

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

In the Matter of the Tariffs Filed by Sprint)	
Missouri, Inc., d/b/a Sprint, to Reduce the)	
Basic Rates by the Change in the CPI-TS)	
as Required by Section 392.245(4),)	
Updating Its Maximum Allowable Prices)	
for Non-basic Services and Adjusting)	Case No. TR-2002-251
Certain Rates as Allowed by Section)	
392.245(11), and Reducing Certain)	
Switched Access Rates and Rebalancing)	
to Local Rates, as Allowed By Section)	
392.245(9))	

AFFIDAVIT

I, Natelle Dietrich, am employed by the Missouri Public Service Commission (Commission), 200 Madison Street, Jefferson City, Missouri, 65101, as a regulatory economist for the Telecommunications Department Staff (Staff) of the Commission. My duties include the review and analysis of cost studies and general costing theory as it relates to the regulation of telecommunications services with supervisory responsibility to ensure thorough and complete economic analysis of telecommunications issues by the economic Staff. I have previously filed testimony before the Commission in Case Nos. TA-99-405, TO-2001-455, TO-2001-222 and TO-2004-0370, IO-2004-0467, TO-2004-0505 et al. and have prepared comments and testified in various rulemakings before the Commission. Through an appointment to the National Association of Regulatory Utility Commissioners Staff Subcommittee on Telecommunications and as Assistant Chair to the Federal Regulatory Policy Sub-group, I am responsible for monitoring federal telecommunications activity and informing the Commission of relevant federal activity. I have prepared comments on behalf of the Commission to be filed at the Federal

Communications Commission (FCC) on several occasions. I have also prepared congressional testimony on behalf of the Commission.

The purpose of my affidavit is to address the concerns of the Western District Opinion in WD62016, *State of Missouri ex rel. Acting Public Counsel v. Public Service Commission* (Court Opinion), and the April 9, 2004 Testimony of Ms. Barbara Meisenheimer, Office of the Public Counsel (OPC).

In her Testimony, Ms. Meisenheimer identifies three concerns regarding the past actions taken in reviewing Sprint's request to rebalance local and access rates under Sections 392.245.8 and 392.245.9 RSMo. These concerns address:

1. The process to investigate whether the statutory conditions have been met;
2. Scrutiny of the cost estimates; and,
3. The costing methodology and definitions accepted by Staff in developing its recommendation compared to the methodologies and definitions presented in testimony filed on behalf of Staff in other cost proceedings.

The Court Opinion states, "The only other relevant finding is that 'Staff's analysis shows that the proposed rebalancing is compliant with Section 392.245; that the mathematical test set by the statute is met. While the tariff's compliance with the statute was the ultimate issue for determination, we have no findings regarding the basic facts underlying that ultimate issue.'" Following is a discussion of Staff's analysis process that led to Staff's recommendation that the proposed rebalancing is compliant with Section 392.245 RSMo.

The process to investigate whether the statutory conditions have been met.

As stated in the Utility Operations Division Routing Slip prepared by Mr. Tom Solt, Telecommunications Department Staff (Staff) (Appendix A to Staff Recommendation

filed December 5, 2001), “The Staff analyzed Sprint’s filing, including workpapers.” Mr. Solt proceeds to describe the various adjustments proposed by Sprint in its tariff filings, and concludes, “Staff has reviewed Sprint’s proposed price cap filing and finds that it meets the requirements of the price cap regulations as set forth in Section 392.245, RSMo 2000”, which includes the sections at issue in Ms. Meisenheimer’s Testimony. According to the Court Opinion, “all the statute requires is that the Commission conduct an ‘investigation’ of the costs of providing basic local and intrastate access services within one year of a company coming under ‘price cap’ regulation. The statute does not require any additional investigation or hearing when that company seeks rebalancing of its rates.” Contrary to Ms. Meisenheimer’s concerns as to the lack of a meaningful process and the inadequate scrutiny of the cost estimates, as discussed more fully below, Staff took various steps to review the tariff filings, cost studies and supporting documentation submitted by Sprint Missouri, Inc. d/b/a Sprint (Sprint).

On page 5 of her Testimony, Ms. Meisenheimer states, “although some may consider the process of determining costs as simply an arithmetic operation involving addition, subtraction, multiplication, or division, this perception is incorrect and ignores the reality that cost studies produce estimates based upon assumptions.” Staff agrees with this assessment. The “arithmetic operation” performed by Mr. Solt was a verification that all adjustments to rates met the various mathematical calculations for adjusting rates under Sections 392.245.4, 392.245.8, 392.245.9 and 392.245.11. However, as Ms. Meisenheimer states, cost studies produce estimates based upon assumptions. It was these estimates and assumptions that were further reviewed by Staff outside the “arithmetic operation” process and more fully described below.

Scrutiny of the cost estimates.

Following is a summary of various Staff activities related to Sprint's tariff filings at issue. I was involved in all activities discussed below. Mr. Thomas was involved in the training conducted by Sprint.

In August 2001, Staff met with Sprint to discuss Sprint's plans for its price cap filings. On September 11, 2001, Staff received various documents which provide details of Sprint's proposed price cap filings, including its rebalancing plan. These documents can be found in Appendix C to Staff Recommendation filed December 5, 2001, and include such things as cost study summaries, a summary and detailed analysis of the rate rebalancing, a revenue impact analysis and information on Sprint's Local Intra Office Usage.

