

BEFORE THE STATE OF SOUTH DAKOTA

PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF ALLIANCE	)	
COMMUNICATIONS COOPERATIVE, INC., BERESFORD	)	Docket Nos.
MUNICIPAL TELEPHONE COMPANY, KENNEBEC TELEPHONE	)	TC 07-111
COMPANY, MCCOOK COOPERATIVE TELEPHONE COMPANY,	)	TC 07-112
SANTEL COMMUNICATIONS COOPERATIVE, INC., AND WEST	)	TC 07-113
RIVER COOPERATIVE TELEPHONE COMPANY FOR	)	TC 07-114
ARBITRATION PURSUANT TO THE TELECOMMUNICATIONS	)	TC 07-115
ACT OF 1996 TO RESOLVE ISSUES RELATING TO AN	)	TC 07-116
INTERCONNECTION AGREEMENT WITH ALLTEL	)	
COMMUNICATIONS, LLC.	)	

PUBLIC

CONFIDENTIAL INFORMATION REDACTED

DIRECT TESTIMONY OF W. CRAIG CONWELL

ON BEHALF OF ALLTEL COMMUNICATIONS, LLC.

March 24, 2008

**DIRECT TESTIMONY OF W. CRAIG CONWELL
ON BEHALF OF ALLTEL COMMUNICATIONS, LLC.**

March 24, 2008

Table of Contents

Topic	Page
Introduction and Qualifications	3
Summary of Testimony and Recommendations	5
Cost Issues to be Decided for RLEC Cost Studies	8
Background	11
FCC Requirements for Establishing Transport and Termination Rates	11
Description of Transport and Termination	14
Review of the RLEC Cost Studies	19
Switching Costs	20
Cost Issue 1.1 – Switch investments	26
Cost Issue 1.2 – Switching annual cost factors	31
Cost Issue 1.3 – Usage-sensitive switch investments	39
Cost Issue 1.4 – Annual minutes per switch trunk card	46
Cost Issue 1.5 – Forward-looking economic costs per minute for switching	47
Transport Electronics Costs	47
Cost Issue 2.1 – Transport electronics investments	51
Cost Issue 2.2 – Measure of transport demand for transport electronics	56
Cost Issue 2.3 – Transit circuits	63
Cost Issue 2.4 – Quantities of equivalent DS-1 circuits	65
Cost Issue 2.5 – Transport electronics annual cost factors	67
Cost Issue 2.6 – Annual minutes per voice trunk	68
Cost Issue 2.7 – Forward-looking economic costs per minute for transport electronics	71
Transport Outside Plant Costs	72
Cost Issue 3.1 – Interoffice mileages	75
Cost Issue 3.2 – Transport outside plant annual cost factors	78
Cost Issue 3.3 – Measure of transport demand for transport outside plant	79
Cost Issue 3.4 – Annual minutes per voice trunk	80
Cost Issue 3.5 – Forward-looking economic costs per minute for transport outside plant	81
Conclusion	83
Cost Issue 4 – Forward-looking economic costs per minute for transport and termination	83

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

INTRODUCTION AND QUALIFICATIONS

Q. Please state your name, business address and employer.

A. My name is W. Craig Conwell. My business address is 405 Hammett Road, Greer, South Carolina. I am self employed as an independent consultant, specializing in telecommunications cost analysis.

Q. On whose behalf are you testifying in this case?

A. I am testifying as the cost witness for Alltel Communications, LLC. (“Alltel”).

Q. Please describe your educational background.

A. I have a Bachelors degree (1972) and Master of Science degree (1974) in Industrial Engineering from Auburn University in Auburn, Alabama.

Q. Please also describe your work background.

A. I have included as Exhibit WCC-1 a copy of my current resume. I have over 30 years of experience in the telecommunications industry, with a broad background in telecommunications costs analysis as an employee of the Bell System, with Arthur Andersen & Co. in its telecommunications consulting practice, and for the past eleven years as an independent consultant.

In recent years, I have been extensively involved in negotiations and arbitrations of reciprocal compensation rates between incumbent local exchange carriers (ILECs) and wireless carriers. I have analyzed numerous

1 ILEC cost studies for compliance with the FCC rules for Total Element Long
2 Run Incremental Costs (TELRIC), and I have testified as an expert cost
3 witness on behalf of wireless carriers in one or more arbitrations in eight
4 states. I also was involved on behalf of the AT&T local exchange carriers in
5 the arbitrations establishing rates for unbundled network elements and
6 collocation. I have provided expert testimony on one or more occasions in 15
7 states. Over the years, I have developed cost models, participated in the
8 design of telecommunications cost accounting systems, performed cost studies
9 of various types, and taught service cost courses for the United States
10 Telephone Association and telephone company staffs. In addition, I have held
11 management positions in corporate planning, financial management and
12 marketing.

13
14 **Q. What are the other arbitrations between ILECs and wireless carriers in**
15 **which you participated?**

16 A. I was the cost witness for wireless carriers in California, Michigan,
17 Mississippi, Missouri, North Carolina, Oklahoma, South Dakota and
18 Tennessee. Exhibit WCC-2 lists the arbitrations in which I have participated.
19 In each arbitration (other than those in North Carolina), my role has been to
20 review ILEC cost studies and their results to determine whether they met the
21 FCC requirements for establishing reciprocal compensation rates. In the
22 North Carolina arbitrations, I reviewed cost studies for compliance with cost
23 study guidelines established by the NC Utilities Commission in Docket No. P-

1 100, Sub 159. These guidelines require cost methods and input data similar to
2 TELRIC studies, except the ILECs were permitted to use surrogate cost data
3 to reduce the effort to perform cost studies.
4

5 **Q. What is your consulting engagement with Alltel in this proceeding?**

6 A. Alltel engaged me to serve as their cost expert. I was asked to review the cost
7 studies, testimony and other documentation produced by the rural local
8 exchange carriers (RLECs) in this arbitration as the basis for their proposed
9 transport and termination rates and to determine whether the cost studies and
10 their results comply with the FCC requirements for forward-looking economic
11 cost studies.¹ In addition, I was asked to correct the RLEC cost studies, if
12 they failed to meet the FCC requirements, and to produce appropriate
13 transport and termination rates.
14

15 SUMMARY OF TESTIMONY AND RECOMMENDATIONS

16 **Q. Please summarize the main points of your testimony.**

17 A. Following is a summary of my testimony.
18 • The RLECs have produced studies to determine the costs and rates for
19 transporting and terminating telecommunications traffic originated by
20 Alltel customers – that is, mobile-to-land traffic. The cost model used to
21 determine these costs, along with some documentation, have been

¹ The RLECs in this arbitration include Alliance Communications Cooperative, Inc., Beresford Municipal Telephone Company, Kennebec Telephone Company, McCook Cooperative Telephone Company, Santel Communications Cooperative, Inc., and West River Cooperative Telephone Company.

1 provided to Alltel for its review. The RLECs consider these studies to be
2 in compliance with the FCC rules for establishing cost-based reciprocal
3 compensation rates in 47 C.F.R. 51.705(a)(1), 51.505 and 51.511.

- 4 • The results of the RLEC cost studies (*i.e.*, estimates of forward-looking
5 economic costs) are shown in Exhibit WCC-4. Transport and termination
6 costs range from [REDACTED] to [REDACTED] per minute. I have reviewed the
7 RLEC cost studies and found that they do not comply with the FCC rules
8 for determining forward-looking economic costs. Costs in the range of [REDACTED]
9 to [REDACTED] cents per minute are too high.

- 10 • The RLECs have failed to comply with FCC's requirement to provide
11 sufficient documentation to evaluate specifics about the forward-looking
12 networks reflected in their cost studies and how the associated costs are
13 developed.² This is a prerequisite to an evaluation of a cost study.
14 Furthermore, the South Dakota Public Utilities Commission (the
15 "Commission") will find this information is necessary to address issues
16 they will be asked to decide (see below). Alltel has issued a first set of
17 interrogatories and requests for production of documents, and the RLECs
18 have not produced key information about plant investments, capacities and
19 utilization levels reflected in their cost studies. I understand Alltel also
20 has filed motions to compel the production of this key information. It is
21 important that this information be produced prior to rebuttal testimony.

² *Local Competition Order*, 11 FCC Red at 15850 ¶ 691 and 15847 ¶ 680.

- 1 • I have identified 18 cost-related issues for consideration by the
2 Commission. These are shown in the table below. I recommend that each
3 issue be decided. Then, the RLEC cost studies should be re-run to
4 produce corrected forward-looking economic costs in compliance with the
5 FCC rules. I have estimated the effect on RLEC costs of adopting Alltel's
6 recommendation on each issue.
- 7 • Based on these recommendations, the RLEC forward-looking economic
8 costs after the cost studies are re-run are expected to be no more than
9 \$[REDACTED] per minute for switching, \$[REDACTED] for transport electronics and
10 \$[REDACTED] for transport outside plant. This would make the maximum
11 transport and termination rate no more than \$[REDACTED] per minute, with each
12 RLEC's rate reflecting its company-specific costs.

13

14 **Q. How is the remainder of your testimony organized?**

15 A. I begin by describing the FCC requirements for establishing cost-based
16 reciprocal compensation rates and cost studies used to determine these rates.
17 Reciprocal compensation rates are intended to recover RLEC costs for two
18 network elements – transport and termination. So, I describe these two
19 elements and the types of costs that may and may not be included in them
20 according to FCC rules. Finally, I describe my findings from reviewing the
21 RLEC cost studies and the issues that I recommend be addressed by the
22 Commission.

Cost Issues to be Decided for RLEC Cost Studies

Cost Issue	Issue	Recommendation
1.1	What switch investments (by switch category and exchange) should be used in the RLEC cost studies?	The RLECs should provide sufficient documentation to review switch investments, including types of equipment, quantities of equipment based on capacities and demand, and unit costs (e.g. material prices). This information should be used to compute switch investments with consideration given to specific questions that determine appropriate investments to be included in the cost studies. (See section of testimony for this cost issue.)
1.2	What switching annual cost factors should be used?	McCook, Santel and West River should use their current switching ACFs (____%). Alliance, Beresford and Kennebec should recompute ACFs. The ACFs should be no greater than ____%. This allows approximately ____ percent for the capital cost factor, ____ percent for direct switching expenses, ____ percent for other operating expenses and ____ percent as the corporate operations expenses loading.
1.3	What percentage or portion of the switch investments is usage-sensitive and recoverable in transport and termination rates?	RLEC trunk card investment per line, after adjustments for Cost Issue 1.1, should be used to compute switching costs per minute. Unless the RLECs demonstrate that the common category of equipment for the switch technology reflected in their cost studies is exhausted by usage, common switch investment should not be included in transport and termination costs.
1.4	What annual minutes per switch trunk card should be used?	Per Issue 1.3, the switching cost calculation should be modified to compute costs per minute based on switch trunk card annual costs per trunk and annual minutes per voice trunk. The recommended annual minutes per voice trunk are given below for Issue 2.6.
1.5	What are the forward-looking economic costs per minute for switching?	Forward-looking economic costs per minute for switching are expected to be \$____ or less, assuming only trunk card equipment is usage-sensitive. (The cost per minute of \$____ is based on the highest switching costs of the RLECs (____) after excluding common switch costs and adjusting annual cost factor to ____ percent, as necessary. See Exhibit WCC-5.5.)

Cost Issue	Issue	Recommendation
2.1	What transport electronics base, line and tributary investments should be used in the RLEC cost studies?	The RLECs should provide sufficient documentation on transport electronics investments, including types of equipment, quantities of equipment based on capacities and demand, and unit costs. This information should be used to compute investments reflecting efficient configuration of transport electronics.
2.2	Should forward-looking economic costs per unit be based on total equivalent DS-1 circuits?	Yes. The use by the RLECs of "paths" to measure transport demand overstates the costs of voice trunks and transport costs per minute. Equivalent DS-1 circuits are a better measure of transport equipment capacity consumption and cost causation.
2.3	Should transit circuits be included in total demand for transport?	Yes. FCC Rule §51.511 requires that forward-looking economic costs per unit be based on total demand, and transit circuits are part of total demand for transport electronics base and line equipment. The RLECs already include transit circuits in the calculation of transport outside plant costs.
2.4	What equivalent DS-1 circuits should be used for the RLEC's own voice trunks and special circuits, and transit circuits?	The equivalent DS-1 circuits for the RLEC's own voice trunks and special circuits are [REDACTED]. The additional equivalent DS-1 circuits for transit are [REDACTED]. Additional information is required to compute other RLEC equivalent DS-1 circuits for transit.
2.5	What transport electronics annual cost factors should be used?	McCook and Santel should use their current transport electronics ACFs ([REDACTED]). Alliance, Beresford, Kennebec and West River should recompute ACFs. The ACFs should be no greater than [REDACTED] percent. This allows approximately [REDACTED] percent for the capital cost factor, [REDACTED] percent for direct switching expenses, [REDACTED] percent for other operating expenses and [REDACTED] percent as the corporate operations expenses loading.
2.6	What annual minutes per voice trunk should be used?	Annual minutes per voice trunk should be established consistent with FCC Rule §51.513(c)(4). This rule specifies 108,000 annual minutes per voice circuit. After adjusting for a minute of traffic taking either one or two voice circuits for termination, the recommended minutes per voice trunk are [REDACTED].

