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MEMORANDUM

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Missouri Public
Service Commission

TO: Chairperson Lumpe
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RLJ Randles
OPC
Paul DeFord, AT&T
Paul Lane and Katherine Swaller, SWBT
Official Case File, Case No. TO-98-115

FROM: Dan Gordon *dy*
Arbitration Advisory Staff

SUBJECT: AAS' clarification to the Costing and Pricing Report, Vol. 2,
Case No. TO-98-115

DATE: August 7, 1998

The Arbitration Advisory Staff would like to clarify page 1 of the introduction and the application of conversion charges.

The third paragraph of page 1 should read,

The second section of this report contains the prices proposed by Staff, SWBT, and AT&T. At this time, the proposed prices from Staff are estimates. Staff was able to determine appropriate rates for all NRCs. Since Staff did not have the resources to produce cost studies for unbundled network elements (UNEs). Staff requested SWBT rerun its cost studies with Staff's recommendations. SWBT provided Staff with estimates of prices with Staff's proposed modifications. These estimates were included in the report. Once the Commission makes a final determination for the modifications, SWBT will be expected to rerun its cost studies based on Commission ordered changes. Staff will then review the cost

studies to ensure SWBT complied with Commission orders. Once the cost studies are reviewed, final prices for Case No. TO-98-115 can then be set.

The fourth paragraph on page 1 should read,

The third section contains a review of the studies and models used to generate the prices for UNEs and services. This section contains the review of SWBT's cost studies as well as a detailed description of Staff's proposed modifications and the rationale for making the modifications. In each instance, Staff discussed the areas of concern and the proposed change with SWBT officials and AT&T officials to obtain their input. These positions are presented in the report and were presented to the Commission in a matrix summary.

Finally, the complex and simple conversion charges apply to both resale and UNEs. The application of the conversion charges is discussed in the sections on simple and complex service conversion. Therefore, the \$5.00 as is simple conversion charge applies to simple resold services and to simple UNEs and the \$54.29 complex conversion charge applies to complex resold services and to complex UNEs.

A copy of the matrix given to the Commission is attached. In the event of questions about this memo or the matrix, please let me know.

Attachment

**Summary of Proposed Modifications to Cost Studies and Party Positions
TO-98-115**

Issue/Modification	Staff's Recommendation	SWBT's Position	AT&T's position
Global Changes See Costing and Pricing Report for TO-97- 40/67.	All global changes recommended in Case No. TO-97-40/67:	SWBT still does not agree with these modifications.	No comment.
	Cost of Capital should be 10.36%.	SWBT still does not agree with these modifications.	
	Depreciation lives should be Commission specified lives from TO-97-40/67.	SWBT still does not agree with these modifications.	
	Income tax should be 38.36%.	SWBT still does not agree with these modifications.	
	There should be no application of inflation.	SWBT still does not agree with these modifications.	
	Removal of CC/BC ratio from the numerator and denominator of the Building factor in ACES.	SWBT still does not agree with these modifications.	
	Historic building and grounds maintenance factor to be consistent with changing the building factor.	SWBT still does not agree with these modifications.	
	Any other applicable modifications staff recommended in TO-97-40/67 that apply to the cost studies in dispute in this arbitration.	SWBT still does not agree with these modifications.	

No application of common cost to any NRCs.

SWBT still does not agree with these modifications.

Use of four rate zones corresponding to SWBT's tariffed rate groups.

SWBT has accepted the 4 zones for deaveraging purposes.

Crossconnects

For recurring charges for crossconnects, AT&T believes crossconnects are part of the loop, and all costs for crossconnects will be recovered through other elements.

For NRCs related to crossconnects, SWBT assumes manual intervention is necessary for all crossconnects. AT&T feels that manual intervention is not necessary except for minimal fallout. AT&T believes that current technology allows for an OSS to provision elements without human intervention.

Unbundled 4-wire DS-1 Loop Cross-Connect to Multiplexer

IDF to MUX is included in the multiplexing cost study reviewed in TO-97-40/67. Use Staff recommendations when determining the costs for all crossconnects.