Several Staff members also attended a Sprint-sponsored training in September 2001. This training was designed to provide Staff with a review and understanding of Sprint's cost methodology for local exchange telecommunications services and access services and was conducted by various Sprint subject matter experts. The training session served to provide Staff with a forum to discuss and understand the methodologies utilized by Sprint in developing the cost studies that were used to support the present tariff filings. Staff has attended similar training provided by SBC officials and considers such training a valuable resource in not only developing an understanding of the company's methodologies but also in developing business relationships with subject matter experts that can address current and future questions.

After participating in this training session, Staff discussed, among itself, the proposed methodologies and any concerns. It was determined that there were no

significant concerns with Sprint's cost study methodologies and the estimates produced by the cost studies were accepted as cost justification for the tariff filings submitted on October 26, 2001 and the corresponding rate rebalancing adjustments.

On December 3, 2001, OPC filed a motion to intervene and suspend Sprint's proposed tariff filings. In its motion, OPC states, "it could have been more vigilant or aggressive in bringing legal and factual concerns to the Commission at an earlier date". Despite this declaration, nearly 30 months later, OPC has yet to clearly identify its concerns with the proposed tariff filings. More importantly, OPC does not suggest any modifications to be considered by the Commission or other parties to the case.

The costing methodology and definitions accepted by Staff in developing its recommendation compared to the methodologies and definitions presented in testimony filed on behalf of Staff in other cost proceedings.

The proper allocation of the loop is a policy decision, which is much more far reaching than Sprint's cost studies and its associated tariff filings, and as such should be determined in a proceeding with far greater applicability than the present filings. For instance, in Case No. TR-2001-65, *In the Matter of an Investigation of the Actual Costs Incurred in Providing Exchange Access Service and the Access Rates to be Charged by Competitive Local Exchange Telecommunications Companies in the State of Missouri*, a case which Ms. Meisenheimer discusses in her Testimony, many parties, including price cap incumbent local exchange carriers, rate of return incumbent local exchange carriers, competitive local exchange carriers and interexchange carriers, presented multiple positions as to the appropriate costing methodologies and inputs for switched access service, including the proper allocation of the loop. The Commission, in its Report and Order issued August 26, 2003, did not issue a decision on these policy-type questions as

raised in the docket; however, it would be this type of forum, a case that involves all potentially affected parties, that should be used to determine such broad-reaching policy decisions as the appropriate allocation of the loop to basic local and switched access service. While Case No. TR-2001-65 was completed after the review of the tariff filings in question, Staff Economist, Mr. Chris Thomas, will address the issues related to cost study review and loop allocation in more detail.

In response to the Opinion issued by the Missouri Court of Appeals, Western District on October 28, 2003 in case No. WD62016, Sprint filed Proposed Findings of Facts and Conclusions of Law. In February 2004, Staff verified the various assumptions put forth in this document, and although Staff would suggest some minimal wording changes as represented by the version in Exhibit 1 to this affidavit, Staff generally supports the findings and conclusions as accurate and reflective of the filings, cost studies and review that transpired prior to Commission approval of the tariffs in question. A detailed summary of Staff's analysis of information contained in the Proposed Findings of Facts and Conclusions of Law is presented by Mr. Thomas.

Finally, Ms. Meisenheimer, in her Testimony, notes that she participated with the Commission's Arbitration Advisory Staff in on-site visits to SBC and GTE offices to review cost methodologies and studies, stating that these reviews took weeks and resulted in an extensive report describing the cost study modules, the flow and assumptions of the models and proposed adjustments to better reflect cost. Again, Staff agrees with Ms. Meisenheimer, costing reviews can be an extensive use of Commission, Staff, OPC and company resources. It is for this reason that such proceedings should not take place

unless significant, explicit, legitimate and documented concerns have been raised. Such concerns have yet to be raised in this docket or with reference to Sprint's cost studies.

In addition to the arbitration proceedings Ms. Meisenheimer mentions, Staff has also participated in arbitration proceedings where cost was an issue, and it was determined the time allotted to an arbitration proceeding did not allow proper review of costing methodologies. Thus, cost studies were either accepted, or generic costing dockets were opened to review the issues and allow more widespread participation. Staff has also participated in Case No. TO-99-227, *In the Matter of the Application of Southwestern Bell Telephone Company to Provide Notice of Intent to File an Application for Authorization to Provide In-region InterLATA Services Originating in Missouri Pursuant to Section 271 of the Telecommunications Act of 1996*, its various spin-off cases (Case Nos. TO-2001-438, TO-2001-439 and TO-2001-440) and Case No. TR-2001-65, all of which in some manner impacted the appropriate rates, terms and conditions for services or unbundled network elements. Based on its experience, Staff determined Sprint's cost studies were acceptable and its review as outlined above provided the necessary scrutiny and meaningful process to support Sprint's October 2001 price cap filings.

After the additional review and analysis, Staff continues to support Sprint's filings and supporting documentation and provides additional support for the Commission in issuing its findings in response to the Court Opinion.

I certify that I have read the foregoing statement and that the facts therein are complete, true and accurate to the best of my knowledge and belief.

Natalie Dietrich

Affiant

Staff Regulatory Economist III

Subscribed and sworn to before me this 10th day of May, 2004.

Dawn L. Hake

DAWN L. HAKE
Notary Public - State of Missouri
County of Cole
My Commission Expires Jan 9, 2005

My commission expires _____