Cost Issue	Issue	Recommendation
		[REDACTED]
2.7	What are the forward-looking economic costs per minute for transport electronics?	<u>McCook and West River costs per minute are [REDACTED] and [REDACTED] respectively. The costs of the other RLECs after adjustments for the issues above are expected to be [REDACTED] per minute, or less.</u>
3.1	What interoffice mileages should be used in the RLEC cost studies?	Existing mileages of interoffice cable routes used to transport Alltel traffic should be used, unless the RLECs can prove that longer mileages over different cable routes are more efficient.
3.2	What transport outside plant annual cost factors should be used?	Santel and West River should use their current transport outside plant ACFs [REDACTED]. Beresford should use a [REDACTED] percent factor. Alliance, Kennebec and McCook should recompute ACFs. The ACFs should be no greater than [REDACTED] percent. This allows approximately [REDACTED] percent for the capital cost factor, [REDACTED] percent for direct transport outside plant expenses, [REDACTED] percent for other operating expenses and [REDACTED] percent as the corporate operations expenses loading.
3.3	Should transport outside plant cost calculations be modified to be based on equivalent DS-1 circuits?	Yes, equivalent DS-1 circuits should be used as in the recommendation for Cost Issue 2.2. Equivalent DS-1 circuit quantities should be the same as those for the RLEC's own voice trunks and special circuits, and transit circuits as given in the recommendation for Cost Issue 2.4.
3.4	What annual minutes per voice trunk should be used?	The annual minutes per voice trunk recommended for Cost Issue 2.6 should be used.
3.5	What are the forward-looking economic costs per minute for transport outside plant?	<u>McCook and West River costs per minute are [REDACTED] and [REDACTED] respectively. The costs of the other RLECs after adjustments for the issues above are expected to be [REDACTED] per minute, or less.</u>
4	What are the forward-looking economic costs per minute for transport and termination?	<u>Total transport and termination costs, based on costs per minute recommended for Cost Issues 1.5, 2.7 and 3.5, are expected to be [REDACTED] per minute or less.</u>

1 **BACKGROUND**

2 **FCC Requirements for Establishing Transport and Termination Rates**

3 **Q. What are the FCC requirements for cost-based transport and**
4 **termination rates?**

5 A. FCC Rule §51.705(a)(1) specifies that an “incumbent LEC's rates for transport
6 and termination of telecommunications traffic shall be established” on the
7 basis of the “forward-looking economic costs of such offerings, using a cost
8 study pursuant to Sec. 51.505 and 51.511.” FCC Rule §51.505(e), in turn,
9 states:

10 An incumbent LEC must prove to the state commission that the
11 rates for each element it offers do not exceed the forward-looking
12 economic cost per unit of providing the element, using a cost study
13 that complies with the methodology set forth in this section and
14 Sec. 51.511.
15

16 **Q. Are there parts of these rules that merit emphasis?**

17 A. Yes. First, the FCC does not permit an incumbent LEC's transport and
18 termination rate to exceed its forward-looking economic costs. The FCC
19 defines forward-looking economic costs in §51.505(a) as the sum of “the total
20 element long-run incremental cost of the element” (“TELRIC”) and “a
21 reasonable allocation of forward-looking common costs.”
22

23 Second, it is the incumbent LEC's obligation to prove that its rates do not
24 exceed these costs. The incumbent LEC must demonstrate that the cost study
25 used to determine costs complies with the methodology set forth in §51.505
26 and §51.511.

1

2 **Q. Do FCC rules require local exchange carriers to file their cost studies in**
3 **the record?**

4 A. Yes, FCC Rule §51.505(e)(2) states: “The record of any state proceeding in
5 which a state commission considers a cost study for purposes of establishing
6 rates under this section shall include any such cost study.”

7

8 **Q. Have the RLECs filed their cost studies?**

9 A. It is my understanding that the RLECs have not yet filed their cost studies
10 with the Commission. Witnesses for the RLECs may file these studies with
11 their direct testimony.

12

13 **Q. Have the RLECs provided their cost studies to Alltel?**

14 A. Copies of the RLEC cost models and some supporting cost study
15 documentation have been provided to Alltel. Alltel issued a first set of
16 interrogatories to the RLECs to obtain additional information necessary to
17 review the cost studies, and partial responses have been provided. Certain key
18 information was not produced, and Alltel has filed motions to compel the
19 RLECs to produce this information. As I describe the RLEC cost studies, I
20 will discuss the need for this information.

21

22 **Q. What documentation must an incumbent LEC include in its cost study?**

1 A. The FCC has held that an incumbent LEC cost study “must explain with
2 specificity why and how specific functions are necessary to provide network
3 elements and how the associated costs are developed.”³ An incumbent LEC
4 “must prove to the state commission the nature and magnitude of any forward-
5 looking costs that it seeks to recover in the prices of interconnection and
6 unbundled network elements.”⁴

7
8 **Q. What are the Commission’s obligations in establishing a rate for**
9 **transport and termination?**

10 A. As noted above, FCC Rule §51.505(e) requires that an incumbent LEC’s
11 reciprocal compensation rate may “not exceed” its forward-looking economic
12 costs of transport and termination. In addition, FCC Rule §51.505(e)(2)
13 specifies that the Commission shall create “a written factual record that is
14 sufficient for purposes of review” – that is, to assure rates do not exceed costs.

15
16 Therefore, in addition to the fundamental obligation of assuring that rates do
17 not exceed forward-looking economic costs, the Commission has an
18 obligation to require adequate cost study documentation for the Commission
19 and Alltel to verify that the cost studies and their results comply with §51.505
20 and §51.511. This documentation must show that certain requirements are
21 met – namely, costs are company-specific and forward-looking, that they are

³ *Local Competition Order*, 11 FCC Rcd at 15850 ¶ 691.

1 representative of current technology and efficient plant utilization, that only
2 the direct costs of transport and termination are included, and that a
3 reasonable allocation of common costs is included.
4

5 **Description of Transport and Termination**

6 **Q. Please define transport and termination.**

7 A. The FCC defines transport in §51.701(c) as “the transmission and any
8 necessary tandem switching of telecommunications traffic subject to section
9 251(b)(5) of the Act from the interconnection point between the two carriers
10 to the terminating carrier’s end office that directly serves the called party, or
11 equivalent facility provided by a carrier other than an incumbent LEC.”
12 Exhibit WCC-3 illustrates the RLEC network elements typically required for
13 transport and termination.
14

15 **Q. Please describe the flow of a mobile-to-land call in Exhibit WCC-3 and**
16 **the network elements involved in transport.**

17 A. With a few exceptions, the networks of the RLECs and Alltel do not directly
18 connect with one another. Instead, the network of a transit carrier, such as
19 Qwest, is used to indirectly connect the networks. Telecommunications traffic
20 originated by an Alltel customer is routed through the transit carrier’s
21 network, and then to the RLEC network.

⁴ *Id.* at 15847 ¶ 680. *See also id.* at 15852 ¶ 695 (“[I]n the arbitration process, incumbent LECs shall have the burden to prove the specific nature and magnitude of these forward-looking common costs.”).

1

2 In Exhibit WCC-3 a mobile-to-land call reaches the RLEC network by
3 traveling over fiber optic cable from the transit carrier switch to a switch
4 belonging to the RLEC. The RLEC switch to which mobile-to-land traffic
5 first connects is a host switch. There is a “meet point” located between the
6 transit carrier switch and the RLEC switch where the carriers’ cables connect.⁵

7 In Exhibit WCC-3, the RLEC owns the cable to the right of the meet point,
8 and the transit carrier owns the cable to the left. The costs of transit carrier’s
9 cable would not be part of the RLEC’s transport costs.

10

11 Transport includes the RLEC’s cable from the meet point to the host switch.

12 In addition, transport includes transmission equipment located at the end of
13 the fiber cable, which is used to “multiplex” or combine electrical circuits and
14 to convert electrical signals to optical signals for transmission over the fiber
15 cable. Together the fiber cable and transmission equipment provide transport
16 for voice traffic and special circuits between the transit carrier and RLEC.⁶

17

18 Exhibit WCC-3 illustrates an RLEC network with a host switch and a
19 subtending remote switch. When a mobile-to-land call is destined for RLEC
20 customer ‘A’, the call is switched from the transport system (from the transit

⁵ In South Dakota, other RLECs also may provide for the transit of traffic to the terminating RLEC.

⁶ A special circuit is a dedicated channel on the interoffice transport system of a particular bandwidth. Special circuits are used for private lines, special access circuits, circuits for frame relay service and others.

1 carrier) directly to the customer's access line or loop. The host switch is not
2 part of the transport function, but rather termination. The customer access line
3 or loop also is not part of transport. Transport for a mobile-to-land call to
4 customer 'A' involves the fiber cable from the meet point to the host end
5 office switch and the transmission equipment at the end of the fiber.

6
7 When a mobile-to-land call is destined for RLEC customer 'B', the call is
8 switched by the host switch from the transport system (from the transit carrier)
9 to an interoffice voice trunk connecting to the remote switch. The interoffice
10 trunk is carried by a transport system, again consisting of fiber cable and
11 transmission equipment. In this case, transport includes the additional fiber
12 cable connecting host-remote switches and the transmission equipment at each
13 end.

14
15 **Q. How is termination defined?**

16 A. The FCC defines termination in §51.701(d) as "the switching of
17 telecommunications traffic at the terminating carrier's end office switch, or
18 equivalent facility, and delivery of such traffic to the called party's premises."
19 However, Congress specified that ILECs may recover in their transport and
20 termination rates only "the additional costs of terminating such calls."⁷ The
21 FCC has interpreted this "additional cost" standard as limiting recovery to

⁷ 47 U.S.C. § 252(d)(2)(A)(ii) (emphasis added).

1 usage-sensitive costs.⁸ Specifically, the FCC has stated that “usage-based
2 charges should be limited to situations where costs are usage sensitive.”⁹

3
4 Thus, according to the Act and FCC rules the portions of switch costs that are
5 not usage-sensitive are not recoverable in transport and termination rates. The
6 RLEC must recover these non-usage sensitive switch costs from other sources
7 (e.g., switched access charges, Universal Service Fund Local Switching
8 Support, local exchange rates and others). In addition, the costs of loop plant
9 from the end office to a customer’s premises are not usage-sensitive and
10 therefore are not recoverable in reciprocal compensation.¹⁰

11

⁸ Usage-sensitive costs refer to the costs of components of plant (e.g., switches, cables, etc.) whose capacity is exhausted by the volume of traffic handled by the plant component. Traffic volume is measured in terms of the number of telephone calls, the minutes of use, etc. If the capacity of a plant component is exhausted as the volume of traffic increases to its capacity limit, traffic volume drives the need for additional capacity and affects costs. On the other hand, if a plant component is not exhausted by traffic volumes, or is exhausted by another measure of use, such as the quantity of access lines, the plant component and its costs are not usage-sensitive. The “additional cost” standard requires that transport and termination rates recover only an RLEC’s costs that are caused by handling mobile-to-land traffic (minutes of use); i.e., usage-sensitive costs.

⁹ *In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, First Report and Order, FCC Rcd. 15,499, para. 1063 (rel. Aug. 8, 1996) (“First Report and Order”).

¹⁰ Loop plant capacity and costs are determined by the number of access lines or other local channels required for connections between customer premises and serving wire centers. Loop costs are not caused by the traffic volumes – the number of calls or minutes of use – over the loop. Thus, the FCC has ruled: “The costs of local loops and line ports associated with local switches do not vary in proportion to the number of calls terminated over these facilities. We conclude that such non-traffic sensitive costs should not be considered ‘additional costs’ when a LEC terminates a call that originated on the network of a competing carrier. For the purposes of setting rates under section 252(d)(2), only that portion of the forward-looking, economic cost of end-office switching that is recovered on a usage-sensitive basis constitutes an ‘additional cost’ to be recovered through termination charges.” First Report and Order, para. 1057.

1 **Q. Please describe termination using the diagram in Exhibit WCC-3.**

2 A. When a mobile-to-land call is destined for RLEC customer 'A', termination
3 simply involves the usage-sensitive portion of the host switch. When a
4 mobile-to-land call is destined for RLEC customer 'B', the call is switched at
5 the host switch and the remote switch. In this case, termination involves the
6 usage-sensitive portion of the two switches.

