWBT recommends to retain SWBT's minute inputs. While the other parties may have "different" ideas, the SWBT method is conceptually practical and consistent with engineering practices. (Tr. at 2320-24, SWBT Brief at 28)

Discussion: Consistent with issue DA-0002, SWBT should use the switching discounts recommended by Staff, which should result in appropriate forward-looking switching investment amounts for use in SWBT's Kansas TELRIC models. The use of Staff's recommended discounts appropriately considers life cycle costing by reflecting a mixture of new and add-on switching equipment.

Issue No. DA-0025, Should tandem-related trunking and any other identifiable investments be eliminated from SCIS model outputs for local switching?

AT&T: AT&T's position is that if SWBT removes tandem minutes of use from the local switching minutes of use count, tandem investments must be removed as well. (Tr. at 2767)

SWBT: SWBT argues that the SCIS model outputs provide Getting Started Investment (included processor, et. al.), Switch Module Investment, Line Termination Investment, Call Type Investment and Total Trunk Investment. Unlike the Line Termination Investment which is identifiable and removed for the Line Port studies, the processor, Switch Module and Trunking Investments are not identifiable by end office versus tandem. SWBT contends the AT&T Solution assumes that SWBT removes tandem minutes of use (MOU). Actually, SWBT adds the tandem MOU from combined offices to offset the tandem investment which cannot be split from end office investment in the Local Switching cost study. See DA-0019. (Tr. at 2324-25)

Discussion: Consistent with issue DA-0009, SWBT should use Staff's proposed minutes of use, which includes tandem minutes of use. Therefore, there is no need for AT&T's recommended removal of tandem investments.

Issue No. DA-0026, Should forward-looking costs of switching equipment from switch vendors be similar on a per line basis?

AT&T: AT&T believes that forward-looking costs of switching equipment from switch vendors be similar on a per line basis. Switch vendors are in a world-wide competitive market and must deliver products of competitive quality and functionality for comparable prices. AT&T argues that SBC has enormous buying power with its two largest switch vendors and has commented in its annual report to shareholders that it expects substantial additional capital cost savings because of increased buying power. (Tr. at 2768)

SWBT: SWBT argues the opposite, that forward-looking costs of switching equipment from switch vendors should not be similar on a per line basis. A number of factors affect switch price including size, feature availability, ISDN capability, topology, date of current contract, etc. SWBT's switch investment is based on current vendor contracts. SWBT recommends to retain SWBT's switch investments. (Tr. at 2317-20)

Discussion: SWBT should use the switching discounts recommended by Staff (issue DA-0002), which should result in appropriate forward-looking switching investment amounts for use in SWBT's Kansas TELRIC models. Staff's discounts consider a variety of switches, and new as well as add-on equipment. The application of the discounts recommended by Staff represents a reasonable and

well-supported approach to addressing the concerns about the cost of switching investment for use in the Kansas TELRIC studies.

Issue No. DA-0003, Non-traffic sensitive costs

Staff: Staff contends that the allocation of costs to switching versus port can affect the prices for each. Staff states that a careful review of the usage and non-usage sensitive costs is required.

Discussion: No adjustment is presented in this issue.

EA Transport Studies

Issue No. EA-0001, Transport costs.

AT&T: AT&T argues that SWBT's transport costs are overstated because they fail to reflect efficient existing network topology and demand. SWBT studies only include retail private line circuits and exclude special access and all circuits used to transport SWBT's own traffic. SWBT excluded all DS0, DS1 and DS3 circuits between its central office and any CLEC point of presence ("POP") and also excluded circuits between SWBT central offices. SWBT's cost studies for both common and dedicated transport are not based upon the total number of circuits in SWBT's network and, therefore, do not include the economies of scope and scale that should be included in a properly conducted TELRIC or LRIC study.

AT&T further contends the message circuits used for local and intraLATA toll traffic between SWBT's end offices should be included in the Dedicated Transport cost analysis, as well as the access circuits that AT&T and other IXCs purchase between SWBT's end office and the IXC's POP. SWBT's exclusion of these access circuits that go to the AT&T POP and their treatment as loops is in clear conflict with the definition of Dedicated Transport included in the arbitrated AT&T Interconnection Agreement. Additionally, the investments and network architecture SWBT utilized in the Entrance Facility cost study - identical to those included in the loop cost study - in no way reflect the assets and network architecture that SWBT uses between its central office and the AT&T POP. The equipment and network architecture used for the AT&T POP connection is the same as is included in the Dedicated Transport cost study. Thus, these circuits end up being identical in nature to the others included in the interoffice Dedicated Transport cost study, and should be included as well. AT&T proposes that SWBT develop proper transport costs. (Tr. at 2675-87)

SWBT: SWBT contends that its UNE interoffice (IO) transport study, which matches the UNE rate element, reflects SWBT's existing network configured with efficient SONET architectures. The circuits that are included in the study to weight the various paths between offices include the appropriate interoffice circuits and exclude circuits that are not interoffice such as those between SWBT's COs (central offices) and any CLEC POP (defined as Entrance Facilities), and any circuits between CLEC POPs, unless riding SWBT's interoffice network. Also excluded are private line and company circuits, which do not match the UNE. The use of A-Z circuits for weighting routes for the study has little to do with economies of scale that are already inherent prior to weighting and only effect economies with regard to which paths are weighted to a greater or lesser degree. SWBT contends its weightings reflect the correct circuits. SWBT's recommended solution is to use SWBT's inputs. (Tr. at 2249-53)

Discussion: SWBT's UNE interoffice transport study appropriately matches the UNE rate element and includes the appropriate interoffice circuits, while excluding circuits that are not interoffice circuits for this rate element. We therefore decline to adopt AT&T's recommended adjustment.

Issue No. EA-0002, Does SWBT's common transport fail to reflect total demand by determining rates based on weekday usage only?

AT&T: AT&T asserts that SWBT's common transport fails to reflect total demand by determining rates based on weekday usage only. This causes transport rates to be overstated, especially considering there is no exemption of transport charges on weekends. AT&T contends that because SWBT assumes that all Common Transport within its network rides DS1 Dedicated Transport circuits, it uses the investment for these circuits as an input into the Common Transport cost study. Consequently, the failures that are identified for the Dedicated Transport cost study simultaneously affect the Common Transport cost study.

AT&T proposes to require common transport costs to be developed based on total demand. Corrections need to be made to all studies that utilize DS1 Dedicated Transport cost study outputs including Common Transport, signaling link transport and operator services. (Tr. at 2688-89)

SWBT: SWBT contends that its recently filed common transport study does include weekend usage. SWBT argues that this is not an issue. SWBT recommends continued use of SWBT's inputs. (Tr. at 2249-53)

Discussion: SWBT has included weekend usage in its recently filed common transport study, thus AT&T's concern has been addressed.

