

Section 4: Alternative Cost Study Results

B. LRSIC Studies

Q. Let's turn to your LRSIC studies. Was the geographic scope of your analysis the same as for your TELRIC studies?

A. Yes. I focused on the same 20 wire centers that were included in my TELRIC studies.

Q. Have you prepared a summary of your LRSIC cost estimates?

A. Yes. Volume 2 of my exhibit includes 12 Cost Results: Summary reports which contain a variety of different LRSIC (also known as TSLRIC) estimates. Within each of these studies, costs are organized into the following cost categories: loop; switching and trunking; billing and collection.

Q. Would you please briefly explain the alternative LRSIC cost estimates that you developed?

A. All of my LRSIC results are based upon a network serving 100% of the existing market, and thus are directly comparable to the LRSIC estimates offered by the Company. Similarly, I have used copper cable in all locations except for distribution areas where total loop lengths exceed 12,000 feet. In the latter instances, I had the model deploy fiber instead of copper.

In order to calculate the difference between the firm's cost of producing all services including the service in question and the cost of producing all services excluding the service in question, the Telecom Model calculates the cost of two separate network configurations. Configuration one excludes the particular increment being studied, e.g., residence local exchange service, while configuration two includes the increment being studied. The difference between the two configurations represents the cost of increasing the volume of production for

the specified service from zero to the specified level(100% of current demand), while holding all other product and service volumes constant at their current level of demand.

I have run four studies for each of the three rate groups. The first focuses, at the wire center level, on adding all the wire center's residence customers to a network that is already fully equipped to serve the wire center's existing business and special access customers. *That is, the study assumes that infrastructure exists for all business and special access customers, but not for any residence customers. This means that all residence loops and drops must be added, as well as the additional switching and trunking needed to upgrade the network to accommodate the residence customers and their traffic.* For some neighborhoods, existing poles and conduits will suffice; for others, new poles will have to be placed, new trenches dug, and new segments of cable laid. The amount of new infrastructure needed is determined in part by the extent to which residence and business customers are located in different geographic areas, as reflected in the underlying GIS and baseline data. In similar fashion, the second study adds business customers in each wire center to a network that already serves all existing residence and special access customers.

The third and fourth studies examine local exchange service specifically. They measure the cost of adding residence or business local exchange service to a network which provides all other services, including switched access, toll and custom calling services provided to those same customers. Thus, the costs in the third and fourth rows represent "pure" LRSIC estimates for basic local exchange service in isolation; they do not include any loop or port costs. In a "pure" LRSIC study, such shared costs are irrelevant, since they would be incurred in any case, in order to provide other services that use the loop and port. For example, the LRSIC of residence local service includes only the direct costs attributable to that service. Where network elements are required for multiple telecom services, the cost of these elements will not be reflected in the LRSIC calculations for any single service.

The third LRSIC study adds residence local exchange service to a network that already provides all other services, including all other residence services; similarly, the final LRSIC

study adds business local exchange service to a network providing all other services, including all other business services.

All studies assume 100% market share. For each study, I have prepared summary reports that aggregate the wire centers studied into the Company's three proposed rate groups.

The table below summarizes my LRSIC results, on a per month per line basis:

	Rate Group 1	Rate Group 2	Rate Group 3
Residence Customers Added to Business/Special Access Network	\$13.74	\$16.16	\$25.85
Business Customers Added to Residence/Special Access Network	\$12.67	\$14.31	\$16.75
Residence Local Service	\$1.75	\$1.75	\$1.84
Business Local Service	\$2.15	\$2.13	\$2.25

Q. Could you please summarize the results of your revenue to cost comparisons?

A. My LRSIC cost results suggest that CBT's revenues associated with basic local service are sufficient not only to defray all direct costs of providing such service but also to provide a substantial contribution to joint and common costs. This conclusion holds true under all three separate approaches in which I compare costs with revenues. Under all approaches, in every rate group in every customer class, this analysis indicates that the existing basic local exchange rates are more than sufficient to cover the incremental costs of providing this service and they provide a generous, often very substantial, contribution to other (joint and common) costs of the firm.