7

8 **Q. Is Exhibit WCC-3 representative of the RLECs' networks in this**
9 **arbitration?**

10 A. The basic network elements (switches, transport fiber cable and transport
11 transmission equipment) shown in Exhibit WCC-3 and their functions should
12 be representative of the RLEC networks. However, the RLEC cost study
13 documentation indicates that packet switching technology is reflected in their
14 cost studies and that they utilize integrated digital loop carrier (DLC) systems
15 to provide customer loops. Alltel asked in interrogatories the RLECs to
16 provide details on the development of switching investments in their cost
17 studies (equipment items, quantities, *etc.*), and they have not yet adequately
18 responded. Depending on the specific types of switch equipment, and
19 importantly whether DLC system equipment is appropriately included or
20 excluded from switching will determine whether the RLEC networks are
21 significantly different from Exhibit WCC-3. These details also will reveal
22 whether the RLEC cost studies are consistent with the FCC's definitions of
23 transport and termination.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

REVIEW OF THE RLEC COST STUDIES

- Q. Do you have any preliminary comments regarding your review?**
- A. The purpose of my review was to determine whether the forward-looking economic costs determined by the RLEC cost studies comply with FCC Rules §51.505 and §51.511. The review and my findings at this point are based on the FLEC models, cost study documentation and the limited responses of the RLECs to Alltel’s cost-related interrogatories. In some cases, I have identified significant issues in the cost studies in which they clearly do not comply with FCC rules. In other cases, I raise questions about cost study methods and cost data that appear to be inappropriate or invalid, and I describe additional information needed to resolve issues with these methods or cost data.
- As I describe the cost studies, I will identify specific issues, which I recommend be decided by the Commission. Once all issues have been decided, it will be necessary for the RLECs to re-run their cost studies. It is clear at this point, though, that the cost studies do not fully comply with FCC Rules §51.505 and §51.511. The forward-looking economic costs estimated by the studies are substantially overstated, and rates cannot be set at the level of these costs.
- Q. What are the forward-looking economic costs estimated by the RLECs?**

1 A. Exhibit WCC-4 contains the results of the RLEC cost studies. Estimates of
2 forward-looking economic costs for transport and termination range from
3 [REDACTED] per minute, or [REDACTED] cents per minute. The costs
4 consist of three components - switching, transport electronics and transport
5 outside plant.¹¹ Let's begin with switching costs.

6

7

SWITCHING COSTS

8 **Q. What is "switching" as represented in the RLEC cost studies?**

9 A. Traditionally, RLEC switching included end office and remote switching
10 systems used to terminate subscriber access lines and to provide connections
11 to other lines or interoffice trunks for local or interexchange calling. In the
12 past, these switches were based on *circuit switching technology*. A typical
13 switch used by RLECs was the Nortel DMS 10 digital electronic switch.

14

15 A forward-looking economic cost study is intended to be "based on the use of
16 the most efficient telecommunications technology currently available and the
17 lowest cost network configuration;" therefore, it would not be inappropriate
18 for the RLECs to reflect a current switching technology different from
19 traditional circuit switching, as long as the technology is currently available
20 and representative of the lowest cost network configuration. The RLECs have
21 assumed "softswitching technologies" or *packet switching technology* in their
22 studies, based on responses to Alltel interrogatories; but little, if any,

¹¹ Transport electronics is the terminology used by the RLECs for the transport transmission equipment in Exhibit WCC-3. Transport outside plant is the transport fiber cable.

1 information has been provided about the types of switching equipment
2 actually reflected in the studies. Nor is there any evidence that the RLEC
3 proposed packet switching network represents a more efficient configuration.

4
5 The RLECs provided a generic switching network diagram, a copy of which is
6 included as Exhibit WCC-5.1. This diagram suggests that the cost studies
7 assume host switches connected to end-users via integrated digital loop carrier
8 systems, and connected to remote switching systems of some sort, although it
9 is not clear whether these "remotes" are indeed switches or remote terminals
10 for DLC systems. The distinction between switching and DLC systems is
11 very important, because DLC systems are used to provide loops, the costs of
12 which are not recoverable in transport and termination rates. Suffice it to say
13 that the lack of documentation regarding switching plant creates uncertainty
14 about switching costs.

15
16 **Q. What values were computed by the RLECs for switching costs?**

17 A. RLEC switching costs are shown in Exhibit WCC-4. They range from
18 [REDACTED] per minute, or approximately [REDACTED] cents per
19 minute. Kennebec had the highest cost and Alliance the lowest cost. This is a
20 very wide range in costs for the usage-sensitive portion of switch plant.

21
22 **Q. How were these costs calculated?**

1 A. The FLEC model used by the RLECs contains a series of spreadsheets used to
2 calculate switching costs. It's possible to trace the calculations from model
3 input to results; however, the model layout is not very conducive to
4 understanding the nature of switching costs and the key cost data affecting the
5 results. For this reason, I prepared Exhibit WCC-5.2. It shows the following
6 equation for computing the switching cost per minute based on key cost data
7 in the RLEC cost studies.

$$\begin{aligned} & \text{Cost/minute} = (\text{Switch investment/line} \times \text{annual cost factor (ACF)} \\ & \quad \times \% \text{ switch processor}) / \text{switched minutes/line} \\ & \quad + (\text{Switch investment/line} \times \text{ACF} \times \% \text{ switch trunk}) \\ & \quad / (\text{switched minutes/line} \times \% \text{ interoffice traffic}) \end{aligned}$$

15 **Q. Please use Alliance as an example to show how switching costs are**
16 **calculated.**

17 A. The RLEC cost studies categorize switch investment in four groups - *common*,
18 *line card*, *line interface* and *trunk card*. Input values to the FLEC model are
19 total investment amounts for each of the four categories. For Alliance, the
20 input values are [REDACTED] common, [REDACTED] line card, [REDACTED] line
21 interface and \$[REDACTED] trunk card. This is a total of [REDACTED]\$. Alliance has
22 [REDACTED] lines in the six exchanges that it serves, so its switch investment per line
23 is [REDACTED]. This is the value that appears in cell B9 of
24 Exhibit WCC-5.2.

25

1 **Q. Does Alliance or any of the other RLECs provide details on the basis for**
2 **the investment amounts for the four categories?**

3 A. The cost study documentation provides the investment amounts by exchange,
4 but otherwise there are no substantive details on the make-up of the
5 investments. Alltel requested copies of any documentation that would show
6 the types of equipment, equipment quantities and unit investments, capacities,
7 *etc.* underlying the investments, but the RLECs have not yet provided this
8 information. This information is essential. The purchase of a switch is
9 analogous to purchasing a personal computer. The RLECs' cost study
10 documentation refers to aggregate switch investments, similar to a single price
11 for a personal computer without any details on the processor speed, random
12 access memory, hard drive size, whether it includes a monitor, keyboard or
13 mouse, *etc.*

14
15 **Q. What is the annual cost factor shown in Exhibit WCC-5.2?**

16 A. The annual cost factor (ACF) is a percentage that is multiplied times the
17 switch investment per line to compute annual switching capital costs and
18 operating expenses per line in service. Capital costs include annual
19 depreciation expenses for the recovery of plant investment, the cost of money
20 invested in the plant, and income taxes, if applicable to the RLEC.¹²
21 Operating expenses include switching direct expenses for the maintenance and

¹² Only one of the RLECs, Kennebec, is subject to income taxes.

1 repair of switches and other operating expenses.¹³ The annual cost factor also
2 includes corporate operations expenses common to all RLEC services.
3 Corporate operations expenses are for functions such as executive, legal,
4 finance, human resources and other general and administrative functions.

5
6 Alliance's switching ACF is [REDACTED] percent (cell C9 in Exhibit WCC-5.2). This
7 percentage is multiplied times [REDACTED] to compute total switching annual costs
8 per line of [REDACTED]

9
10 **Q. What is the significance of the values for % switch processor and %**
11 **switch trunk?**

12 **A.** The RLECs include investment and annual costs for the common and trunk
13 card categories in transport and termination costs. Investment and annual
14 costs for line interface and line cards are not included, presumably because
15 these categories of equipment are considered to be non-usage sensitive and
16 therefore not recoverable in the rate. As I explained earlier, termination costs
17 are limited to usage-sensitive switching costs.

18
19 The [REDACTED] percent for switch processor (cell D9) is the ratio of common
20 investment to total switch investment [REDACTED], and the [REDACTED]
21 percent for trunk cards (cell E9) is the ratio of trunk card investment to total

¹³ Other operating expenses include expenses for land, buildings and other assets supporting switching, and expenses for a variety of RLEC functions indirectly attributable to switching, such as plant operations, testing, wholesale marketing and customer services, *etc.*

1 switch investment ([REDACTED]). This implies that [REDACTED] percent of
2 Alliance's switching plant investment is variable with usage; *i.e.*, investment
3 would increase in connection with an increase in the total number of call
4 attempts or minutes of use. In the equation above, these percentages are
5 multiplied times the [REDACTED] total switching annual costs to determine the
6 portions of costs associated with the switch processor and trunk cards.

7
8 **Q. Please describe the last step in the switching cost calculation.**

9 A. In the last step, total switched minutes per line are divided into the switch
10 processor annual cost per line, and interoffice minutes per line are divided into
11 trunk card annual costs per line. The two costs per minute are added and
12 result in the switching cost per minute of [REDACTED] shown in cell H9. Trunk
13 cards are used for interoffice traffic as opposed to traffic routed from one line
14 on a switch to another (intraoffice traffic), so the interoffice fraction of total
15 switched minutes is used to compute the trunk card cost per minute.¹⁴

16
17 **Q. Can values for these key cost data be used to explain the wide variation in**
18 **RLEC switching costs and to evaluate the reasonableness of switching**
19 **costs?**

20 A. Yes. Kennebec has the highest switching cost per minute (cell H11 in Exhibit
21 WCC-5.2) because of very high switch investment per line [REDACTED] in cell B11)
22 and ACF [REDACTED] in cell C11). Alliance's switching costs are the lowest

¹⁴ \$ [REDACTED]

1 because of several factors – lower switch investment per line and somewhat
2 higher total and interoffice minutes per line.

3

4 Even without having sufficient documentation on the types of switching
5 equipment represented in the RLEC cost studies and details about the
6 calculation of total switch investments, it is apparent that switch investments
7 per line are high. Annual cost factors for Alliance, Beresford and Kennebec
8 are high. And, there is a fundamental question as to whether portions or all
9 switch processor costs are usage-sensitive, depending on the switch
10 technology.

11

12 **Cost Issue 1.1 – What switch investments (by switch category and exchange) should**
13 **be used in the RLEC cost studies?**

14 **Q. What factors contribute to the variance in switch investments per line**
15 **across the RLECs?**

16 A. It's possible to answer this question at a high level, given the limited
17 information provided by the RLECs about switching equipment and
18 investment. Exhibit WCC-5.3 shows total and per-line switch investments for
19 each RLEC exchange. Exchanges are shown separately for host switches and
20 what the RLECs refer to as “non-host switches.” Their reason for referring to
21 the latter as “non-host switches” rather than remotes is not clear. Within the
22 two groups, the exchanges are ranked in descending order by lines in service
23 (column C).

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

Alltel has not been provided details on the equipment items, capacities, quantities and unit equipment costs (*e.g.*, material prices) for the amounts shown in columns D, F, G and H. Consequently, it is not possible for Alltel or the Commission to verify that (1) investment amounts represent only switching equipment (rather than, for example, digital loop carrier system equipment), (2) quantities of equipment are efficient given their capacity versus expected demand, and (3) equipment costs are representative of those that would be incurred by the RLEC.

For host switches, the common investment per exchange (column D) ranges from \$ [REDACTED]. The investments decline in steps. Three of the exchanges serve as intermediate tandem switches (Brandon, Woonsocket and Bison). This is important for two reasons. First, the investments for these switches may be higher than other hosts of comparable size to provide tandem switch functions and additional trunks; and second, in the cases of Santel and West River, Alltel meet points with Qwest, which I understand is the transit provider for mobile-to-land traffic, are at switches other than Woonsocket and Bison. This means that incremental tandem switch investments for these RLECs are likely not direct costs of termination. If so, the tandem switch portion of investments should be removed.

1 Three of the host switches have lines in service of [REDACTED] lines or less. They
2 have high common investments, and their line interface and trunk card
3 investments remain constant.¹⁵ As a result, these host switches have high
4 switch investments per line (cells J13-J15), contributing to higher overall
5 RLEC switch investments per line (cells B11, B13 and B14 in Exhibit WCC-
6 5.2). It is important that the investment amounts reflect efficient utilization
7 levels, particularly for the line and trunk equipment, which are volume-
8 sensitive.

9
10 Similarly, there are a large number of non-host switches with small line sizes
11 ([REDACTED] lines or less). Common investment remains constant at [REDACTED] for
12 switches with [REDACTED] to [REDACTED] lines, then drops to [REDACTED]. Line interface and
13 trunk card investments remain almost constant across all exchanges, from
14 Crooks with [REDACTED] lines to Winfred with less than [REDACTED] the lines of Crooks.
15 As a result, non-host switch investments per line range from [REDACTED] at Crooks to
16 [REDACTED] at Winfred.

17
18 Alltel asked Kennebec, the RLEC with the highest overall switch investment
19 per line [REDACTED] in cell B11 of Exhibit WCC-5.2), whether there are other
20 available technologies or network configurations that would lower switch
21 investment per line. Kennebec indicated that the technology and network
22 configuration reflected in its cost study "is believed to be an economical

¹⁵ Woonsocket has additional trunk card investment because it serves as an intermediate tandem.

