

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Determination of Prices,	)	
Terms, and Conditions of Certain Unbundled	)	Case No. TO-2001-438
Network Elements.	)	

**SOUTHWESTERN BELL TELEPHONE COMPANY'S  
REPLY TO STAFF**

Southwestern Bell Telephone Company<sup>1</sup> respectfully submits this Reply to Staff of the Missouri Public Service Commission's September 30, 2002 filing concerning Southwestern Bell's Application for Reconsideration of Revised UNE Costs and Rates:

1. In its Response, Staff essentially claims that Southwestern Bell is attempting to reargue the appropriateness of the TELRIC standard. Staff characterizes Southwestern Bell's concern as a general complaint that the revised UNE costs are below Southwestern Bell's actual costs. Staff asserts that such an argument is irrelevant because the Supreme Court has affirmed the TELRIC standard and that "TELRIC for a network element is the cost for a network element that an efficient provider would incur."<sup>2</sup>

2. Staff either misunderstands the basis of Southwestern Bell's Application or is misstating it. At no point in the Application did Southwestern Bell challenge the TELRIC costing methodology. Rather, Southwestern Bell's concern focuses on the Commission's application of the TELRIC methodology.

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<sup>1</sup> Southwestern Bell Telephone, L.P., d/b/a Southwestern Bell Telephone Company, will be referred to in this pleading as "Southwestern Bell" or "SWBT."

<sup>2</sup> Staff's Response to Southwestern Bell Telephone Company's Application for Reconsideration and/or Rehearing of Revised UNE Costs and Rates, Case No. TO-2001-438, filed September 30, 2002 at p. 3.

3. As Southwestern Bell set out with specific examples in its Application, the Commission's application of TELRIC in mandating various input changes to Southwestern Bell's cost studies has unequivocally brought certain UNE rates so far below what an appropriate application of TELRIC would require that reexamination by the Commission is necessary.

4. Southwestern Bell explained that the depreciation rates and cost of capital employed by the Commission are not forward-looking, but based on embedded and historical book values. In addition, the fallout percentage and fiber fill factors ordered by the Commission are not only beyond the abilities of existing firms, they are also beyond the reach of any hypothetical, optimally-efficient, company. These changes have driven the rates<sup>3</sup> so artificially low (several have been driven to zero) that it is obvious under TELRIC that Southwestern Bell's opportunity to recover its costs in providing these UNEs is being denied. A wholesale arrangement in which the wholesaler loses money with every sale is not just, reasonable or sustainable.

5. Accordingly, as set out more fully in its Application, Southwestern Bell respectfully requests the Commission to reconsider, or in the alternative rehear, the rates that have been produced from the Commission-ordered cost inputs as it is now


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<sup>3</sup> The specific results from the revised cost studies are displayed on the spreadsheet appended as Attachment 2 to Southwestern Bell's Application for Reconsideration and/or Rehearing of Revised UNE Costs and Rates, filed September 20, 2002 in Case No. TO-2001-438.

clear that those rates are substantially below what is required by a proper application of the TELRIC methodology.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing document were served to all parties on the Service List by e-mail on October 10, 2002.



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