Issue No. EA-0003, Fill factors for plug-ins

AT&T: AT&T argues that SWBT's transport terminal equipment fill factors are inappropriately applied to both hard wired equipment and to plug ins and are far below the typical industry engineered fill of 80%. Plug ins are modular and can be added when additional capacity is required. In developing fill factors for investments used in SONET networks, SWBT fails to account for the inherent scalability of SONET equipment and use of SWBT's own forward-looking objective fill factors. AT&T argues that SWBT uses low fill factors to increase its costs. Additionally, SWBT does not use objective fill factors developed by engineers. According to AT&T, a forward-looking cost study should use objective fill because the long term engineering fill on the network will approximate this level of fill. Actual fill should not be used. (Tr. at 2690-98)

SWBT: SWBT contends it uses objective fill factors in the calculation of the cost for Digital Multiplexing functionality. However, when these assets are used in the Dedicated Transport cost studies they have a lower fill factor than when studied individually. SWBT argues the Commission should order a terminal equipment fill factor of ****85%**** for use in the transport cost studies. The efficiency provided by use of SONET stacked rings allows SWBT to operate at high capacity.

SWBT contends that it appropriately uses different equipment fill factors for low speed service plug in equipment and high speed SONET terminal equipment. The values used are based on SWBT's existing network and represent a reasonable projection of SWBT's actual fill for this component and is consistent with TELRIC principles. SWBT recommends continued use of SWBT's inputs. (Tr. at 2253-55)

Discussion: SWBT should use a terminal equipment fill factor of ****85%**** in the Kansas TELRIC transport cost studies.

Issue No. EA-0004, Do SWBT's studies fail to reflect that multiplexing equipment used for UNEs is purchased as a fully equipped package?

AT&T: AT&T argues that the appropriate fill factor to use in the purchase of a multiplexer is 100% because the purchaser is paying for the entirety of the multiplexer and it cannot share with another CLEC or the ILEC. (Tr. at 2699-2700)

SWBT: SWBT asserts that the Multiplexing element study reflects that SWBT does not anticipate the purchase of this equipment "in-toto". If this is truly the way in which this equipment

will be purchased, then SWBT would need to make one more adjustment to costs, than what AT&T recommends, to reflect such pricing/purchasing of this element. Not only would the fill be moved to 100%, but the assignment of only a portion of the capacity of the equipment would also have to be changed to an "in toto" assignment. SWBT recommends continued use of SWBT's inputs. (Tr. at 2255-56)

Discussion: It appears that SWBT's multiplexing element study does not reflect an anticipation that the CLEC would be purchasing such equipment in its entirety, therefore less than 100% fill is appropriate. However, in addition, SWBT should develop the cost for purchasing the multiplexer equipment "in-toto" with a 100% fill factor.

Issue No. EA-0005, What should be the recurring costs for Optical Dedicated Transport?

AT&T: AT&T argues that SWBT failed to file any cost studies for the higher speed Dedicated Transport (OC3, OC12 and OC48) and intends to price these elements on an Individual Case Basis (ICB). ICB pricing of these elements significantly undermines the ability of new entrants to effectively plan their entry into local markets and is unnecessary. AT&T contends SWBT can readily perform cost-based analysis on these unbundled elements and provide AT&T and others with its view of the cost for OC3, OC12 and OC48 Dedicated Transport systems using the parameters found in the survivable transport network or self-healing transport network (STN) tariff since the two operate similarly. SWBT has also failed to provide the cost study for Digital Cross-connect System functionality which is an indication that SWBT intends to price this unbundled element on an ICB and discriminatory basis.

AT&T sponsors cost studies for the four above mentioned areas. COSTPROG was used to develop the costs for OC3, OC12 and OC48 on a DS1 or DS3 level using information provided by the cost analyst. Cost differences that occur for dedicated transport at an electrical level (DS3) versus the optical level (OC3, OC12 and OC48) were also identified. (Tr. at 2701-05)

SWBT: SWBT contends ICB pricing is appropriate. Once CLECs establish sufficient demand, SWBT will conduct a cost study and set generally available prices. (Tr. at 2390)

Discussion: As noted in issue DA-0021, we agree with AT&T that individual cast basis (ICB) pricing should be avoided wherever possible. Since SWBT failed to file studies for Optical Dedicated Transport, and AT&T has filed such studies, we will adopt AT&T's studies for these UNEs, provided however that AT&T adjusts the inputs used in its ODT studies consistent with our findings concerning appropriate input values (for cost of money, depreciation, etc.) described elsewhere in this order, and re-files its ODT studies using inputs that are consistent with such findings.

Issue No. EA-0006, Should there be any exceptions for allowing for Entrance Facility charges?

AT&T: AT&T asserts that in the event that the local service provider (LSP) wire center is not a node on a SWBT SONET ring, then SWBT should be entitled to an Entrance Facility charge that is exactly the same rate as the loop charge. This should only occur for DS1 Entrance Facilities and only as an exception. The SWBT facilities that are necessary to provide Dedicated Transport to the AT&T POP are already collocated in the AT&T POP and are the same type of facilities as are included in SWBT's Dedicated Transport cost study. Dedicated Transport includes wire centers owned by AT&T which means that transport to AT&T POP would be part of this. Unbundled loops go to customer premises which do not include AT&T wire centers. Thus, SWBT should not be permitted to add Entrance Facility charges to its Dedicated Transport rates. (Tr. at 2706-07)

SWBT: SWBT recommends that UNE entrance facilities are for local access only. Such charges are applicable for extending a link between the CLEC's local switch and SWBT'S local serving office. In addition, when a CLEC is located within the same building as SWBT'S local

serving office and that office is on a SONET local interoffice ring then a separate charge would be applicable. (Tr. at 2256-57)

Discussion: AT&T's arguments on this issue are persuasive. SWBT should not be permitted to add Entrance Facility charges to its Dedicated Transport rates.

Issue No. EA-0007, Should SWBT be entitled to charge for Entrance Facilities?

AT&T: AT&T's position is that as a general rule SWBT should not be permitted to charge for Entrance Facilities. Entrance Facilities are only unbundled loops. Loops are used to go from customer premises to SWBT wire centers. Dedicated Transport includes not just SWBT wire centers, but LSP wire centers and POPs as well which are not customer premises. Further, SWBT's SONET rings already extend into many LSP wire centers and the investments associated with SWBT SONET rings have already been captured in COSTPROG and the Dedicated Transport costs derived from this system. The SWBT facilities that are necessary to provide Dedicated Transport to the AT&T POP are already collocated in the AT&T POP and are the same type of facilities as are included in SWBT's Dedicated Transport cost study. Dedicated Transport includes wire centers owned by AT&T which means that transport to AT&T POP would be part of this. AT&T further contends that unbundled loops go to customer premises which do not include AT&T wire centers; thus, SWBT should not be permitted to add Entrance Facility charges to its Dedicated Transport rates. (Tr. at 2706-07)

SWBT: SWBT argues that Entrance Facilities are dedicated transport UNE's extending between SWBT offices and a CLEC's offices. The cost for Entrance Facilities are not included in other transport costs studies. SWBT recommends to retain cost inputs because of separate cost functions. (Tr. at 2258-59)

Discussion: As discussed in issue EA-0006, AT&T's arguments on this issue are persuasive. SWBT should not add Entrance Facility charges to its Dedicated Transport rates.