1 solution that would meet Kennebec's technical requirements and is currently
2 being deployed in similar circumstances." This is not sufficient evidence to
3 meet the FCC requirement that Kennebec "explain with specificity why and
4 how specific functions are necessary to provide network elements and how the
5 associated costs are developed," or that Kennebec "must prove to the state
6 commission the nature and magnitude of any forward-looking costs that it
7 seeks to recover in the prices of interconnection and unbundled network
8 elements." In other words, Kennebec should show that there are no
9 technically feasible alternatives but to spend [REDACTED] for common
10 equipment, line interfaces and line cards for a switch with [REDACTED] lines in
11 service.¹⁶

12
13 **Q. Should switch investments used in the RLEC cost studies be addressed by**
14 **the Commission as an issue?**

15 **A.** Yes. Switch investment amounts by switch category (common, line card, *etc.*)
16 and exchange affect each RLEC's total switch investment per line. This, in
17 turn, affects switching costs per minute in Exhibit WCC-5.2. The
18 Commission should decide switch investments by switch category and
19 exchange, if necessary. If the RLECs produce information describing the
20 development of switch investments, determining appropriate investments for
21 each exchange may be a matter of deciding proper values for the underlying
22 equipment costs and utilization levels used to calculate investments. The

¹⁶ [REDACTED] (Exhibit WCC-5.3, cells D15, G15 and H15)

1 RLECs, though, must first reveal the details of the switch investment
2 calculations.

3

4 **Q. Are there certain questions the Commission should consider in deciding**
5 **switch investments in compliance with FCC rules?**

6 A. Yes, the following questions are important:

- 7 • Are all components of switch investment indeed for switching equipment,
8 as opposed to DLC systems, interoffice transport systems or other? As I
9 have described, DLC investment is part of loop plant and not included in
10 transport and termination. Investment in interoffice transport systems
11 should be part of transport and not termination.
- 12 • Do switch investments include investment for tandem switching? If so,
13 does mobile-to-land traffic require RLEC tandem switching? If mobile-
14 to-land traffic does not require RLEC tandem switching, tandem switching
15 costs are not direct costs of transport and termination, and should be
16 removed.
- 17 • Are the quantities of equipment items included in switch investments sized
18 as efficiently as possible based on expected demand and the capacities of
19 equipment?
- 20 • Are equipment unit costs or material prices from valid sources and
21 representative of the current costs to purchase and install switching
22 equipment?

- 1 • Are there alternative technologies or network configurations that would be
2 more efficient, particularly for small host and “non-host switches?”
3 • Finally, are the “non-host switches” actually switches according to the
4 FCC definition of termination, as opposed to DLC terminals, remote loop
5 concentrators, *etc.*?

6 These questions underlie decisions with respect to Cost Issue 1.1.

7

8 **Q. Are there any other points before moving to the switching annual cost**
9 **factors?**

10 A. Yes, the determination of overall switch investments is important, but in a
11 sense it is “a means to an end.” The important factor affecting switching costs
12 and the transport and termination rate is the portion of switch investment and
13 costs that are caused by mobile-to-land traffic – the usage-sensitive costs of
14 switching or the “additional costs” of termination. The RLECs include in
15 termination the investment and costs in the common and trunk card categories.
16 After discussing the switching annual cost factor, I will describe the usage-
17 sensitive portion of switching plant.

18

19 **Cost Issue 1.2: What switching annual cost factors should be used?**

20 **Q. Are the switching annual cost factors used in the RLEC cost studies**
21 **reasonable?**

1 A. The switching annual cost factors are shown in Exhibit WCC-5.2, column C.
2 In the aggregate, the ACFs for McCook, Santel and West River are
3 reasonable. The ACFs for the other three RLECs are high.

4
5 **Q. Why do you consider the ACFs for Alliance, Beresford and Kennebec to**
6 **be high?**

7 A. Exhibit WCC-5.4 shows the components of the RLEC annual cost factors.
8 These include the capital cost factor, direct expense factor, other operating
9 expense factor and the loading for corporate operations expenses.¹⁷ Alliance's
10 annual cost factor (████ percent) is high due to a high other operating expense
11 factor and corporate operations expense loading. Beresford's ACF (████
12 percent) is somewhat high because of its direct expense factor and a high
13 corporate operations expense loading. Kennebec's ACF (████ percent) is
14 extraordinarily high due to its capital cost factor, direct expense factor and
15 other operating expense factor. Although McCook's overall ACF is
16 reasonable, its corporate operations expense loading is high.

17
18 **Q. Why is Kennebec's capital cost factor high?**

¹⁷ The first three factors are expense-to-investment ratios using expenses contained in the "Results Logic" spreadsheet of the FLEC model. The capital cost factor is based on "Direct Invest" costs for switching. The direct expense factor is based on "Direct Expenses" and includes expenses charged to account 6212. The other operating expense factor is based on "COE Invest" costs, "COE Expense," "Common Invest" costs, "Common Expense," "Plant Expense," "Marketing Whlsale," and "Cust Svc Whlsale." This factor includes expenses charged to multiple accounts. The corporate operations expense loading is based on the ratio of "Corp Op Expenses" to "Total" less "Corp Op Expenses."

1 A. The capital cost factor for computing depreciation, the cost of money and
2 income taxes is [REDACTED] percent for all RLECs, except Kennebec. Kennebec's
3 capital cost factor is [REDACTED] percent. Based on their FLEC models, RLECs other
4 than Kennebec do not pay income taxes, so their factors include only
5 depreciation and the cost of money. There are several general issues with the
6 capital cost factors, though, only Kennebec's factor is significantly affected.
7 These issues include the following:

- 8 • The RLECs assume no debt and 100 percent equity in their forward-
9 looking capital structures. In addition, they assume [REDACTED] percent as the
10 cost of equity. Without the lower cost debt in their capital mix, this causes
11 the costs of capital to be high. Kennebec's 2006 report to the Rural Utility
12 Service (RUS) indicated that it had [REDACTED] in long-term debt and
13 [REDACTED] in stockholders equity.¹⁸ This equates to a [REDACTED] percent debt
14 ratio. Almost the entire amount of long-term debt consisted of mortgage
15 notes to the RUS at interest rates of [REDACTED] and [REDACTED] percent. Also, at the end
16 of 2006, Kennebec was approved by the RUS for an additional [REDACTED]
17 million in long-term debt.¹⁹ The interest rate on this debt was not given.
- 18 • Kennebec pays income taxes, so its capital cost factor ([REDACTED] percent)
19 includes income taxes. By assuming no debt in its capital structure, there
20 are no interest deductions for tax purposes, and income taxes are inflated
21 relative to those Kennebec would pay with a mix of debt and equity
22 capital. In 2006, Kennebec actually had [REDACTED] in interest on debt,

¹⁸ "South Dakota 536 Kennebec," for years ended December 31, 2006 and 2005, p.4

1 which represented an expense deduction equal to [REDACTED] percent of its
2 operating income [REDACTED].²⁰

3 • Kennebec also defers income taxes through accelerated tax depreciation.
4 Deferred income taxes normally are used by telephone companies for
5 capital investment, thus reducing their need for investor-supplied capital
6 and lowering the cost of money. The method used by Kennebec to
7 compute the cost of money does not take this effect into consideration.

8
9 Given that the RLECs other than Kennebec do not pay income taxes, their
10 cost of capital factors would not be substantially affected by introducing some
11 debt in their forward-looking capital structures.²¹ Kennebec's capital cost
12 factor should be recomputed assuming a mix of debt and equity, in particular
13 to reduce the income tax component of the capital cost factor, and its cost of
14 money should be computed reflecting the benefits of deferred income taxes.
15 These adjustments are expected to reduce Kennebec's capital cost factor to
16 approximately [REDACTED] percent or less.²²

¹⁹ *id.*, p. 12.

²⁰ *id.*, p. 5.

²¹ For example, if the RLEC cost studies assumed a forward-looking debt ratio of 40 percent, a seven percent cost of debt and 12 percent cost of equity, the weighted average cost of capital would be 10 percent (40% X 7% + (1 - 40%) X 12%). The resulting switching capital cost factor based on the FLEC model methodology for the RLECs, other than Kennebec, would be [REDACTED] percent versus [REDACTED] percent in the studies. Kennebec's capital cost factor, before reflecting deferred income taxes, would be [REDACTED] percent versus [REDACTED] percent in its study.

²² The cost of money and income tax portions of Kennebec's capital cost factor of 17.2 percent (above) would be reduced by introducing forward-looking deferred income taxes. This change is expected to further reduce Kennebec's capital cost factor from [REDACTED] percent to [REDACTED] percent or less.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

Q. Why do the direct expense factors of Beresford and Kennebec appear to be high?

A. The direct expense factors for Alliance, McCook, Santel and West River range from [REDACTED] to [REDACTED] percent of switch investment. Having reviewed numerous financial statements of small and large telephone companies, I have found six percent to be the upper limit for a reasonable direct expense factor for switching. The factors for these RLECs fall below this upper limit. Beresford and Kennebec factors do not.

Switching direct expense factors should be based on the portion of expenses charge to account 6212 for maintenance and repair of switches. This account also may include charges for non-recurring rearrangements of switch equipment, including work to perform connections of lines for retail, local exchange service. The account also may include charges for non-recurring software expenditures that are expensed.

In response to an Alltel data request, Beresford indicated that the switching expense on which it based its factor ([REDACTED]) included [REDACTED] for a new release of switch software. This is 31 percent of switching expenses. Beresford also stated that “none of the software is believed to be used for retail services.”

1 The software expenditure is a non-recurring expense for a resource that will
2 be utilized over more than one year. Typically in cost studies, software
3 expenses are amortized over a period of years (often three years) to reflect
4 this. If the \$[REDACTED] is amortized over three years, Beresford's expense factor
5 would be based on \$[REDACTED]. This is [REDACTED] percent of
6 the original switching direct expense. Multiplying [REDACTED] percent times the
7 original factor of [REDACTED] percent (cell C8, Exhibit WCC-5.4) results in a factor of
8 [REDACTED] percent. [REDACTED] percent should be used as Beresford's direct expense factor
9 for switching.

10
11 Kennebec's switching direct expense factor ([REDACTED]) is too high to
12 represent just recurring maintenance and repair of a modern switch. It is more
13 than twice the level of factors for the other RLECs (range [REDACTED] percent).
14 Alltel requested account-level expense details for years 2005 to 2007 to
15 determine whether the 2006 expenses on which the Kennebec factor is based
16 were unusual. This information has not yet been provided. Unless Kennebec
17 can demonstrate that recurring switch maintenance and repair runs at [REDACTED]
18 percent of investment, it should use no more than a six percent factor in its
19 cost study.

20
21 **Q. Why are the other operating expense factors for Alliance and Kennebec**
22 **so much higher than the other RLECs?**

1 A. Alliance and Kennebec have significantly higher “common” plant capital
2 costs and operating expenses per dollar of switching investment than the other
3 RLECs. These include costs for motor vehicles, other work equipment,
4 common buildings, furniture, office equipment and general computers. These
5 costs reflect the RLECs’ *embedded* investments in these support assets, and
6 their investments in existing support assets are proportionately high compared
7 to those of Beresford, McCook, Santel and West River. Kennebec also has
8 much higher central office capital costs and operating expenses for land,
9 building, power and common central office equipment. Again, its embedded
10 investment in these assets is proportionately greater than the other RLECs.

11

12 **Q. What do you recommend for the switching other operating expense**
13 **factor?**

14 A. FCC rules require that this and other factors be forward-looking. Even though
15 the other operating expense factors of all the RLECs reflect embedded
16 investments, four of them have factors in the range of [REDACTED] percent. A
17 factor of six percent, therefore, seems reasonable, certainly on a forward-
18 looking basis.

19

20 **Q. What is a reasonable value for the corporate operations expense loading?**

21 A. FCC Rule §51.51.505(a) permits forward-looking economic costs to include
22 “a reasonable allocation of forward-looking common costs.” In section
23 51.505(c) these costs are defined as “economic costs efficiently incurred in

1 providing a group of elements or services (which may include all elements or
2 services provided by the incumbent LEC) that cannot be attributed directly to
3 individual elements or services.”

4
5 Some of the RLEC common costs are included in other operating expenses;
6 *i.e.*, capital costs and operating expenses for “common” plant (motor vehicles,
7 other work equipment, common buildings, *etc.* The remaining common costs
8 are in corporate operations expenses.²³ I have shown these expenses as a
9 loading factor in Exhibit WCC-5.4 that is multiplied times the sum of the
10 capital cost, direct expense and other operating expense factors. These
11 loadings range from █████ percent to █████ percent.

12
13 In the most recent arbitration to address this issue, in which I have been
14 involved, the Arbitrator for the California Public Utilities Commission
15 adopted a common cost loading of 10.4 percent. This is the default input
16 value in the HAI 5.3 model, which was used by the RLECs in that case to
17 produce their transport and termination cost studies.²⁴ The corporate
18 operations expense loadings for Santel and West River are in line with 10.4
19 percent. Exhibit WCC-5.4 shows their loadings to be █████ and █████ percent

²³ Corporate operations expenses are those expenses charged to accounts 6710 – Executive & Planning and 6720 – General & Administrative.

²⁴ “Draft Arbitrator’s Report (DAR),” California PUC, Docket A.06-02-028 et al., March 8, 2007, p. 10, “Respondents’ position that the HAI default value of 10.4% should be used is adopted.” The Respondents were Cingular Wireless (AT&T Mobility) and T-Mobile USA.

1 (cells E11 and E12). The loadings for the four other RLECs are well above
2 10.4 percent (██████████percent).

3

4 **Q. What do you recommend for the corporate operations expense loading?**

5 A. The loading should be limited to 12 percent. This is greater than the loadings
6 for Santel and West River, which also had capital cost, direct expense and
7 other operating expense factors at or below my other recommendations.
8 Otherwise, the RLECs must prove that loadings greater than 12 percent are
9 necessary for costs that are (1) indeed common to all network elements and
10 services and (2) efficiently incurred.