The issue relates to whether crossconnects require test equipment. SWBT objects to the development of this element without testing. SWBT must provide for the testing of its facilities in order to maintain the same quality of service that it affords its own customers. SWBT will require testing equipment on its facilities and the exclusion of such equipment will result in prices for such elements that are not compensatory.

Unbundled Crossconnects to DCS and Switch Ports

Global only.

No comment.

CLEC to SS7 STP

Global only.

No comment.

**Local Switching
Features -- Analog and
ISDN**

SWBT has proposed a \$5.00 per order service charge for every order that generates a service order on a mechanized basis, which is inconsistent with the Final Arbitration Order in TO-97-40/67. Staff believes the \$5.00 service order charge applies to as is conversion for resale or UNEs, not for other services or features.

5 minutes per feature or combination of features. Hunting arrangements should include 1/2 of the currently proposed RCMAC time. Neither side has presented solid evidence to suggest other times.

Use 0.05 fallout factor on all features. This factor is to account for automation of feature activation requests, the number of orders with errors, and is based on current flow through estimates from SWBT officials. The factor represents the percentage of orders that require manual intervention when all others flow through electronically with no problems.

SWBT does not completely agree with Staff's supplemental recommendation which is (1) for subsequent orders UNE service order charges will apply (2) all simple orders are assumed to be fully automated with 95% flow through of the work order to completion and (3) complex orders are assumed to be fully manual. SWBT agrees with 1 and 3 but does not agree with 2. See SWBT response to use of 5% fallout factor below.

No comment.

Staff assumes that SWBT's OSS is fully mechanized for the purposes of ordering and provisioning UNEs. Staff assumes that since all processes are mechanized, the only manual intervention would be needed in the case of a fallout or an order, either at the time of ordering or further along in the OSS process needed for provisioning of the UNE. Staff is recommending a 5% fallout percentage presumably based on a data request response that SWBT provided to Staff regarding SWBT's current CLEC

Using forward looking OSS architecture, there should be no time required for SWBT technicians except for orders which fall out of the system, which should be minimal. This should apply to all features.

SWBT's own witnesses have testified to lower fall out rates being not only achievable but also in place. A 1 percent fallout rate should be applied.

Thus, 5 percent of all orders will require manual intervention and 95 percent will flow through to completion with no problems.

fallout percentage for EASE. It is incorrect to use this percentage from EASE because EASE is currently being used by the CLECs only to order resale, no UNEs. EASE is used strictly for ordering and this percentage would not apply to any of SWBT other downstream OSS, for example translations in the central office. At the present time, we do not have any history on the exact fall out percents in the UNE environment. However, SWBT has information regarding the fallout rate for Access Service Requests for IXC access services. The current fallout for ASR is between 30 percent and 50 percent. Access service orders are less complex than many of the orders for resold services or UNEs, so it is not improbable that the fallout could be as high.

**Unbundled Call Trace
Per Activation**

The rate of other analog port features should apply here. The rate should apply per port and per successful trace.

SWBT agrees.

Same comment as for Local Switching Features.

**Unbundled PRI Port
Features**

Staff believes that port feature activation for PRI is more involved than analog, centrex, or BRI port features, so more time will be spent activating PRI features. However, neither side has evidence to support its claims. Therefore, Staff

This is an arbitrary decision based on no facts. It implies that AT&T work activity times are zero and that AT&T's and SWBT's estimates are equally credible. This is not the case. SWBT work times are more reliable because they are produced by people/organizations doing the work on a regular and ongoing basis.

The Commission should recognize forward looking OSS architecture. Forward looking OSS systems are sophisticated and will allow CLECs to input orders that will flow through into SWBT's provisioning systems. Inclusion of manual processes sanction non-parity access and are discriminatory. AT&T supports a 1 percent fallout rate.

recommends implementing global modifications and that SWBT's rates be cut in half.