Issue No. EA-0008, Should the Sales Tax and Power Investment factors only be applied once in the DS1 to DS0 Multiplexing Cost Study?

AT&T: AT&T's position is that Sales Tax and Power Investment factors can be applied in the investment calculation or in automated cost extraction expense system (ACES). SWBT has applied them in both places. AT&T has applied them only in ACES. AT&T contends a correct calculation of LRIC will only apply them in one place as AT&T has done.

SWBT: SWBT agrees that these factors should be applied once. SWBT contends that there is no issue. (Tr. 2259)

Discussion: Because AT&T and SWBT agree that these charges should have only been applied once, there is no issue. SWBT should verify that Sales Tax and Power Investment factors are applied only in ACES.

Issue No. EA-0009, Should the Power Investment Factor only be applied once in the DS3 to DS1 Multiplexing Cost Study?

AT&T: AT&T argues that the Power Investment factors can be applied in the investment calculation or in ACES. SWBT has applied it in both places. AT&T has applied it only in ACES. A correct calculation of LRIC will only apply it in one place as AT&T has done.

SWBT: SWBT agrees that this factor should be applied once. SWBT contends that there is no issue here.

Discussion: Because AT&T and SWBT agree that these charges should have only been applied once, there is no issue. SWBT should verify the Power Investment Factors are only applied in ACES.

Issue No. EA-0010, Should the Common Transport Cost Study be restated to use the updated DS1 Dedicated Transport investments?

AT&T: AT&T's position is that SWBT's calculation of Common Transport is based on the DS1 Dedicated Transport Cost Study investments. There are no disagreements between SWBT and AT&T as to the methodology for calculating these costs. There is only a disagreement as to the actual inputs. This issues matrix item is included to assure that any decisions regarding DS1 Dedicated Transport will be carried into the calculation of Common Transport. Because SWBT assumes that all Common Transport within its network rides DS1 Dedicated Transport circuits, it uses the investment for these circuits as an input into the Common Transport cost study. Consequently, the failures that are identified for the Dedicated Transport cost study simultaneously affect the Common Transport cost study. (Tr. at 2688-89)

AT&T proposes to require common transport costs to be developed based on total demand. Corrections need to be made to all studies that utilize DS1 Dedicated Transport cost study outputs including Common Transport, signaling link transport and operator services.

SWBT: SWBT recommends that the value provided in the studies, filed and provided to AT&T and other parties on March 23rd, should be used. There is no issue. (Tr. at 2260)

Discussion: SWBT should consistently apply adjustments made to DS1 Dedicated Transport as determined by the Commission relative to SWBT's calculation of Common Transport.

Issue No. EA-0011, Should investment Roundup Correction Factors be applied to account for SWBT always rounding up to the nearest mile? If so, what Roundup Correction Factors should apply?

AT&T: AT&T argues that SWBT's development of costs for Dedicated Transport are calculated without incorporating any rounding. In reality, AT&T contends that SWBT intends to round up to the nearest mile before applying the Dedicated Transport rates. AT&T proposes Roundup Correction Factors have been developed so that the costs will be adjusted for the introduction of a rounding error that SWBT will consistently apply in the application of the costs. If SWBT rounds up mileage associated with Dedicated Transport, SWBT will be effectively recovering more than its TELRIC for every Dedicated Transport circuit purchased by a CLEC. AT&T further contends that if SWBT does not agree to drop the rounding up provision in the Interconnection Agreement with AT&T, the dedicated transport cost estimates should be adjusted downward to reflect the rounding error in SWBT's methodology. AT&T argues that it should pay mileage on a non-rounding basis. (Tr. at 2708-10)

SWBT: SWBT contends that the rounding mechanism used by SWBT mirrors industry practices and the Interconnection Agreement (Appendix UNE Pricing 2.3).

Discussion: Mileage should not be paid on a rounded up basis. SWBT should either drop the "rounding up" provision of the AT&T Interconnection Agreement and other such agreements, or apply a corrective adjustment in the Dedicated Transport cost study to remove the effect of its upward rounding.

Issue No. EA-0012, Should the DS3 Dedicated Transport Cost Study be weighted with only DS3 circuit counts (not DS1s)? If so, what DS3-DS1 Correction Factors should apply?

AT&T: AT&T argues that the DS3 Dedicated Transport should have its circuit costs weighted with DS3 circuit counts, not with DS1 circuit counts. AT&T proposes DS3-DS1 Correction Factors

that have been developed to only weight the COSTPROG investments with DS3 circuit counts. Additionally, AT&T contends SWBT failed to properly include the DS3 circuit counts for the Interzone DS3s, thereby causing a more significant adjustment in this area.

SWBT: SWBT asserts that in SWBT'S March 23rd filed dedicated transport studies, SWBT utilizes DS3 only circuits for weighting. There is no issue. SWBT recommends to retain SWBT input.

Discussion: SWBT corrected for the DS3 circuit counts in its DS3 Dedicated Transport cost study filed on March 23, 1998 and, therefore, this issue is moot.

Issue No. EA-0013, What terminal equipment fill factor should be used?

AT&T: AT&T's position is that this Terminal Equipment Fill Factor is precisely the Engineering Fill that SWBT uses for all of its Dedicated Transport cost studies except the circuit studies. In the circuit studies, SWBT uses Actual Fill, rather than Engineering Fill thereby reflecting an embedded cost estimate rather than a forward-looking one. SWBT, in developing fill factors for investments used in SONET networks, fails to account for the inherent scalability of SONET equipment and use of SWBT's own forward-looking objective fill factors. Additionally, SWBT does not use objective fill factors developed by engineers. A forward-looking cost study should use objective fill because the long term engineering fill on the network will approximate this level of fill; actual fill should not be used. AT&T contends the Commission should order a terminal equipment fill factor of ****85%**** for use in the transport cost studies. The efficiency provided by use of SONET stacked rings allows SWBT to operate at high capacity. (Tr. at 2690-98)

SWBT: SWBT contends that its recently filed dedicated transport costs studies use a dedicated transport fiber fill factor based upon SWBT'S existing network and which represents a reasonable projection of SWBT'S actual fill for this component, consistent with TELRIC principles. (Tr. at 2261-62)

Discussion: SWBT should use the ****85%**** terminal fill factor in its transport cost studies. This fill better reflects forward-looking conditions than actual fill and is therefore appropriate for use in a TELRIC cost study.

Issue No. EA-0014, What fiber fill factor should be used?

AT&T: AT&T contends that this Terminal Equipment Fill Factor is precisely the Engineering Fill that SWBT uses for all of its Dedicated Transport cost studies except the circuit studies. In the circuit studies, SWBT uses Actual Fill rather than Engineering Fill thereby reflecting an embedded cost estimate rather than a forward-looking one. According to AT&T, SWBT in developing fill factors for investments used in SONET networks fails to account for the inherent scalability of SONET equipment and use of SWBT's own forward-looking objective fill factors. AT&T argues that SWBT uses low fill factors to increase its costs. Additionally, SWBT does not use objective fill factors developed by engineers. AT&T contends a forward-looking cost study should use objective fill because the long term engineering fill on the network will approximate this level of fill; actual fill should not be used. (Tr. at 2690-98)

SWBT: SWBT contends it does use objective fill factors in the calculation of the cost for Digital Multiplexing functionality. However, when these assets are used in the Dedicated Transport cost studies they have a lower fill factor than when studied individually. SWBT believes the Commission should order a terminal equipment fill factor of ****85%**** for use in the transport cost studies. The efficiency provided by use of SONET stacked rings allows SWBT to operate at high capacity.