11

12 **Q. What is your recommendation with regard to switching annual cost**
13 **factors used in the RLEC cost studies?**

14 A. McCook, Santel and West River should use their current factors shown in
15 Exhibit WCC-5.4. They range from ██████ to ██████percent. The other three
16 RLECs should use an ACF of 31 percent. This allows 15 percent for capital
17 costs, six percent for direct expenses, six percent for other operating expenses
18 and a corporate operations expense loading of twelve percent.²⁵

19

20 **Cost Issue 1.3: What percentage or portion of the switch investments is usage-**
21 **sensitive and recoverable in transport and termination rates?**

²⁵ 31 percent is approximately (15% capital costs + 6% direct expenses + 6% other operating expenses) X (1 + 12% corporate operations expense loading).

1 **Q. What portion of switch investments do the RLECs include in transport**
2 **and termination costs?**

3 A. The RLECs include investments in the common and trunk card categories of
4 switch plant. The percentages of switch investment represented by these
5 categories are shown in Exhibit WCC-5.2, columns D and E. The combined
6 percentages range from [REDACTED] percent for Alliance to [REDACTED] percent for
7 Kennebec.

8
9 **Q. Have the RLECs explained the rationale for including these common and**
10 **trunk card investments in transport and termination?**

11 A. No, presumably it is because they consider line interface and line card
12 investments to be *non-usage sensitive*, and therefore not part of the “additional
13 costs” of terminating mobile-to-land traffic, while they consider common and
14 trunk card plant to be *usage-sensitive*.

15
16 **Q. What does it mean to say that a category of switch plant is usage-**
17 **sensitive?**

18 A. It means that the amount of investment in the plant is affected by usage – that
19 is, the volume of calls or minutes of use handled by the plant. Components of
20 switch plant may have limited capacity depending on the manufacturer’s
21 design and provisioning of the components. Line cards are considered to have
22 limits in terms of the number of subscriber lines that they can terminate.
23 Trunk cards have capacity limits in terms of the number of voice trunks that

1 they can terminate.²⁶ As demand for lines and voice trunks increase,
2 additional capacity and investment are required. Consequently, the
3 investment in these switch components is volume-sensitive. Line card
4 investment is sensitive to the volume of lines, irrespective of the usage on the
5 lines. Trunk card investment is sensitive to the volume of voice trunks, which
6 are affected by the amount of interoffice traffic (interoffice minutes of use).

7
8 **Q. So, do you agree with the RLECs exclusion of line card (and line**
9 **interface) investment and inclusion of trunk card investment in transport**
10 **and termination costs?**

11 A. As I stated previously, the RLECs have provided little information about the
12 switch technology, switch equipment configurations and capacities reflected
13 in their cost studies. Nevertheless, the exclusion of the two line investment
14 categories and inclusion of trunk card investment is reasonable.

15
16 **Q. Do you agree with including switch common investments in transport and**
17 **termination costs?**

18 A. This depends on whether switch common investments for the technology
19 reflected in the RLEC cost studies are indeed driven by usage – total peak or
20 busy hour call attempts or minutes of use given the relevant range of forward
21 looking demand for each switch. If they are not, then there are “no additional
22 costs” caused by handling mobile-to-land traffic, and the portion of switch

²⁶ Voice trunks are limited, in turn, by the number of peak or busy hour (BH) minutes of use that they can carry. Thus, trunk cards are usage-sensitive.

1 investments represented by common switch equipment, or the “switch
2 processor,” shown in column D of Exhibit WCC-5.2 should be removed from
3 the determination of termination costs.

4

5 **Q. Did Alltel request information to evaluate the capacities of common**
6 **switch plant and whether the utilization levels of the RLECs might**
7 **exhaust this plant?**

8 A. Yes. Alltel requested in its interrogatories vendor or other documentation
9 describing the engineering of “switch processor” hardware and software
10 components (the common category). The request asked for information on
11 whether components are volume-sensitive, whether usage is the capacity
12 driver, what the maximum usage capacity is, and the utilization expected by
13 the RLECs (to determine whether exhaust might occur).

14

15 **Q. Did the RLECs provide sufficient information in response to Alltel’s**
16 **request?**

17 A. No. Beresford is perhaps the simplest situation, since it has one switch with a
18 total investment of [REDACTED] (WCC-5.3, cells D8, F8, G8 and H8). Of this
19 investment, [REDACTED] is for common equipment or the “switch processor.”

20 Beresford stated the following in its response to Alltel’s interrogatory:

21

22 (a) The capacity of the switch processor components is volume-
23 sensitive.

24 (b) Multiple volume-sensitive variables may be limiting factors
25 that can exhaust the capacity of the switch processor function.

1 These variables include concurrent calls and Busy Hour Call
2 Attempts (BHCA).

3 (c) Softswitching technologies as assumed for this network utilize
4 distributed processing that increases processing capabilities as
5 demand increases. For the host site, [REDACTED] to [REDACTED] concurrent calls
6 can be processed depending on traffic patterns. This capacity can
7 be increased with additional investment.

8 (d) Each of the components are utilized in the FLEC model.²⁷
9

10 Beresford has a total of [REDACTED] lines in service. Based on its statement in
11 paragraph item (c) all or most of its subscribers would have to be placing or
12 receiving at the same time to exhaust the switch processor. This seems highly
13 unlikely. Beresford's response in item (d) was to the question, what is "the
14 utilization of the component (switch processor components) for each RLEC
15 inherent in its FLEC Model." The question was asking what portion of switch
16 processor capacity is expected to be used by Beresford's [REDACTED] lines in
17 service. Beresford's response did not address the question.
18

19 **Q. Is the situation similar for other RLEC switches?**

20 A. Yes. Exhibit WCC-5.3 (column D) shows that there are [REDACTED] other host
21 switches (out of a total of [REDACTED] hosts) that have lines in service less than
22 Beresford. The RLECs all stated that host switches could handle [REDACTED] to
23 [REDACTED] concurrent calls. Recall that Kennebec has the highest switch
24 investment per line. Its Kennebec host has [REDACTED] lines in service, with a switch
25 processor capable of handling at least [REDACTED] concurrent calls.
26

²⁷ "Beresford Municipal Telephone Company's Responses to Alltel's Interrogatories and Requests for Production of Documents," Docket No. TC 07-113, February 29, 2008, pp. 4-5.

1 The situation is likely similar for the “non-host switches” shown in Exhibit
2 WCC-5.3. The RLEC responses to Alltel’s interrogatory indicated that
3 remote sites can handle [REDACTED] to [REDACTED] concurrent calls depending on traffic
4 patterns. [REDACTED] remote sites have a constant [REDACTED] common
5 investment and lines in service ranging from only [REDACTED] lines.

6
7 **Q. Based on this information, does it appear that usage exhausts the capacity**
8 **of the RLEC switch processors, such that there are additional costs**
9 **caused by usage?**

10 A. No, not based on the limited information provided by the RLECs.

11
12 **Q. Have other regulators excluded investments and costs from transport and**
13 **termination rates similar to those in the RLEC common or switch**
14 **processor category?**

15 A. Yes, in recent arbitrations in California and Missouri in which I was the
16 wireless carriers’ cost expert the Arbitrators found that only trunk card
17 investment and costs are usage-sensitive and should be recovered in transport
18 and termination rates. In the current arbitration before the North Carolina
19 Utilities Commission, the Commission in its pending Recommended
20 Arbitration Order has maintained its previous position with respect to
21 Bellsouth switching costs, that usage-sensitive switching investment includes
22 equipment comparable to the RLECs common and trunk card categories.
23 However, the NCUC required the RLECs to determine their actual usage-

1 sensitive percentages based on their continuing property records, and these
2 percentages are significantly below those of the RLECs in this arbitration.
3 The FCC Common Carrier Bureau and other State commissions have also
4 found that little, or no, switching investment is usage-sensitive.²⁸

5
6 **Q. What is your recommendation for the percentage or portion of switch**
7 **investments that are usage-sensitive and recoverable in transport and**
8 **termination rates?**

9 A. RLEC trunk card investment per line should be used as the usage-sensitive
10 investments for the RLECs. This is after any adjustments required in trunk
11 card investment per Cost Issue 1.1. Otherwise, the RLECs must produce
12 evidence to prove that the capacities of the equipment components included in
13 the switch common category are exhaustible by expected usage demand for
14 each of the switches shown in Exhibit WCC-5.3.

15
16 **Q. What are the RLEC switching costs with only trunk card investment and**
17 **costs included?**

²⁸ California: "Draft Arbitrator's Report," California PUC, Docket No. A.06-020028 *et al.*, March 8, 2007. Missouri: *BPS Telephone Company/Cingular Wireless/T-Mobile Arbitration Order*, Case No. TO-2006-1047, March 23, 2006. FCC Common Carrier Bureau: *Virginia Arbitration Cost Order*, 18 FCC Rcd at 17722, 17871 n.988 (2003), 17903-04 ¶463, 17877-78 ¶391, and 17904 ¶465. Minnesota Public Utilities Commission: *Investigation into Reciprocal Compensation Rates*, Docket No. P-421/CI-03-384, 2003 Minn. PUC LEXIS 99 (Sept. 24, 2003) *See also id.*, 2003 Minn. PUC LEXIS 144 (Dec. 24, 2003). Illinois: *Hamilton County Telephone Co-op/Verizon Wireless Arbitration Order*, Docket 05-644 *et. al.*, at 38, 2006I11, PUC LEXIS 5 *94-95 (Jan. 25, 2006) North Carolina: "Order Adopting Permanent Unbundled Network Element Rates for Bellsouth Telecommunications, Inc.," Docket No. P-100, Sub 133d, December 30, 2003, pp. 91-97.

1 A. Exhibit WCC-5.5 shows these costs. The ACFs for Alliance, Beresford and
2 Kennebec also have been set at 31 percent. Switching costs per minute range
3 from [REDACTED] to [REDACTED] per minute. Assuming the RLECs offer no
4 substantive proof that the switch technology and capacities reflected in their
5 cost studies are exhausted by the RLECs' expected levels of usage, these costs
6 are consistent with FCC's position that I quoted earlier that "usage-based
7 charges should be limited to situations where costs are usage sensitive."

8

9 **Cost Issue 1.4: What annual minutes per trunk card should be used?**

10 **Q. Is there an issue with the minutes of use in the RLEC switching cost**
11 **calculations?**

12 A. Exhibit WCC-5.2 shows that RLEC annual switched minutes per line range
13 from approximately [REDACTED] minutes. This is quite a wide range for
14 what are likely similarly situated companies. The RLEC cost studies do not
15 provide information that would show the underlying reasons for such
16 differences.

17

18 Nevertheless, if the Commission decides Cost Issue 1.3 as recommended by
19 Alltel – that is, include only trunk card investment and costs in the studies –
20 then the important measure is the number of annual minutes per switch trunk
21 card, rather than per line. Later, in describing the RLECs' transport
22 electronics cost calculations, I will show that the minutes per voice trunk
23 reflected in the studies are low and do not represent efficient utilization.

1 Therefore, instead of using switch trunk investment per line and minutes per
2 line as shown in Exhibit WCC-5.2, the calculations should simply be modified
3 to use switch trunk investment per trunk and the minutes per trunk that I
4 recommend for transport. These minutes are provided in the recommendation
5 for Cost Issue 2.6.

6
7 **Cost Issue 1.5: What are the forward-looking economic costs per minute for**
8 **switching?**

9 **Q. If the Commission adopts your recommendations for Cost Issues 1.1-1.4,**
10 **what do you expect switching costs per minute will be?**

11 A. As shown in Exhibit WCC-5.5, the forward-looking economic costs for
12 switching for the RLECs will be \$[REDACTED] per minute or less, or no more than
13 [REDACTED] cent per minute. I expect these costs to be somewhat lower when
14 adjusted for efficient levels of annual minutes per voice trunk per Cost Issue
15 2.6. If the Commission decides not to adopt one or more of the
16 recommendations, the RLEC switching costs still can be modified
17 accordingly, either by re-running the FLEC model or simply substituting
18 appropriate values for the key cost data shown in Exhibit WCC-5.5.

19
20 **TRANSPORT ELECTRONICS COSTS**

21 **Q. What are transport electronics costs?**

22 A. Transport electronics includes transmission equipment located in RLEC
23 central offices used to add circuits to a SONET fiber ring or to drop circuits

1 from the ring.²⁹ The SONET fiber ring is used for interexchange transport of
2 voice trunks and special circuits. Transport electronics also include
3 transmission equipment used to pass circuits through the ring. The RLECs
4 divide this equipment among three categories – *base*, *line* and *tributary*. The
5 cost studies assume an OC-192 transport system in the future for inter-
6 exchange transport

7
8 Base equipment includes the SONET equipment chassis, timing and
9 synchronization cards, switch fabric cards, processor cards, power supplies,
10 cooling fan assemblies and other equipment necessary to establish a network
11 node on a SONET ring.³⁰ Line equipment includes OC-192 circuit interface
12 cards and associated miscellaneous materials that provide an optical
13 connection with interoffice fiber cables and provide for transmission through
14 the ring. Tributary equipment includes circuit interface cards used to provide
15 “ports” for adding and dropping interoffice circuits at network nodes.
16 Transport electronics costs include the capital costs (depreciation, cost of
17 money, and income taxes, if applicable to the RLEC) and operating expenses
18 associated with this plant.

19
20 **Q. What values were computed by the RLECs for transport electronics**
21 **costs?**

²⁹ SONET – Synchronous optical network.

³⁰ The RLECs described the transmission equipment included in each category in response to Alltel interrogatories.