Since Staff agrees that there is more work required for PRI features, SWBT feels that AT&T's work times would not be zero, therefore it is inappropriate to cut SWBT's rate completely in half.

**Unbundled BRI
CSV/CSD / Unbundled
BRI Port Features**

See local switching feature modifications. Staff believes there is no difference between BRI features and other local switching features, therefore the same rates as rates for local switching features should apply to BRI port features.

The difference between these NRCs and other local switching features is that there is no mechanized flow through for these features, all translation activities are input manually. The same is true for these features offered in SWBT's retail tariffs. The EKTS feature package consists of 8 features. CACH consists of 11 features. These features are manually combined or built to package the many different features. In addition, these orders are manually reviewed by the Recent Change and Memory Admisitration Center (RCMAC), who are responsible for inputting the translations into the switch.

Same comment as for local switching features.

**Unbundled Centrex-
Like Features --
Analog/ISDN**

See local switching feature modifications. Staff believes there is no difference between Centrex-like features and other local switching features, therefore the same rates will apply.

The flow through assumptions for local switching features should not apply to centrex-like features. Centrex-like features require additional manual work effort over and above what is done for local switching features. RCMAC are required to manually type service orders into the system due to customer specific dialing plans and because centrex offerings include more complex common block-

Same comment as for local switching features.

based features that cannot be recognized by the MARCH system. Additionally, centrex-like features often require the involvement of additional work groups to perform other manual activities. Technicians are required to manually activate memory in the switch and define customer parameters.

Unbundled Dedicated Transport

Entrance Facilities	OC-X entrance facilities should be ICB priced.	SWBT still does not agree with modifications recommended in TO-97-40/67. SWBT agrees with Staff that OC-X entrance facilities should be ICB priced.	ICB pricing is unnecessary. It will cause long delays in providing choices for Missouri consumers. AT&T's experience with SWBT on ICB pricing has been unacceptable. SWBT proposes totally unreasonable prices which must eventually be arbitrated by the Commission before SWBT will offer services at a reasonable economic rate. SWBT made the same argument in Texas, but managed to perform studies for optical transport in Texas when ordered to do so by the Texas Commission.
Other Modifications	Global modifications.	No comment.	
Non-recurring charges	NRCs should be cut in half to be consistent with the treatment of other UNEs in TO-97-40/67.	SWBT SMEs have looked at these services and determined the amount of time that is required to install these services. If the NRCs are cut in half, then SWBT will no recover all of their costs to provide these services.	The Commission should recognize forward looking OSS architecture. Forward looking OSS systems are sophisticated and will allow CLECs to input orders that will flow through into SWBT's provisioning systems. Inclusion of manual processes sanction non-parity access and are discriminatory. Section 252(d)(1) requires rates to

be based on forward looking economic costs. SWBT should be ordered to rerun its studies eliminating manual processes except for 1 percent fallout.

LIDB

Any changes made to CCSCIS and the signaling cost studies from TO-97-40/67 that impact the LIDB studies should be made to the cost study.

SWBT calculated the update cost incorrectly for initial and ongoing updates. The rates should be equal for both types of updates. Double check the math in this calculation.

(SWBT did this and clarified).

These modifications were made in the cost study dated June 9, 1997.

SWBT indicates that the differences are due to rounding. Only two digits are shown in the cost study. The time for the initial load is a little greater than 0.01 hours and time for subsequent loads require a little less than 0.01 hours. The calculations are based on these figures while the costs study show 0.01 hours. There is no need to dispute the issue.

Pursuant to subsequent discussions with Staff this misunderstanding has been resolved and SWBT has no additional comments.

Service order charge should be cut in half.

The 5% fallout should not apply to this service order. Processing LIDB service orders is a manual process which involves the Service Reps spending time with the customer to determine what they want included in their database and then to actually process the order. SWBT believes cutting NRCs in half is arbitrary.

A minimal fallout factor should be applied in the development of all non-recurring rates. Sophisticated OSS does much more than just accept an order from a customer. Limiting of fallout to service orders or record changes only is not consistent with forward looking architecture.