SWBT argues that its recently filed dedicated transport costs studies uses a dedicated transport terminal equipment fill factor based upon SWBT's existing network and which represents a reasonable projection of SWBT's actual fill for this component, consistent with TELRIC principles. SWBT's recommendation is to retain SWBT'S input. (Tr. at 2261-62)

Discussion: As per issue EA-0013, SWBT should use the engineering fill factor in its transport cost studies. This fill better reflects forward-looking conditions than actual fill and is therefore appropriate for use in a TELRIC cost study.

Issue No. EA-0015, Should a complete inclusion of circuit demand and an updated SONET ring inventory be required for the development of Dedicated Transport costs?

AT&T: AT&T asserts that SWBT selectively eliminated a portion of its dedicated transport circuits from the cost study. This results in the petitioners not receiving the economies of scale inherent in SWBT's own network and reviewers are prevented from assessing the efficiency of SWBT's network design. AT&T argues that SWBT should be required to include all circuit demand and an updated SONET ring inventory so that a proper calculation of the LRIC of Dedicated Transport can be developed. This will also enable LSPs to purchase Dedicated Transport with the same economies of scale.

AT&T asserts that SWBT disregards Interoffice Transport and Dedicated Transport facilities in their Interoffice Transport Cost Study. The total elements application for Dedicated Transport should include all circuits, reflecting the total demand for the Dedicated Transport element.

AT&T argues that SWBT's internal record keeping can be used to identify all Dedicated Transport circuits which can be used to correct SWBT's omission of a large portion of the Dedicated Transport circuits. As part of this, SWBT should be required to include all service codes and carrier identification codes in the Dedicated Transport cost analysis. AT&T asserts SWBT should provide data to account for all of the circuits that meet the arbitrated definition of interoffice dedicated transport.

SWBT: SWBT argues that the dedicated transport interoffice study is based upon a complete inclusion of circuit demand and an updated SONET ring inventory. There is no issue. SWBT's recommended solution is to retain SWBT'S input. (Tr. at 2262-63)

Discussion: SWBT has stated that its dedicated interoffice study is based upon a complete inclusion of circuit demand and an updated SONET ring inventory, SWBT should not adjust the study as proposed by AT&T. However, SWBT should provide the data necessary to verify that all dedicated transport circuits have been included.

Issue No. EA-0016, Should customized routing include the underlying facilities, (i.e. DS-1 or DS-3)?

AT&T: AT&T argues that customized routing should not include the underlying facilities. Rates for the underlying facilities will have been established in the transport determinations. Customized routing should be defined to exclude the underlying facilities which are priced elsewhere.

SWBT: SWBT asserts that it has not performed any ICB Customized Routing cost studies in Kansas as none have been requested by a CLEC. However, SWBT would not include the dedicated facilities to which custom routed calls are directed as these facilities would be purchased from SWBT or another provider as part of an UNE. SWBT recommends that customized Routing should be priced on an ICB basis and account for those facilities required for the specific requirements.

Discussion: In issue DA-0021 we determined that customized routing would be priced on an individual case basis. Customized routing shall be defined to exclude the underlying facilities which

are priced elsewhere as part of a UNE. SWBT should demonstrate that the underlying facilities priced elsewhere are not included.

FA Directory Studies

Issue No. FA-0001, Should the Corporation Commission assessment be eliminated from the white pages study?

AT&T: AT&T's position is that white pages production is performed by a SWBT subsidiary. The revenues will be transferred to that subsidiary and should not be subject to the Corporation Commission assessment. (Tr. at 3159-60)

SWBT: SWBT's position is that AT&T is simply incorrect as to the handling of these revenues. SWBT bills for this service and receives revenues from it. Commission Assessment is the tax levied on revenues collected by the Company. It is applicable. SWBT recommends to not change the methodology. (SWBT Brief at 32)

Discussion: AT&T has failed to demonstrate that the Commission assessment would not be applied to the associated revenues, so the AT&T's proposed adjustment is rejected.

Issue No. FA-0002, Should the white pages study be based on Kansas-specific labor rates for SS2 labor?

AT&T: AT&T argues that using the Kansas-based labor rate makes the study more Kansas-specific. (Tr. at 3159-60)

SWBT: SWBT disagrees with AT&T. The study must account for the costs to be incurred. The White Pages functions associated with the SS-2 labor rate are performed in Texas and Missouri only. This is how SWBT does business today. SWBT used an "average" of the two states labor rate for this study. SWBT recommends to not change the methodology or input.

Discussion: SWBT uses of an average labor rate is reasonable, and no adjustment should be required.

Issue No. FA-0003, Should the white pages management fee be eliminated from SWBT's white pages study?

AT&T: AT&T asserts that the management fee represents an intra-corporate profit transfer and AT&T should not be forced to pay such fees. (Tr. at 3159-60)

SWBT: SWBT argues that the management fee for SWBT'S white pages is an appropriate expense. The management fee is charged to SWBT by Yellow Pages for the administration of the White Pages Publishing Agreement. It does not represent an intra-corporate profit as AT&T stated, but a cost charged for services rendered. SWBT recommends retention of SWBT input.

Discussion: AT&T has failed to demonstrate that the white pages management fee represents an intra-corporate profit transfer. SWBT has indicated this is a cost charged for services rendered, not an intra-corporate profit. Therefore, no adjustment should be required.

GA Operator Services Studies

Issue No. GA-0001, What price(s) should be charged for Customized Routing?

AT&T: AT&T argues that without a cost study, SWBT should be required to provide customized routing at the same prices as agreed in other jurisdictions. (Tr. at 3153)

SWBT: SWBT asserts that Customized Routing is by definition varied from standard routing. As such, only ICB pricing is appropriate. The costs associated with the effort is largely dependent on the CLEC's specific requirements. SWBT contends that an ICB approach is the only suitable method. (Tr. at 2390)

Discussion: In issue DA-0021 we determined that customized routing would be priced on an individual case basis. SWBT, Staff and the parties should develop standards and guidelines for ICB pricing as required herein.

Issue No. GA-0002, What price should be established for advanced intelligent network (AIN) queries?

AT&T: AT&T's position is that without a cost study, SWBT should be required to provide AIN queries at the same prices as agreed in other jurisdictions. AT&T opposes ICB pricing. (Tr. at 2880, 3154)

SWBT argues that charges for AIN services should be determined on an individual case basis (ICB). SWBT recommends to retain ICB pricing based on cost specific requirements. (Tr. at 2390)

Discussion: SWBT's argument that AIN queries cannot be priced as a UNE based on a cost study is unconvincing and SWBT should establish a standard price for AIN queries. SWBT should produce a cost study for AIN queries that is consistent with the findings concerning cost study input values (cost of money, depreciation, etc.) articulated herein.