1 A. RLEC transport electronics costs are shown in Exhibit WCC-4. They range
2 from [REDACTED] per minute, or approximately [REDACTED] cents per
3 minute. Kennebec had the highest cost and Alliance the lowest cost.
4

5 **Q. How were these costs calculated?**

6 A. Exhibit WCC-6.1 replicates the RLEC calculations of transport electronics in
7 terms of key cost data based on the following equation:
8

9
$$\text{Cost/minute} = \text{Transport electronics investment/path} \times \text{annual cost}$$

10
$$\text{factor (ACF) / minutes/voice trunk}$$

11

12 In this equation, the RLEC's investment in transport electronics equipment
13 per path is multiplied times an annual cost factor. This determines the annual
14 costs per path. A "path" as used in the RLEC cost studies is one transport
15 circuit, irrespective of the circuit bandwidth. The use of paths as the measure
16 of transport demand is an important issue, and I later discuss this in more
17 detail. The annual costs per path are divided by annual minutes per voice
18 trunk to compute the per-minute cost.
19

20 As shown in the second equation in Exhibit WCC-6.1, the transport
21 electronics investment per path includes unit investments in the base, line and
22 tributary equipment. The third equation shows that the annual cost factor
23 includes capital costs, direct expenses (for transmission equipment

1 maintenance and repair), other operating expenses and a loading for corporate
2 operations expenses.³¹

3
4 The table in Exhibit WCC-6.1 contains values for the key cost data reflected
5 in the RLEC cost studies. By comparing these data across the RLECs,
6 reasons for differences in transport electronics costs can be identified. For
7 example, Beresford has very high unit investments (cells B13-E13) compared
8 to other RLECs, while Alliance's unit investments (cells B12-E12) are
9 substantially lower than others. As a result, Beresford has the second highest
10 transport electronics cost per minute, while Alliance has the lowest.

11
12 **Q. Please describe the calculations of transport electronics costs for**
13 **Kennebec and Alliance – the RLECs with the highest and lowest costs.**

14 A. Kennebec and Alliance costs per minutes are calculated as follows:

15
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]

20
21 Kennebec's transport electronics cost per minute is the highest among the
22 RLECs due to its extraordinarily high annual cost factor ([REDACTED] in cell J14).

³¹ Other operating expenses include the following expenses in the FLEC model's "Results Logic" spreadsheet: COE investment costs, COE expenses, Plant expenses, Marketing Wholesale expenses and Customer Services Wholesale expenses.

1 This is just one issue underlying the RLEC transport electronics costs. Unit
2 investments for base, line and tributary equipment (columns B, C and D) are
3 overstated for all RLECs and do not comply with FCC Rule §51.511.
4 Components of the annual cost factors of some RLECs (columns F-I) are too
5 high and inconsistent with FCC Rule §51.505. And, the minutes per voice
6 trunk are too low for all RLECs. The minutes per trunk do not represent
7 efficient utilization as required by FCC Rule §51.505. As result, the transport
8 electronics costs per minute for all RLECs are much too high
9

10 **Cost Issue 2.1: What transport electronics base, line and tributary investments**
11 **should be used in the RLEC cost studies?**

12 **Q. How were the base, line and tributary investments per path determined?**

13 A. The RLECs have not produced adequate documentation to explain the
14 development of transport electronics investments. Alltel asked that each
15 RLEC provide the complete cost models, cost schedules, work papers or other
16 documentation underlying transport electronics investment by exchange and
17 for the three equipment categories. The RLECs were asked to show the
18 composition of investment in terms of equipment items, quantities and unit
19 investments, and the basis for equipment quantities in terms of total demand
20 and the engineering parameters used to determine quantities needed to serve
21 total demand. This information has not yet been provided.
22

1 Investments per path were determined based on high-level information in
2 RLEC cost study documentation, the FLEC models and responses to other
3 Alltel interrogatories. Exhibit WCC-6.2 shows the calculation of the unit
4 investments for each company. Rows 6-12 show the total investments in base,
5 line and tributary equipment; rows 16-23 show the path quantities; and, rows
6 27-33 show the unit investments.

7
8 For example, Alliance has six local exchanges with a switch in each, plus its
9 cost study assumes it will place transport electronics at a South Dakota
10 Network (SDN) location in Sioux Falls. This totals seven “exchanges” where
11 transport electronics equipment is placed by Alliance. The investment
12 necessary for base equipment at a network node – the equipment chassis,
13 timing and synchronization cards, switch fabric cards, *etc.* – is [REDACTED].³²
14 This results in [REDACTED] in base equipment investment ([REDACTED] in cell
15 D7 of Exhibit WCC-6.2). The investment necessary for line equipment at a
16 network node is [REDACTED].³³ The FLEC model includes [REDACTED] in line
17 equipment investment ([REDACTED] in cell F7).

18
19 The derivation of the FLEC model’s tributary investment is not at all clear. It
20 varies by exchange possibly depending on the number of DS-1 and DS-3 ports

³² The cost study documentation does not identify the equipment items, quantities and unit investments underlying the \$[REDACTED] investment figure.

³³ Cost study documentation does not identify equipment items, quantities and unit investments. Importantly, the documentation does not identify the equipped capacity of the OC-192 transport system so that its utilization can be evaluated.

1 required at each location. Alliance's tributary investment is shown in Exhibit
2 WCC-6.2 as [REDACTED] (cell G7). The calculation of tributary investment for
3 the other RLECs also is unclear.

4
5 Alliance's investments in base, line and tributary equipment (cells D7, F7 and
6 G7) are divided by [REDACTED] paths (cell G18) to calculate the three investments
7 per path. The total paths consist of [REDACTED] voice trunks (cell B18) and [REDACTED]
8 special circuits (cells C-18 through F18). Alltel requested a breakdown of the
9 special circuits, and Alliance indicated these include [REDACTED]
10 [REDACTED]. This information will be important later in calculating unit
11 investments on the basis of equivalent DS-1 circuits, instead of paths. The
12 resulting base, line and tributary investments per path are \$ [REDACTED]
13 respectively (cells B28-D28). The sum of these is [REDACTED] in transport electronics
14 investment per path.

15
16 **Q. Were unit investments for the other five RLECs determined in the same**
17 **way?**

18 A. The simple division of base, line and tributary investments (columns D, F and
19 G) by paths is the same, but the RLEC estimates of the investment amounts
20 are different.

- 21 • *Beresford*. Beresford has one exchange and one switch. Its FLEC model
22 includes unexplained base, line and tributary investments of [REDACTED]
23 [REDACTED], respectively. Since Beresford has only [REDACTED] paths

1 in service (cell G19), this results in extraordinarily high unit investments
2 (cells B29-E29). It is very important to understand the basis for
3 Beresford's investment amounts.

- 4 • *Kennebec*. Kennebec has two exchanges and a switch in each. The FLEC
5 model includes base and line investment for each exchange at [REDACTED]
6 [REDACTED], respectively. Unlike Alliance and Beresford, there are no
7 additional base or line investments for SDN nodes.
- 8 • *McCook*. McCook has six exchanges and a switch in each. The FLEC
9 model includes base and line investment for each exchange at the same
10 [REDACTED], respectively. The same investment amounts also are
11 included for the "Salem Hut," which is not identified as a McCook switch,
12 but based on its network diagram appears to be the physical location for
13 meet points with SDN and Qwest.
- 14 • *Santel*. Santel has ten exchanges and a switch in each. The FLEC model
15 includes base and line investments for the ten exchanges. However, it also
16 adds an additional [REDACTED] in base investment and [REDACTED] in line
17 investment for the Mt. Vernon/SDN network node. Alltel mobile-to-land
18 traffic is passed from Qwest at a meet point other from Mt. Vernon/SDN;
19 therefore, portions of the Mt. Vernon/SDN transport electronics
20 investment likely should be removed from transport and termination costs.
- 21 • *West River*. West River has eight exchanges and a switch in each. The
22 FLEC model includes base and line investments based on the same per-
23 exchange investments as the other RLECs. In addition, it includes base

1 and line investments for three other network nodes (Maurine, Regen Hut
2 and Reva) and for the Bison/SDN node. The Qwest meet point (for Alltel
3 mobile-to-land traffic) is at Maurine, so portions of the investments at
4 Regen Hut, Reva and the Bison/SDN node likely should be removed from
5 transport and termination costs.

6
7 **Q. Should the Commission decide amounts for transport electronics base,**
8 **line and tributary investments for each RLEC?**

9 A. Yes. Exhibits WCC-6.1 and 6.2 show that base, line and tributary investment
10 estimates are very important in the determination of transport electronics costs
11 and ultimately transport and termination rates. There is a wide variation in
12 unit investments among the RLECs. The fact that the investments are not
13 adequately documented is an issue. In addition, there likely are issues with
14 the dollar amounts of transport electronics investment included in the RLEC
15 cost studies, such as the inclusion of transport electronics investment that may
16 not be utilized for transport and termination of mobile-to-land traffic and
17 utilization levels underlying equipment quantities.

18
19 The Commission should require that adequate documentation be produced to
20 evaluate transport electronics investments by exchange and by equipment
21 category and then appropriate values be should be determined for the amounts
22 in columns D, F and G of Exhibit WCC-6.2.

1 **Cost Issue 2.2: Should forward-looking economic costs per unit be based on total**
2 **equivalent DS-1 circuits?**

3 **Q. Please further describe the RLEC path quantities?**

4 A. A “path” is one interoffice circuit, regardless of the bandwidth of the circuit.
5 A path may be one voice trunk, which is a 64 Kbps channel in a DS-1 circuit;
6 or, it may be a special circuit, which is a dedicated transport circuit between
7 two wire centers. Special circuits have varying bandwidths including DS-0
8 level, DS-1, DS-3 and OC-3. A DS-1 equals 24 DS-0 circuits; a DS-3 equals
9 28 DS-1s; and, an OC-3 equals 84 DS-1s.

10

11 **Q. Please give an example of how paths are determined.**

12 A. As shown in Exhibit WCC-6.2, Alliance has [REDACTED] voice trunks (cell B18).
13 This includes trunks for toll service, Extended Area Service (EAS), operator
14 services, 911 and others. Alliance counts these as [REDACTED] paths on its transport
15 system. Alliance also had [REDACTED] special circuits – [REDACTED]
16 [REDACTED] (cells C18-E18). Each of these is counted as one
17 path. The result is a total of [REDACTED] paths (cellG18).

18

19 **Q. Why is the measure of demand for interoffice transport important?**

20 A. The measure of demand affects forward-looking economic costs per unit and
21 ultimately the transport and termination rates charged by the RLECs. FCC
22 Rule §51.511 specifies the method for computing forward-looking economic
23 costs per unit.

1
2 The forward-looking economic cost per unit of an element equals
3 the forward-looking economic cost of the element, as defined in
4 Sec. 51.505, divided by a reasonable projection of the sum of the
5 total number of units of the element that the incumbent LEC is
6 likely to provide to requesting telecommunications carriers and the
7 total number of units of the element that the incumbent LEC is
8 likely to use in offering its own services, during a reasonable
9 measuring period.
10

11 The capacity and investment in transport electronics equipment are
12 determined not just by the quantity of circuits, but also their bandwidth.
13 Exhibit WCC-6.3 shows three types of circuit interface cards used by Alltel.
14 The investment in this equipment would be included in tributary investment.
15

16 The first card (row 7) provides capacity to add or drop 28 DS-1 circuits to a
17 fiber ring. The DS-1 circuits may be providing a single special circuit or up to
18 24 DS-0 special circuits or voice trunks. Each DS-1 consumes $1/28^{\text{th}}$ of the
19 card capacity, and each voice trunk consumes $1/672^{\text{nd}}$ of capacity ($1 / 28 \text{ DS-}$
20 $1\text{s} \times 24 \text{ DS-0s/DS-1}$). As a result, unit investments are [REDACTED] for a DS-1
21 (cell H7) and [REDACTED] for a voice trunk (cell G7). Measuring circuit interface
22 card demand in terms of paths regardless of bandwidth fails to recognize this
23 important difference in unit investments.
24

25 In addition, circuit quantities and bandwidth determine the capacity
26 consumption of base and line equipment and therefore their unit investments.
27 For example, a 28 port DS-1 card consumes one slot on a transport system
28 shelf. Each DS-1 circuit causes $1/28^{\text{th}}$ of the per-slot investment in the shelf

1 and related equipment. A voice trunk causes 1/672nd of the per-slot
2 investment. Measuring base and line equipment unit investments strictly in
3 terms of the quantity of circuits or paths also fails to recognize the influence
4 of bandwidth on these investments.

5
6 **Q. What proportions of transport electronics investment were allocated to**
7 **voice trunks versus special circuits based on paths?**

8 A. Exhibit WCC-6.2 shows that [REDACTED] to [REDACTED] percent of transport electronics
9 investment was allocated to voice trunks (cells H18-H23) using the path
10 method, and only [REDACTED] to [REDACTED] percent of investment allocated to special circuits.
11 This means that voice trunks, carrying Alltel's mobile-to-land traffic, have
12 been allocated an inordinate amount of investment, causing the transport
13 electronics cost per minute to be high.