Access to DA Database	Staff recommends DA database access be priced ICB until such time SWBT can make an estimate of the forward looking cost.	SWBT agrees.	ICB pricing is unnecessary. It will cause long delays in providing choices for Missouri consumers. AT&T's experience with SWBT on ICB pricing has been unacceptable. SWBT proposes totally unreasonable prices which must eventually be arbitrated by the Commission before SWBT will offer services at a reasonable economic rate. SWBT made the same argument in Texas, but managed to perform studies for optical transport in Texas when ordered to do so by the Texas Commission.
Branding	Staff recommends that the lowest intercompany compensation arrangement currently in effect.	SWBT agrees with Staff and has no additional comments. Independent companies pay the same rates as CLECs.	AT&T has not seen all the arrangements in place so it cannot provide a definitive comment. However, the arrangements that are in place reflect SWBT's monopoly negotiating position and most likely are not cost based. Section 252(d)(1) requires rates to be cost based.
Rating	Staff recommends that the lowest intercompany compensation arrangement currently in effect.	SWBT agrees with Staff and has no additional comments. Independent companies pay the same rates as CLECs.	AT&T has not seen all the arrangements in place so it cannot provide a definitive comment. However, the arrangements that are in place reflect SWBT's monopoly negotiating position and most likely are not cost based. Section 252(d)(1) requires rates to be cost based.

**Simple Service
Conversion - Resale**

The rates for simple service conversion should be the service conversion rates specified in TO-97-40/67: \$5.00 per conversion for an as is initial conversion.

No comment.

Proposal is consistent with the Commission's July 1997 Order. However, \$5.00 is not a cost based rate for electronic processing of a simple resale conversion. This will allow SWBT to over recover its costs. There is not manual intervention required on the part of SWBT, except in the case of fallout, which should be minimal.

**Complex Service
Conversion Charge -**

Half of SWBT's rates after
global modifications.

The complex service conversion – resale study represents manual service order activity. They were not intended to represent any type of mechanized process. There are existing CLECs who find it more cost effective to process their orders manually. For Staff to assume that all orders in the future will be processed electronically is incorrect.

Staff makes a recommendation to reduce the time estimates for SWBT's conversion studies, which is without any basis. SWBT's time estimates were based on assumptions and specific knowledge of SWBT's operations and the time it takes to perform these operations. The SWBT time estimates were provided by SMEs who have experience in performing the task at hand, who work in the field performing these tasks daily and who have the knowledge and experience to provide quality data for our cost studies. AT&T's estimates were provided by an undefined "national team" and were not based on any specific knowledge of SWBT Missouri operations. Based on the documentation provided by SWBT, in support of its non-recurring cost studies, SWBT clearly has more "sound justification and support" than AT&T. AT&T provided no documentation in support of its nonrecurring time estimates or its hypothetical fallout rate.

The proposal does not recognize forward looking OSS architecture. The proposal assumes that SWBT's OSS is unsophisticated. The complex work that will need to be done will be done by the CLEC obtaining the information from the customer and from interfacing with SWBT's OSS. Once the order is input into the OSS by the CLEC, it should flow electronically through SWBT's provisioning systems. Studies should represent forward looking efficient, not embedded or forward looking actual costs.

**Unbundled Service
Order - UNEs**

- Considered to be automated
- Remove negotiation cost (only typing remains)
- Use fallout factor of 0.05
- All other applicable global modifications

No comment.

Typing costs should also be removed. In forward looking architecture with parity access, AT&T will do all the typing, except for instances of fallout. SWBT has testified that a fallout factor of 1 percent has been achieved for its internal orders. A maximum of 1 percent fallout factor should be used.