Issue No. GA-0003, Should Kansas-specific urban transport investments for Operator Services Cost Model (OSCM) be used?

AT&T: AT&T argues that SWBT did not support any OSCM transport investments. AT&T intends to follow prior precedent established by SWBT in using Kansas-specific input data. (Tr. at 3155)

SWBT: SWBT does not think that Kansas-specific urban transport investments for OSCM should be used. The facilities investment used in the OSCM are a mix of urban, suburban, rural and interzone which reflects the type of network facilities used to connect the operator services equipment. SWBT also uses the actual discounts available from the contracts and price lists. SWBT uses the average statewide investment (rather than the urban investment AT&T recommends), because operator services are provided on a statewide basis. (SWBT Brief at 33) Transport investment is a state average and is Kansas specific data. Support data is available. SWBT recommends the continued use of SWBT'S methodology. (Tr. at 2338-39)

Discussion: We find SWBT's reasoning to be persuasive and reject AT&T's recommendation.

Issue No. GA-0004, Operator Services Cost Model and Directory One: what fill factors for components should be used?

AT&T: AT&T's position is that SWBT should use objective fill rather than actual fill. CLECs should not pay for SWBT excess capacity. (Tr. at 2881, 3157)

SWBT: SWBT argues that AT&T has not provided enough information as to what is an objective fill. Fill is the SWBT current fill, derived from actual usage and compared with engineered capacity from the equipment vendor. SWBT contends this is a reasonable estimate for expected fill. SWBT also uses the actual discounts available from the contracts and price lists. SWBT uses the average statewide investment (rather than the urban investment AT&T recommends), because operator services are provided on a statewide basis. (SWBT Brief at 33)

SWBT argues that the network that will be unbundled is the actual SWBT network. Actual utilization is appropriate for TELRIC. A dynamic network operates at the actual fill, not the maximum. SWBT's recommendation is to retain SWBT's input. (Tr. at 2338-40)

Discussion: Objective fill factors should be used in SWBT's Kansas TELRIC study for the Operator Services Cost Model and Directory One and SWBT should use them in its cost model runs. AT&T provided its fill factors for the Operator Services Cost Model, the Call Branding computer systems and the Directory One model in response to Barnes Q.7 and Q.8. SWBT should reflect the objective fill factors proposed by AT&T for the Operator Services Cost Model and Directory One .

HA SS7 Studies

Issue No. HA-0001, What vendor discount should be used for Service Control Point (SCP) investments?

AT&T: AT&T proposes discounts that represent current investment from trended CCSCIS investments, added to SWBT's volume discount. AT&T proposed discount reflects the downward trend of SCP investment. (Tr. at 2622)

SWBT: SWBT argues that this SWBT discount reflects the contracted rate and price list from the vendor using the last available listing. The AT&T "trend" is not appropriate. (SWBT Brief at 33) SWBT recommends to retain SWBT's input.

Discussion: We are unconvinced by AT&T that a change is required. SWBT's SCP investments are reasonable, which SWBT indicates are based upon the contracted rate and price list from the vendor using the last available listing.

Issue No. HA-0002, What utilization factor should be input to CC/SCIS for all signal transfer point (STP) links?

AT&T: AT&T's position is that CC/SCIS automatically limits utilization to 40%. 100% of the 40% value should be used as SWBT has stated that it engineers its STP links for this level of utilization. (Tr. at 2624)

SWBT: SWBT asserts that CC/SCIS automatically limits utilization to 40%. However, 100% of the 40% value should not be used because it is the "at capacity" level which is not intended by the TELRIC guidelines. Link utilization should reflect the actual usage on the SS7 network. Network supplements links when the utilization reaches 24% (60% of 40%) to allow time to obtain relief at both ends of the link. SWBT recommends its input be retained. (Tr. at 2337-38)

Discussion: A forward-looking cost study should reflect a higher utilization than SWBT's current actual usage for STP links as proposed by AT&T. AT&T recommends a 40% utilization (i.e., 100% of the 40% SWBT engineering value), which is a higher level of capacity than SWBT's proposed value of 24% (based on 60% of the 40%). To allow SWBT some room for relief in supplementing the links, SWBT should reflect utilization of 32% (80% of the 40%) for STP links in its Kansas TELRIC cost studies. The 80% is a reasonable forward-looking utilization level and half way between AT&T's proposal of 100% and SWBT's proposal of 60%.

Issue No. HA-0003, What should be the Signaling Octets per Call?

AT&T: AT&T argues that this calculation should be based on the call distribution and feature penetration. (Tr. at 3147)

SWBT: SWBT counters with the argument that while SWBT has not proposed prices in this proceeding as of yet, it would base the prices for the Signaling Octets per call upon SWBT's study,

which represents the estimate of octets per originating call. SWBT recommends to retain SWBT'S cost inputs. (Tr. 2392-93)

Discussion: SS7 transport provides for the use of the Signal Transfer Point (STP) and a link to the point where the signal either exits the network or enters another element. Octets are a measure of volume, with one octet representing eight bits of information. Different types of calls require a different number of octets to complete the signaling requirements. The average number of octets per call, when combined with the SS7 transport cost per octet, yields a cost per call for SS7 signaling. SWBT's proposal to base signaling octets per originating call appears to be reasonable. However, as discussed in issue HA-0004, SWBT should utilize Kansas specific call distribution data or at least data for SWBT's five state area.

Issue No. HA-0004, Should SWBT be permitted to use call distributions from Baltimore, Maryland in determine the Signaling Octets per Call Calculation for Kansas?

AT&T: AT&T proposes that Kansas, or at least data for SWBT's five state area, specific call distribution data should be used. Further, SWBT has provided, both in its cost studies and in negotiations with AT&T, the call distribution data that has been used by AT&T in its Signaling Octets per Call Calculation submission.

SWBT: SWBT argues it is not appropriate to base prices for SWBT's Signaling Octets per call UNE upon AT&T's experience results. AT&T is not the only CLEC which will purchase UNEs from SWBT. It is inappropriate for SWBT to base its rates upon AT&T's experience in other states (note this is outside SWBT's five state serving area). While SWBT has not proposed prices in this proceeding as of yet, it would base the prices for the Signaling Octets per call upon SWBT's study, which represents the estimate of octets per originating call.

Discussion: As noted in issue HA-003, SWBT should utilize Kansas specific or at least data for SWBT's five state area call distribution data for the purpose of determining signaling call octets.

Issue No. HA-0005, Should SWBT be permitted to assume that the feature penetration rates be 100% in calculating the Signaling Octets per Call?

AT&T: AT&T argues that SWBT should utilize SWBT's feature penetration rate for Caller ID with name delivery rather than assuming CLECs will give the feature away for free. (Tr. at 3147)

SWBT: SWBT asserts that while it has not proposed prices in this proceeding as of yet, it would base the prices for the Signaling Octets per call upon SWBT's study, which represents the estimate of octets per originating call. SWBT recommends to retain SWBT'S inputs.

Discussion: As argued by AT&T, a 100% market penetration rate for features is unrealistic. SWBT should reflect its own market penetration rate for features.