14
15 **Q. How should forward-looking economic costs per unit be calculated for**
16 **transport electronics?**

17 A. There are two approaches. The first is to determine unit investments for base,
18 line and tributary equipment based on the proper measure of capacity
19 consumption for each. The second is to use the method inherent in the RLEC
20 FLEC model, but instead of paths, the measure should be equivalent DS-1
21 circuits in service.³⁴

³⁴ The term "equivalent" is used to indicate that the quantity of DS-0, DS-3 or higher bandwidth circuits would be expressed in terms of the equivalent number of DS-1 circuits. A DS-0 circuit would be equivalent to 1/24th of a DS-1; a DS-3 would be equivalent to 28 DS-1s; and, an OC-3 would be equivalent to 84 DS-1s.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

Q. Please briefly describe the first approach.

A. This approach recognizes that the transport electronics equipment categories – base, line and tributary – have somewhat different measures of capacity consumption and cost causation. In my experience, the base and line equipment are grouped together as “common equipment” for the transport system. This common equipment supports the tributary equipment installed at the network node and interfaces to the transport system. The equipment includes one or more shelves in which circuit interface cards are inserted in slots on the shelves. Shelf slots are limited and are used as the measure of capacity consumption for common equipment. Tributary equipment represents the circuit interface cards used to add or drop circuits of various bandwidths. Their capacity is determined by the number of ports or circuits of a particular bandwidth that can be terminated on a card.

Q. Will the transport electronics unit investments for voice trunks using this approach be higher or lower than the unit investments in the RLEC cost studies?

A. The revised unit investments for voice trunks will be significantly lower.

Q. Did Alltel request information that would permit unit investments for transport electronics to be calculated using this approach?

1 A. Yes. In addition to the request for cost models, work papers, *etc.* used to
2 develop transport electronics investments, Alltel asked for information on the
3 capacity of plug-ins (tributary circuit interface cards) and common equipment
4 (base and line equipment) consumed by circuits of various bandwidths.
5 Information also was requested on expected utilization of the OC-192
6 transport system, and current utilization levels in terms of voice trunks per
7 DS-1 circuit and annual minutes per voice trunk. This information has not
8 been provided. Had the information been provided, it would be possible to
9 compute unit investments using the approach I described.

10

11 **Q. Please describe the second approach for computing transport electronics**
12 **unit investments.**

13 A. In the second approach, the unit investments for base, line and tributary
14 equipment shown in Exhibit WCC-6.1 would be computed using the quantity
15 of DS-1s and equivalent DS-1s in service on the transport system, rather than
16 paths. The resulting unit investment per DS-1 would be divided by the
17 quantity of voice trunks per DS-1 to determine the unit investments now
18 shown in columns B – D of Exhibit WCC-6.1.

19

20 Tributary equipment for the transport system is capable of adding or dropping
21 DS-1, DS-3 and higher bandwidth circuits.³⁵ Thus, the minimum bandwidth
22 for a physical termination is a DS-1 circuit. Voice trunks actually are

³⁵ The RLEC cost studies do not show any circuits with bandwidth greater than DS-3.

1 combined on a DS-1 circuit and would not have physical terminations on the
2 transport system. Once the unit investment of a DS-1 circuit is determined,
3 the unit investment of a voice trunk is calculated by dividing the DS-1 unit
4 investment by the quantity of voice trunks per DS-1, reflecting efficient
5 utilization.

6
7 Using equivalent DS-1 circuits as the measure of transport electronics demand
8 provides a better indication of capacity consumption and cost causation than
9 using paths.

10
11 **Q. Please give an example of this approach.**

12 A. Beresford indicated that it has [REDACTED] voice trunks (Exhibit WCC-6.2, cell B19).
13 In its cost study documentation, Beresford showed that these voice trunks are
14 carried on [REDACTED] DS-1 circuits.³⁶ This means there would be [REDACTED] DS-1
15 circuits on the transport system required for voice trunks. In addition,
16 Beresford has [REDACTED] DS-0 special circuits. These presumably would be
17 combined on a DS-1 circuit. Beresford has [REDACTED] DS-1 special circuits. [REDACTED]

18 [REDACTED]
19
20 Consequently, Beresford's total demand (excluding transit circuits) is
21 approximately [REDACTED] This is the proper measure of total demand to use in

³⁶ [REDACTED] voice trunks are carried on [REDACTED] DS-1 toll circuits to SDN; [REDACTED] voice trunks on [REDACTED]
DS-1 toll circuit to Qwest; [REDACTED] voice trunks on [REDACTED] DS-1 EAS circuit; and [REDACTED] voice trunks on
[REDACTED] DS-1 for other trunks.

1 computing Beresford's transport electronics costs. Beresford's current
2 transport system also is carrying an additional [REDACTED]transiting circuits.³⁷ These
3 transit circuits also consume capacity on Beresford's base and line equipment
4 and should be included in the calculation of unit investments.

5
6 Using the second approach, Beresford's transport electronics unit investment
7 per DS-1 would be [REDACTED] from Exhibit WCC-6.2, cell H8
8 divided by [REDACTED] DS-1s). The unit investment per voice trunk would be [REDACTED]
9 versus the cost study value of [REDACTED] based on the "path" method (cell E29).³⁸
10 Before other corrections to Beresford's cost study, this reduces transport
11 electronics cost per minute from [REDACTED] to [REDACTED]

12
13 Beresford's [REDACTED] in transport electronics investment includes [REDACTED] in
14 base equipment and [REDACTED] in line equipment (Exhibit WCC-6.2 cells D8
15 and F8). If this equipment is being utilized to transport Beresford's [REDACTED] DS-1s
16 and [REDACTED] transiting circuits, its unit investment per voice trunk may be
17 substantially lower than [REDACTED] resulting in a cost per minute lower than

18 [REDACTED]

19
20 **Q. What is the effect of using equivalent DS-1s to compute transport**
21 **electronics costs for the other RLECs?**

³⁷ Alltel asked in interrogatories for Beresford to specify the bandwidth of the [REDACTED]transiting circuits. Beresford has not provided this information.

1 A. Exhibit WCC-6.4 computes transport electronics costs per minute using DS-1
2 equivalents rather than paths. The range of costs is [REDACTED] per
3 minute, or [REDACTED] cents per minute. This compares to a range of
4 [REDACTED] cents per minute in the RLEC cost studies.

5
6 **Cost Issue 2.3: Should transit circuits be included in total demand for transport?**

7 **Q. Please describe the issue of whether transit circuits should be included in**
8 **total demand?**

9 A. Beresford, Kennebec, McCook and West River indicated in their cost study
10 documentation that their transport systems carry circuits for other carriers –
11 transit circuits.³⁹ These transit circuits would be part of the total demand
12 utilizing at least the base and line equipment of transport electronics.
13 However, the RLEC cost studies do not include transit circuits in the path
14 counts or allocate any transport electronics investment to transit circuits. This
15 is inconsistent with §51.511. It's also inconsistent with cost method used by
16 the RLECs to compute transport outside plant costs.

17

38 [REDACTED]

39 [REDACTED]

[REDACTED] If these RLECs have transit circuits, the quantities and bandwidths
of transit circuits should be provided to Alltel and reflected in revised cost studies depending
on the Commission's decision on Cost Issue 2.3.

1 **Q. How is this inconsistent with the calculation of transport outside plant**
2 **costs?**

3 A. When the RLECs compute transport outside plant costs, or the costs of
4 interoffice cables connecting switches, they allocate a portion of cable costs to
5 their own demand for circuits and a portion to the transit circuits of other
6 carriers. Even though they incorrectly base the proportions on paths, they
7 correctly recognize that both their own circuits and transit circuits are users of
8 cable plant.

9
10 The RLECs do not apply this same reasoning to the OC-192 line circuit cards
11 and fiber patch cables at the ends of the interoffice cables, as they should.
12 They also do not allocate a portion of the base equipment investment to transit
13 circuits. With all transport electronics costs being borne by the RLEC's own
14 voice trunks and special circuits, it causes higher transport electronics unit
15 investments and costs per minute. Presumably Beresford with only [REDACTED] DS-
16 1 circuits for voice trunks and [REDACTED] DS-1 special circuits (the equivalent of [REDACTED]
17 DS-3) would not install an OC-192 transport system (capable of handling 192
18 DS-3s) unless it carried transit traffic. Beresford carries [REDACTED] transit circuits
19 (of unspecified bandwidth).

20
21 **Q. What is the effect of including transit circuits in total demand for**
22 **transport electronics?**

1 A. To introduce transit circuits into the cost calculations requires knowing the
2 quantity of circuits and their bandwidth. Alltel requested in interrogatories the
3 bandwidth breakdown of transit circuits, but four of the RLECs have not
4 provided this information. Cost study documentation for McCook and West
5 River provided transit circuit quantities and bandwidths. Costs can be
6 computed for these two RLECs.

7
8 Exhibit WCC-6.5 shows the calculation of McCook and West River transport
9 electronics costs per minute after including equivalent DS-1 transit circuits.
10 McCook's original cost study result was [REDACTED] per minute. When
11 equivalent DS-1 circuits are used as the measure of demand and transit
12 circuits are included, the cost is [REDACTED] per minute. West River's original
13 cost study result was [REDACTED] per minute, compared to [REDACTED] after the two
14 adjustments.

15
16 **Cost Issue 2.4: What equivalent DS-1 circuits should be used for the RLEC's own**
17 **voice trunks and special circuits, and transit circuits?**

18 **Q. What values do you recommend for equivalent DS-1 circuits to be used in**
19 **the RLEC cost studies?**

20 A. The equivalent DS-1 circuits for the RLEC's own voice trunks and special
21 circuits are shown in column I of Exhibit WCC-6.4. The equivalent DS-1s for
22 both the RLEC's own voice trunks and special circuits, and the transit circuits,
23 are shown for McCook and West River in column O of Exhibit WCC-6.5.

1 The equivalent DS-1s for transit circuits for the other RLECs can be computed
2 when they provide the breakdown of their transit circuits by bandwidth.

3

4 **Q. Are there other requirements in deciding appropriate values for RLEC**
5 **and transit equivalent DS-1 circuits?**

6 A. Yes. FCC Rule §51.511 requires that forward-looking economic costs per
7 unit be determined using “a reasonable projection ... during a reasonable
8 measuring period,” and FCC Rule §51.505(b)(1) requires an efficient
9 configuration of the transport system.

10

11 The RLECs calculated transport costs assuming an OC-192 transport system,
12 which is a system with substantial capacity. Nominally, it has the capacity for
13 5,376 DS-1 circuits (192 DS-3 X 28 DS-1s/DS-3). Based on their cost study
14 documentation, it appears the RLECs measured voice trunk, special circuit
15 and transit circuit demand in the recent past, rather than basing the demand on
16 “a reasonable projection.” To the extent interoffice demand is growing, as
17 would be expected, total demand should be measured during a future,
18 “reasonable measuring period” when utilization of the OC-192 system is fairly
19 efficient.

20

21 For example, referring to Exhibit WCC-6.5, McCook’s total demand is [REDACTED]
22 DS-1 equivalents (cell O10) or [REDACTED] percent of the nominal capacity of the OC-
23 192 system. West River’s [REDACTED] DS-1 equivalents (cell O12) would be [REDACTED]

1 percent of nominal capacity. Therefore, in deciding Cost Issue 2.4 the
2 Commission should require (1) that demand be based on a projection over a
3 reasonable period and (2) if total demand during this period does not warrant
4 an OC-192 system, consideration should be given to basing transport costs on
5 a smaller system, such as an OC-48 or OC-12 transport system. The RLECs
6 have the obligation to demonstrate that an OC-192 represents an efficient
7 network configuration and to establish transport and termination rates
8 accordingly. To the extent they demonstrate such demand, transport
9 utilization needs to be allocated among the different services responsible for
10 the demand.

11
12 **Cost Issue 2.5: What transport electronics annual cost factors should be used?**

13 **Q. What are the RLEC annual cost factors for transport electronics?**

14 A. Exhibit WCC-6.1 (columns F-I) shows the components of the RLEC annual
15 cost factors and the total ACF (column J). These factors are multiplied times
16 unit investments to compute annual costs, including capital costs, operating
17 expenses and an allocation of corporate operations expenses (common costs).
18 The ACFs range from [REDACTED] percent.

19
20 **Q. What transport electronics annual cost factors are reasonable?**

21 A. Earlier, I described issues affecting the RLECs switching annual cost factors.
22 These issues also affect the transport electronics annual cost factors.
23 Kennebec's capital cost factor should be reduced from [REDACTED] percent (cell F14)

1 to [REDACTED] percent to reflect a mix of debt and equity capital and the effect of
2 deferred income taxes from accelerated tax depreciation. Direct expense
3 factors should be limited to six percent. [REDACTED] RLECs have factors
4 below this level. Other operating expense factors should be no more than six
5 percent, and the corporate operations expense loading should be twelve
6 percent. These factors result in a maximum ACF of 32.5 percent.⁴⁰ [REDACTED]

7 [REDACTED]
8 [REDACTED]
9
10 **Cost Issue 2.6: What annual minutes per voice trunk should be used?**

11 **Q. What are the RLEC annual minutes per voice trunk?**

12 A. Exhibit WCC-6.1 (column K) shows RLEC annual minutes per voice trunk
13 ranging from [REDACTED] minutes. Annual minutes per voice trunk
14 represents average utilization level of a trunk. The utilization levels vary
15 widely among the RLECs. They also are low, resulting in high transport
16 electronics costs per minute.