Simple

Complex

- Considered to require manual intervention
- Negotiation costs cut in half
- Typing costs cut by 75% to 15 minutes
- CPU/EXCP costs cut in half.
- All other applicable global modifications

Many of the response times for the UNEs were based on data already provided for SWBT's retail services. Many of SWBT's retail services, like Plexar are considered competitive and it would not benefit SWBT to provide high time estimates for these or any of its services. The same principal applies to the UNE time estimates. There is not a totally mechanized process in place for service orders. Service order processing must meet Ordering and Billing Forum/Telecommunications Interface Forum national guidelines. Currently only loops, analog port and loop with INP meet OBF standards and have a electronic order delivery process. There are UNEs which have no mechanized order delivery process for the same SWBT services ordered by SWBT's retail customers. However, the UNE order is received into the OSS process like all other SWBT retail services where mechanized OSS is applicable.

CPU costs are already recovered through all recurring rates, specifically as part of SWBT support asset cost factors. CPU investments should be eliminated from these studies. Assumption that 100 percent of the complex orders will fallout is inappropriate in a forward looking economic cost study. With forward looking OSS, CLECs should have parity access to SWBT downstream systems/databases and should be able to make database choices that will eliminate the need for SWBT negotiations on a CLEC order.

SWBT believes staff is wrong to assume a

mechanized ordering process for all UNEs because some UNEs are more complex than others.

SWBT also clarifies negotiation as the validation process such as receiving the order, reviewing the order for accuracy, and potentially returning the order to the CLEC for correction. The validation process must be completed before orders can be typed into SORD. Coordination with other departments is required to process Complex orders.

For further arguments from SWBT see Local Switching features and Complex Service Conversion.

Dark Fiber

Global modifications made to dark fiber crossconnects.

No comment.

AT&T contends the crossconnect is part of the dark fiber loop, and is recovered through another UNE.

NRCs cut in half.

Staff recommends that the NRCs be cut in half. SWBT disagrees with this recommendation. SWBT SMEs have looked at this service and determined the amount of time that is required to install this service. If the NRCs are cut in half then SWBT will not recover all costs to provide this service.

The Commission should recognize forward looking OSS architecture. Forward looking OSS systems are sophisticated and will allow CLECs to input orders that will flow through into SWBT provisioning systems. Inclusion of manual processes sanction non-parity access and are discriminatory. Section 252(d)(1) requires rates to be based on forward looking economic costs. SWBT should be ordered to rerun its studies eliminating manual processes except for 1 percent fallout.

NXX Migration

Neither side has presented an effective argument to justify that there is a substantial cost associated with NXX migration or that all costs will be recovered internally through migrating a NXX. Staff recommends making any applicable global modifications and cutting the rate in half.

The Staff recommendation of cutting SWBT rates in half implies that the AT&T estimate was zero. When a CLEC moves an entire NXX to their equipment, SWBT should be compensated for the network rerouting effort and equipment record changes that are required. That effort is caused by the CLEC's activities but is not reflected or compensated for in any of the nonrecurring charges for individual UNEs.

The efforts are in addition to whatever it takes to establish the UNEs. Staff's comments noted that AT&T felt all costs will be "recovered internally through migrating an NXX" misses the point that a CLEC is specifically causing the shift. Other CLECs and retail customers should not have to cover the cost being caused by one CLEC in a specific situation. There would be no reason for SWBT to incur that cost if not for the CLEC. AT&T prognosticators do not deal with SWBT systems and procedures including the extensive coordination. Therefore, SWBT's time estimates reflect reality and should be accepted.

The Commission should recognize forward looking OSS architecture. Forward looking OSS systems are sophisticated and will allow CLECs to input orders that will flow through into SWBT's provisioning systems. Inclusion of manual processes sanction non-parity access and are discriminatory. Section 252(d)(1) requires rates to be based on forward looking economic costs. SWBT should be ordered to rerun its studies eliminating manual processes except for 1 percent fallout.

White Pages

Include 4 rate zones instead of three for consistency with other modifications. SWBT agrees.

Not having seen the SWBT studies, AT&T is not in a position to comment.

Staff does not recommend modifying the cost studies beyond applicable global modifications. No comment.

LSP Emergency Contact

Any applicable global modifications. No comment.

Not having seen the SWBT studies, AT&T is not in a position to comment.