KA Operations Support Systems

Issue No. KA-0001, Should the operations and support system cost study be based on productive labor hours instead of full-time?

AT&T: AT&T argues that labor rates should be based on productive hours. According to AT&T, SWBT's study assumes employees will work 2088 hours per year. This time includes non-productive time and results in double counting of costs. AT&T states SWBT corrected this error in another study.

SWBT: SWBT asserts that its labor rates are based on productive hours. SWBT's study assumes employees will work 2088 hours per year; this time includes non-productive time and results in double counting of costs. SWBT corrected this error in another study. SWBT agrees with

AT&T that productive hours should be used in this calculation. Thus, this appears to be a "non" issue.

Discussion: SWBT should affirmatively verify that the double counting of costs is corrected in the study.

MA Miscellaneous Studies

Issue No. MA-0001, Should forward-looking, most economically efficient technology be assumed?

AT&T: AT&T's position is that this is the appropriate standard, as ordered by both the FCC and OCC. (Tr. at 3083)

Staff: Staff argues that this is subject to a variety of interpretations, and that consistency in the application of the interpretation will be important.

SWBT: SWBT agrees that the most economically efficient forward-looking technology should be assumed. SWBT'S studies reflect SWBT'S network configured with efficient, currently available, technology in its forward-looking studies. SWBT contends that AT&T's equation of the absolute phrases "most efficient" and "least cost" is at odds with economic theory, and AT&T ignores the transition and implementation costs for new technology. This is a model platform issue, not a cost input issue. (Tr. at 2080-81, 2286-87)

Discussion: The studies should generally reflect the most economically efficient, forward-looking, technology. This particular issue relates to a general principle, rather than to specific adjustments. Elsewhere in this order, SWBT is directed to make specific adjustments to the cost study inputs where appropriate.

Issue No. MA-0002, Should DIP/DOP (dedicated inside plant/dedicated outside plant) procedures be assumed?

Staff: Staff recommends that DIP procedures not be assumed because CLECs are renting loops that are unbundled from the ports. SWBT argues for the assumption of DOP procedures. This can have a significant impact on the determination for the application of Nonrecurring charges which if too high could be a barrier to competition. (Tr. 3547-50)

AT&T: AT&T argues that this is the most economically efficient practice, is used by most RBOCs and is used for SWBT's own customers. (Tr. at 3084-87)

SWBT: SWBT asserts this is not an input issue; it is a network re-design issue. SWBT must only unbundle its network and provide access. SWBT first contends that it is incorrect to assume DIP procedures for UNEs. Unbundling always requires the removal of cross-connects and installation of facilities to the CLEC appearance. Second, DOP procedures should not be assumed as the AT&T proposal for UNEs. Outside plant is never left in place 100% of the time. (Tr. at 2081-82, 2287-88)

Discussion: DIP/DOP is the degree to which plant exists that can be made readily available for CLECs. Dedicated Inside Plant procedures should be assumed for UNEs as proposed by AT&T and Staff. Further, Dedicated Outside Plant procedures should be assumed for unbundling, but not 100% of the time. SWBT has argued that outside plant is not left in place 100% of the time, but has not provided an alternative percentage. Therefore, SWBT should adjust its Kansas TELRIC cost studies to reflect an assumption of DIP as proposed by Staff and AT&T, and to reflect an 80% assumption of DOP.

Issue No. MA-0003, What cost should be developed for dark fiber?

Staff: Staff states the Commission made a determination that the pricing of dark fiber should not interfere with the marketplace for this service. Staff issued a survey to the cable and telecommunications industry to gather information for the pricing of dark fiber. Responses were received from 24 companies of which 20 do not lease dark fiber facilities and all but 1 of the remaining leased to an affiliate company. Due to the limited number of fiber facilities being leased and the fact that they are being leased to affiliated companies, Staff concludes that there is not an existing market for dark fiber. Staff's survey provided the following results: average rate for less than a mile: \$316; average rate for over a mile: \$24. AT&T recommended a \$11 per mile charge for a one mile fiber. This is substantially less than the charges reported in Staff's survey. (Tr. at 3392)

AT&T: AT&T states the lack of response to the Staff's survey demonstrates the lack of a competitive market at this time for dark fiber in Kansas. AT&T submits that its proposed rates for dark fiber are TELRIC based rather than prices that reflect the lack of any substantial competition. At a minimum, the Commission should hold that it is premature at this time to base the price for dark fiber on any "market" price. Instead, the Commission should adopt a forward-looking price such as AT&T has recommended. (Tr. at 3116, Flappan Response to Comm. Q. at 5-6, AT&T Brief at 49-50)

SWBT: SWBT asserts that the Commission has already determined that dark fiber pricing will be market based. SWBT has not conducted a dark fiber cross-connect study for Kansas, but Staff's survey shows no market currently exists for dark fiber in Kansas. SWBT proposes, therefore, to use ICB costing until more market details are available. (SWBT Brief at 45; Tr. at 2400-01)

Discussion: The responses to Staff's survey on dark fiber pricing indicate that a competitive market for dark fiber is lacking in Kansas at this time. However, Staff's data represent the best available data in the record, and should be used on an interim basis for the pricing of dark fiber. As described in issue DA-0021, individual case based (ICB) pricing should be avoided where possible because it can create a high degree of uncertainty in decisions by CLECs. Therefore, SWBT's proposal to use ICB pricing for dark fiber should be rejected. For the interim, until better information becomes available, the average rates developed from Staff's survey should be used. As the market for dark fiber develops, the price should be adjusted to reflect better information when it becomes available.

Issue No. MA-0004, What charge should be levied for performance data?

AT&T: AT&T contends that SWBT has agreed in other states that standard performance data would be provided without additional charge. The same should be true for Kansas. (Tr. at 3088)

Staff: Staff argues that this may involve ICB charges. Lack of rules in this area may create uncertainty for CLECs and deter entry into the market. Staff recommends to look at establishing some reasonable guidelines for developing ICB costs.

SWBT: SWBT asserts that performance data beyond that which SWBT is willing to provide without charge to the CLEC, must be defined by the CLEC requesting the information. As such, ICB pricing would be appropriate. If AT&T negotiates a special set of data, there will be a charge. Only those performance data generally offered by SWBT to all CLECs will be offered without additional charges. (SWBT Brief at 46; Tr. at 2401) SWBT contends that this is not a cost input issue.

Discussion: SWBT is directed to provide requesting CLECs with standard performance data without additional charge. For additional, nonstandard performance data, reasonable guidelines shall be developed for determining ICB costs as proposed by Staff. The parties should develop such guidelines and report the results of such efforts back to the Commission.

Issue No. MA-0005, Insurance Liabilities: Should SWBT track and recover costs of licensing intellectual property needed by LECs to use unbundled network elements?

SWBT: SWBT contends that the Commission in the arbitration decision already determined this issue. SWBT will further track any costs it might incur and would seek recovery as the Commission has already determined. All SWBT seeks is consistency with the Commission's Order. SWBT argues that the Kansas Corporation Commission's Orders require SWBT to try to obtain third party intellectual property licenses required by LECs to utilize unbundled network elements in the manner they choose. Costs of acquiring, constructing or modifying assets for a LEC in the provision of unbundled network elements are recoverable costs. Costs of obtaining such licenses may not be reasonably determinable in advance. They depend upon the type, scope, and manner of license, if any, required. SWBT recommends that it should track and recover all its costs of licensing intellectual property rights needed by LECs to use unbundled network elements. (Tr. at 2402, SWBT Brief at 46)

AT&T: AT&T contends that SWBT should not be given a blank check to recover intellectual property license costs. At most, SWBT should be permitted to identify such expenditures in arrears and request recovery prospectively through an identifiable separate charge based on a measure that is appropriate to the expense (e.g., loop or port or minute of use). Affected CLECs should be given the right to review SWBT's supporting documents and to protest SWBT's proposed cost recovery to the KCC. (Tr. at 3089)

Staff: Staff states that this issue is a fallout from the AT&T arbitration.

Discussion: SWBT should be allowed to recover reasonable costs of licensing intellectual property needed by CLECs to use unbundled elements. However, SWBT should not be given a blank check to recover such costs. SWBT should be permitted to identify such expenditures in arrears and request recovery prospectively through an identifiable separate charge based on a measure that is appropriate to the expense (e.g., loop or port, or minute of use). CLECs are given the right to review SWBT's support for the charges and to protest SWBT's proposed recovery to the Commission, if necessary.

Issue No. MA-0006, Should SWBT be permitted to recover its cost to obtain excess liability coverage?

SWBT: SWBT argues that if CLECs request or otherwise seek to hold SWBT to a liability standard different than (e.g. excess of) that contained in SWBT's tariffs, or which the KCC imposes on SWBT as part of UNE provisioning, the cost to SWBT for obtaining necessary liability protection is a cost that can be recovered. SWBT's recommended solution is that the cost of insurance liability coverage needed should apply to CLEC as a pass-through charge/ICB. (Tr. at 2403)

AT&T: AT&T asserts that SWBT should not be given a blank check to recover excess liability coverage costs. At most, SWBT should be permitted to identify such expenditures in arrears and request recovery prospectively through an identifiable separate charge based on a measure that is appropriate to the expense (e.g., loop or port or minute of use). Affected CLECs should be given rights to review SWBT's supporting documents and to protest SWBT's proposed cost recovery to the KCC. (Tr. at 3090)

Staff: Staff states that this issue is a fallout from the AT&T arbitration.

Discussion: Consistent with issue MA-0005, SWBT will be allowed to recover reasonable costs of obtaining additional insurance coverages requested by CLECs. However, we also agree with AT&T that SWBT should not be given a blank check to recover such costs. SWBT will be permitted to identify such expenditures in arrears and request recovery prospectively through an identifiable separate charge based on a measure that is appropriate to the expense (e.g., loop or port, or minute of use). Affected CLECs have the right to review SWBT's support for the charges and to protest SWBT's proposed recovery to the Commission, if necessary.

Issue No. MA-0007, Any outstanding issues from AT&T Arbitration.

Discussion: AT&T stated that the outstanding issues were included as issues in the matrix. (Tr. at 3091)

Issue No. MA-0008, Should switched access rates be applied for all interLATA, intrastate transmissions and 10XXXXX originated calls?

Staff: Staff has two recommendations concerning this issue. Staff recommends that the Commission needs to recognize that the UNE rates are intended to recover the incumbent's cost of providing the elements to CLECs and discontinue the interim practice which allowed SWBT to bill intrastate access and intraLATA toll charges to the CLEC. (Staff Brief at 26) Staff recommends that because the CLEC is renting the facilities, the CLEC is entitled to bill access charges to an interexchange carrier should the subscriber pick one different from the CLEC. The CLEC should be able to carry and bill the intraLATA long distance service just as if it controlled its own switch. Staff contends this provision should apply to cases where the CLEC is providing local service using UNEs or its own facilities.

Staff's second recommendation is for the Commission to clearly spell out that the application of access charges is still appropriate for toll calls originating from SWBT's local customers, or terminating to SWBT's customers. The agreements for interexchange of local traffic is specifically for local traffic and should not include any traffic where access charges are applicable. Many CLECs are also interexchange carriers, and could substantially reduce their costs if they were able to pay local switching rates rather than access charges when terminating traffic to the LEC. This should not be allowed, and would unreasonably deprive SWBT of the support still contained in access rates. (Tr. at 3393-95, 3396-98)

AT&T: AT&T contends the Commission should not continue to allow SWBT to collect switched access charges for interLATA intrastate calls and 10XXXXXX-originated calls in addition to charges for UNEs because doing so would violate the Federal Act. Allowing SWBT to collect these charges discriminates against AT&T and effectively denies AT&T the ability to utilize the full functionality of the purchased UNEs. (AT&T Brief at 51, Tr. 314-315)

AT&T argues that switched access rates should not be applied for all interLATA, intrastate transmissions and 10XXXXXX originated calls. When a new entrant purchases local switching and switch ports, it purchases the entire functionality of the switch (hence the term "TELRIC" Total Element Long Run Incremental Cost). The new entrant, as a local service provider, may choose to assess originating and terminating access charges on the intraLATA or interLATA toll carriers to which long distance calls are directed. Potential arbitrage can be eliminated by SWBT reducing non-cost-based access charges to TELRIC. (Tr. at 3092-93)

AT&T recommends the Commission reject SWBT's claim that continuing to receive these access charges is necessary for SWBT to meet its universal service obligations. Under the Federal Act, support necessary for universal service should be explicit, not implicit, such as any support SWBT may assert it should recover through these access charges. Additionally, the FCC has held that allowing an incumbent LEC to assess access charges in addition to UNE charges constitutes double recovery and will enable the incumbent LEC to recover more than its costs (including a reasonable profit) for the UNEs purchased by a CLEC. This Commission should hold that continuing to allow SWBT to assess intrastate access charges in addition to UNE charges violates the Federal Act and should not be allowed. (AT&T Brief at 52-53)

SWBT: SWBT believes that switched access rates should be applied for all interLATA, intrastate transmissions and 10XXXXX originated calls. The KCC has determined that SWBT will charge based upon the nature of the traffic. UNE prices apply for local service. Switched access

rates apply for interexchange calls. SWBT contends without maintaining this distinction, the KCC would open the door for arbitrage. (Tr. at 2403-08)

Discussion: Staff's recommendations are adopted. SWBT is directed to discontinue the interim practice of billing intrastate access and intraLATA toll charges to CLECs renting UNEs from SWBT. The application of access charges is still appropriate for toll calls originating from SWBT local customers, or terminating to SWBT customers.

Issue No. MA-0009, Should a CLEC reimburse SWBT for all 1+/0+ intraLATA toll calls at wholesale toll rates?

AT&T: AT&T asserts that a CLEC should not reimburse SWBT for all 1+/0+ intraLATA toll calls at wholesale toll rates until intraLATA dialing parity is implemented, if SWBT is the local service provider, SWBT retains its monopoly on 1+/0+ intraLATA toll calls and will bill end user customers for toll services. With UNEs, if a CLEC carries the intraLATA toll message, the CLEC will obtain the facilities to complete the long distance calls and will bill end user customers for toll services. (Tr. at 3094)

Staff: Staff contends SWBT should make the full functionality of the switch available to a CLEC, which includes the capability to provide 1+ dialing parity. Staff argues this is not the same as requiring SWBT to provide 1+ dialing parity to its retail customers. (Tr. at 3395, 3397)

SWBT: SWBT argues that until implementation of toll dialing parity, SWBT is the designated carrier and as such is entitled to be reimbursed for all 1+/0+ calls at its wholesale toll rates. (SWBT Brief at 49) Toll revenues contribute to the support for services priced below costs (e.g., residential local service). Until SWBT is allowed to price all its retail services at or above costs, it must be allowed to recover support from other services such as toll. (Tr. at 2408-09)

Discussion: The FCC stated CLECs purchasing UNEs should receive the full functionality of the element. *First Report and Order* ¶ 292; 47 C.F.R. 51.307(c). 47 U.S.C. 251(b)(3) requires that SWBT "provide dialing parity to competing providers of telephone exchange service and telephone toll service." This should include the capability to designate the intraLATA toll provider. Any local exchange carrier may choose to provide intraLATA toll dialing parity to its customers at any time. The Commission is precluded from ordering SWBT to implement intraLATA toll dialing parity until SWBT is authorized to offer in-region interLATA service or before February 1999. 47 U.S.C. 271(e)(2). However, requiring SWBT to offer CLECs the ability to offer 1+ dialing to the CLECs customers is not the same as requiring SWBT to offer 1+ dialing parity to SWBT's customers. SWBT should provide the capability to provide intraLATA toll dialing parity to CLECs as a function of the switch port.

Issue No. MA-0010, Should SWBT's actual embedded cost results be used or referenced to establish "just and reasonable" UNE rates?

AT&T: AT&T argues that SWBT's actual cost results should not be used or referenced to establish "just and reasonable" UNE rates. SWBT's backward looking actual booked (BLAB) costs or forward-looking actual booked (FLAB) costs don't equal forward-looking long-run efficient costs. The Act clearly states that rates shall be based on costs "determined without reference to a rate-of-return or other rate-based proceeding." AT&T contends BLAB and FLAB costs reflect historic inefficiencies and obsolete or outdated investment. In the long-run all inputs to a cost study are variable; embedded costs are not germane to setting TELRIC prices. (Tr. at 3095-97)

Staff: Staff argues that actual embedded costs can provide a useful benchmark for comparison to forward-looking long-run cost estimates, particularly on an aggregate basis (e.g. total investment and expenses within the major ARMIS account categories). Staff recommends that to the extent it concludes that modifications should be made to the forward-looking long-run cost estimates to more

closely align them with embedded cost patterns, this should be accomplished selectively, rather than on an automatic formula basis. (Tr. at 3550-52)

SWBT: SWBT asserts that actual embedded cost results (e.g., Paul Cooper arbitration testimony) can be used and referenced to established "just and reasonable" UNE rates. The actual costs best reflect the most likely costs that SWBT will incur during the agreement term to provide the UNEs. The TELRIC and the actual cost studies are related studies; there should be no economic reason for large differences. (SWBT Brief at 49)

SWBT proposes that formula pricing should not automatically be applied since, for the principal UNEs, it may well result in under recovery by SWBT of the actual costs of provisioning and investments made to serve Kansas locales. (Tr. at 2380-81)

Discussion: The Commission agrees with AT&T that in TELRIC studies BLAB and FLAB costs are not indicative of forward-looking long-run incremental costs of an efficient provider. Actual costs can be used as the starting point in developing forward-looking incremental costs, and can be used selectively as a benchmark for comparison with TELRIC estimates, but cannot be applied automatically on a formula basis. Forward-looking TELRIC studies and embedded cost studies are entirely different concepts for cost measurement. The Commission rejects SWBT's suggestion that its embedded costs be used to determine "just and reasonable" TELRIC-based rates for UNEs.

Issue No. MA-0011, Should UNE prices be based upon "formula pricing" practices or should the KCC retain its authority to confirm just and reasonable rates which account for other Kansas objectives? Should statewide average UNE prices, by zone, be used which do not reflect retail rates? How should the state universal service fund impact UNE pricing? Since UNE agreements tend to fix interconnection rates for long time periods, should recognition be given to cost index changes as part of the price process or cost process?

Staff: Staff contends the Commission should retain its authority to determine just and reasonable prices, taking into account all of the relevant evidence. If SWBT and the CLEC agree that a cost index is appropriate, this could be used. Otherwise, it would be preferable to fix UNE rates for a reasonable period, then have the rates revised based upon updated cost studies. Dr. Johnson maintains, based on his experience, most state regulators have set unbundled element prices at levels that approximate the TELRIC cost estimates, which include a uniform percentage allocation of common costs and provide a reasonable profit margin. However, the Commission should retain the flexibility to deviate somewhat from this uniform pattern, to the extent it finds such a deviation to be appropriate in order to advance the public interest. (Tr. at 3553-54)

AT&T: AT&T contends the Act provides for charges to be non-discriminatory, based on cost (without reference to rate of return proceeding) and may include a reasonable profit. The FCC rejected the recovery of embedded costs in excess of economic costs and universal service subsidies. "Formula pricing" is nowhere defined. AT&T argues TELRIC has been prescribed in TX, MO, OK, by the FCC, and should be used in KS. AT&T recommends that non-discriminatory cost-based prices should be set at TELRIC plus a uniform contribution to common costs consistent with SWBT's pricing method for UNE's and interconnection rates used elsewhere. Market-based pricing or pricing that "reflects" retail pricing should not be adopted. Inflation should not be recognized without recognizing offsetting productivity factors. (Tr. at 3098-3105)

SWBT: SWBT argues that the pricing phase need not implement formula pricing for UNEs. Other state objectives, which take into consideration importance of investment and the most advantageous balance of incentives for competitive entry, can be considered so long as it results in "just and reasonable" rates, all consistent with Sec. 252 of the 1996 Telecom Act. In competitive conditions, the market should determine the price. (Tr. at 2380-81, SWBT Brief at 49)

Discussion: Formula results using the TELRIC standard will be used to provide guidance in establishing rates for UNEs, but the Commission retains authority to confirm just and reasonable rates to account for other Kansas objectives.

Issue No. MA-0012, What charge should be levied for standard performance data?

Discussion: See discussion for issue MA-0004.

Issue No. MA-0013, Are cost studies for interim number portability necessary?

AT&T: AT&T's position is that cost studies for interim number portability are not necessary. (Tr. at 3105)

SWBT: SWBT's position has been from the outset of all arbitration cases that SWBT would track its actual costs to provide INP and true up INP related accruals in compliance with FCC final orders. INP costs will be tracked when incurred and reported consistent with the FCC rules on these costs. (Tr. at 2380) No cost assignment nor cost recovery rate is applicable at this time. (SWBT Brief at 50)

Discussion: This issue is currently being addressed in Docket No. 97-GIMT-712-GIT.