17
18 **Q. How were annual minutes per voice trunk calculated?**

19 A. The RLEC FLEC models contain input values for annual minutes of Local,
20 EAS and Toll traffic ("Demand Inputs" spreadsheet of FLEC model). EAS
21 and Toll minutes are carried by voice trunks and are used in the numerator of
22 the minutes per trunk measure. The models also contain input values for

⁴⁰ 32.5% = (17% capital costs + 6% direct expenses + 6% other operating expenses) X (1 + 12 percent corporate operations expense loading).

1 switch trunks. Annual minutes per voice trunk were computed based on the
2 ratio of these input values.

3

4 **Q. Why do you say trunk usage in the range of [REDACTED] annual**
5 **minutes is low?**

6 A. I base this on two benchmarks. First, in Rule §51.513, the FCC established
7 proxies for forward-looking economic costs, including in section 51.513(c)(4)
8 a method for computing proxy costs for shared transmission facilities between
9 tandem switches and end offices. These are similar to the RLEC voice trunks.
10 The FCC rule requires that the per-minute cost be computed using 9,000
11 minutes per month per voice-grade circuit. This equates to 108,000 annual
12 minutes per voice trunk.

13

14 Second, there are common trunk engineering parameters that can be used for
15 comparison. I obtained values for these parameters from the HAI 5.0a model,
16 a publicly available cost model used to determine incumbent LEC local
17 exchange costs.⁴¹ They indicate approximately 120,500 annual minutes per
18 voice trunk.

19

20 120,528 annual minutes =
21 (365.25 days/year X 24 hours/day X 60 minutes/hour)
22 X (27.5 BH CCS maximum trunk occupancy / 36 BH CCS)

⁴¹ See "HAI Model Release 5.0a," Inputs Portfolio, HAI Consulting, Inc., January 27, 1998, sections 4.5.3 and 5.5.16.

X 30% 24-hour average utilization of an interoffice trunk⁴²

These two sources suggest that voice trunk usage should be in the range of 108,000 to 120,500 annual minutes.

The ratios of RLEC minutes to voice trunks are not directly comparable to these benchmarks, so the benchmarks must be adjusted. The reason is that a minute of EAS and Toll interoffice traffic may pass over one voice trunk from the tandem switch to a terminating host switch, or it may also pass over a second voice trunk from the host switch to a terminating remote switch. In the second case, a minute of traffic is divided by two trunks.

Exhibit WCC-6.6 adjusts the benchmarks for this. The average number of voice trunks utilized in transporting a mobile-to-land call is calculated based on the percentages of RLEC end-user lines served by host and remote switches. A call to a host switch is assumed to require one voice trunk, and a call to a remote requires two voice trunks. Beresford has a single switch, so a mobile-to-land call would require one trunk. Mobile-to-land calls for the other RLECs require [REDACTED] trunks of transport. The lower annual minutes per trunk required by FCC Rule §51.513(c)(4) is divided by the trunks per call to compute adjusted annual minutes per trunk that can be compared to the RLEC cost study values. Column I shows that trunk usage

⁴² BH CCS – Busy hour 100 call seconds. An hour has 3,600 seconds, which equals 36 CCS.

1 levels range from only [REDACTED] percent of the FCC requirement. These low
2 utilization levels inherent in the RLEC networks cause transport costs per
3 minute to be high.

4
5 **Q. What is the effect on transport electronics costs from using annual**
6 **minutes per voice trunk at the efficiency level required by the FCC?**

7 A. Exhibit WCC-6.7 shows transport electronics costs for McCook and West
8 River with the previous corrections to the studies, plus using annual minutes
9 per voice trunk consistent with the FCC requirement of 108,000 annual
10 minutes per trunk. McCook and West River costs per minute are [REDACTED] and
11 [REDACTED] per minute. No adjustment was made to their annual cost factors
12 ([REDACTED] respectively). I recommend that the values computed in
13 Exhibit WCC-6.6 (column G) be used to compute RLEC transport costs.

14
15 **Cost Issue 2.7: What are the forward-looking economic costs per minute for**
16 **transport electronics?**

17 **Q. If the Commission adopts Alltel's recommendations for the transport**
18 **electronics cost issues, what do you expect the RLEC costs per minute to**
19 **be?**

20 A. Transport electronics costs per minute for McCook and West River after
21 adjustments are [REDACTED] per minute, or less than [REDACTED] cent per
22 minute. I would expect the costs of the other RLECs to be in the range of
23 [REDACTED] cent or less.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

TRANSPORT OUTSIDE PLANT COSTS

Q. What are transport outside plant costs?

A. Transport outside plant is the interoffice fiber cable connecting RLEC switches and connecting their host switches to meet points with other carriers. The cost studies assume all 48-fiber interoffice cable. The costs of transport outside plant include the capital costs on cable investment, operating expenses and an allocation of corporate operations expenses. Exhibit WCC-4 shows these costs range from [REDACTED] cents per minute, with Beresford having the lowest cost and McCook the highest cost.

Q. Have you developed an equation that replicates the RLEC cost calculations and identifies key cost data underlying transport outside plant costs?

A. Exhibit WCC-7.1 provides an equation for computing these costs and the table contains key cost data for the RLECs.

Q. Please describe the calculation of transport outside plant costs for Beresford?

A. Beresford's [REDACTED] per minute is computed as follows:

[REDACTED]
[REDACTED]
[REDACTED]

1 [REDACTED]
2
3 Beresford's single switch is [REDACTED] miles from the meet point with SDN, and
4 even though its cable investment per foot is high [REDACTED] compared to the
5 other RLECs (because the cable is in-town rather than in a rural area), its total
6 interoffice cable investment [REDACTED] is modest compared to the other
7 RLECs. The cable investment is multiplied times a [REDACTED] percent annual cost
8 factor to compute annual capital costs and operating expenses for the cable.
9

10 The benefits of sharing a network element become apparent in the next step.
11 Currently, fibers in Beresford's interoffice cables are shared by the transport
12 system carrying voice traffic and special circuits, and fibers used by CATV
13 and other special uses. Based on fiber-miles used by each, Beresford allocates
14 [REDACTED] percent of interoffice cable costs to the transport system and the
15 remaining [REDACTED] percent to the other uses. In addition, as described earlier, the
16 transport system carries [REDACTED] "paths" for Beresford's own voice trunks and
17 special circuits and [REDACTED] paths for transit circuits. The proportions are [REDACTED]
18 percent for Beresford's own paths and [REDACTED] percent for transit paths.
19 Beresford then allocates to its operations [REDACTED] percent of the [REDACTED] percent of
20 interoffice cable costs assigned to the transport system. Overall, [REDACTED] percent
21 of total interoffice cable costs are allocated to Beresford paths. The sharing of
22 fibers in the interoffice cable and sharing of the transport system by Beresford
23 voice trunks and special circuits, and transit circuits, results in low unit costs,

1 consistent with FCC Rule §51.511. Cost Issue 2.3 calls for the same method
2 to be used in computing transport electronics base and line costs.⁴³ The
3 annual costs attributable to Beresford's voice trunks and special circuits is
4 divided by [REDACTED] paths, and then divided by [REDACTED] minutes per voice trunk to
5 produce [REDACTED] per minute in transport outside plant costs.

6
7 **Q. Why are McCook's transport outside plant costs much higher than those**
8 **of Beresford?**

9 A. McCook has much more interoffice cable mileage connecting its six switches
10 than Beresford ([REDACTED] miles in cell B12). Since the cable is largely in rural
11 areas, the investment per foot is [REDACTED] (cell D12). Still the long interoffice
12 cable results in approximately [REDACTED] in cable investment compared to
13 Beresford's [REDACTED] cable investment. McCook's annual cost factor also is
14 higher. Only [REDACTED] percent (1 – [REDACTED] percent in cell F12) of its cable costs are
15 attributed to either other users of cable fibers or transit circuits. Finally,
16 McCook's trunk utilization (minutes per voice trunk) is lower than Beresford.
17 These factors combine to produce a high cost of [REDACTED] per minute.

18
19 **Q. Are there issues underlying the RLEC calculations of transport outside**
20 **plant costs?**

⁴³ Beresford's calculations must be corrected to use equivalent DS-1 circuits rather than paths. The resulting percentage of interoffice cable costs allocated to Beresford's voice trunks and special circuits will be lower than 15.6 percent.

1 A. Yes, the use of paths as the measure of demand is again an issue. The annual
2 minutes per voice trunk are low, as they were in the transport electronics cost
3 calculations. In addition, there are issues related to cable mileages and annual
4 cost factors.

5
6 **Cost Issue 3.1: What interoffice mileages should be used in the RLEC cost studies?**

7 **Q. What concerns do you have with regard to the interoffice mileages used**
8 **in the RLEC cost studies?**

9 A. There are two concerns. First, the RLECs stated in their cost study
10 documentation that “projected cable placements are based on the most
11 probable and direct routes.” The cable mileages used in the cost study for five
12 companies are significantly longer than current interoffice mileages.⁴⁴

- 13 • Alliance has [REDACTED] miles of cable in its cost study (cell B9, Exhibit
14 WCC-7.1), and its transport system currently utilizes [REDACTED] miles of
15 interoffice cable.
- 16 • Kennebec’s cost study assumes [REDACTED] miles of cable. It presently has
17 cable routes utilized by its transport system with [REDACTED] miles of cable.
- 18 • McCook’s study assumes [REDACTED] miles, while its existing cable length is
19 [REDACTED] miles.
- 20 • Santel has [REDACTED] miles of cable in its study versus [REDACTED] actual miles of
21 cable for transport.

⁴⁴ Actual interoffice cable mileages used by the transport system were obtained from the “Fiber Table” contained in each RLEC’s cost study documentation. For example, McCook’s Fiber Table shows [REDACTED] cable links, of which the transport system uses fibers on [REDACTED] links. The cable mileage for these [REDACTED] miles.

- 1 • West River's study assumes [REDACTED] miles of cable – its actual cable
2 mileage is [REDACTED] miles.

3

4 **Q. Is it not possible for a forward-looking cost study to have more cable**
5 **mileage than its current network?**

6 A. If the number and location of switches and other network nodes are the same
7 in the cost study as the current network, the interoffice cable mileages would
8 not be expected to be greater than current distances. However, if the cable
9 layout on a forward looking basis is different resulting in greater cable
10 distances, this layout would have to be more efficient than the current layout
11 per FCC Rule §51.505(b)(1). Since the cable investment would be greater,
12 the efficiency improvement would come from greater utilization of the cable
13 fibers or circuits on the transport system. It is analogous to having an existing
14 car pool with three riders who drive a total of 20 miles to work each morning.
15 The decision is made to add another rider, which will add two miles to their
16 commute. Before the miles per rider were 6.67 miles, and on a forward-
17 looking basis the miles per rider are 5.5 miles (20 miles / three riders versus
18 22 miles / four riders).

19

20 **Q. Did the RLECs reflect greater utilization of cable fibers or circuits?**

21 A. No, actually the RLECs reflected lower utilization of cable fibers in their cost
22 studies. In the current networks, cable fibers are utilized by DLC systems to
23 provide loops. In the forward-looking cost studies, the RLECs assume that

1 DLC systems will no longer share cables with the transport system – so fiber
2 utilization is decreased.

3
4 In addition, the cost studies base transport utilization, particularly transit
5 circuit quantities, on the current network layout and recent demand. To the
6 extent the forward-looking network design is intended to achieve greater
7 utilization of transport systems, this does not appear to be reflected in the cost
8 studies.

9
10 **Q. What is the second concern with respect to interoffice mileages in the**
11 **studies?**

12 A. Three of the RLECs, Kennebec, Santel and West River, include mileages in
13 their cost studies for cable links that do not appear to be used by Alltel's
14 mobile-to-land traffic. For example, Kennebec includes [REDACTED] feet of cable in
15 the Prescho exchange with an investment of [REDACTED] that does not appear to be
16 used in transporting Alltel traffic. Kennebec also includes cable mileages and
17 investments for cable links to Vivian Telephone that would not be used in
18 transporting Alltel traffic to the Kennebec or Prescho switches. Consequently,
19 these are not direct costs of transport and should be removed per §51.505.

20
21 **Q. What interoffice mileages do you recommend be used in the RLEC cost**
22 **studies?**

1 A. The existing interoffice mileages of cable routes used by the transport system
2 carrying Alltel traffic should be used, unless the RLEC can prove that longer
3 cable mileages are more efficient. These mileages should exclude cable
4 routes not used in transporting Alltel traffic to RLEC terminating switches.
5

6 **Cost Issue 3.2: What transport outside plant annual cost factors should be used?**

7 **Q. What annual cost factors were used to compute transport outside plant**
8 **costs?**

9 A. The annual cost factors are shown in Exhibit WCC-7.1. They range from [REDACTED]
10 percent to [REDACTED] percent (column E). The components of each RLEC annual
11 cost factor are shown in Exhibit WCC-7.2.
12

13 **Q. Do the annual cost factors appear to be reasonable?**

14 A. The ACFs, in total, for Santel and West River are reasonable at [REDACTED] and [REDACTED]
15 percent respectively. Beresford's capital cost, direct expense and other
16 operating expense factors also are reasonable, but its [REDACTED] percent corporate
17 operations expense loading is too high. If the loading is limited to 12 percent
18 as previously recommended, its ACF would be [REDACTED] percent. The ACFs for
19 the other three RLECs are high.
20

21 **Q. What do you recommend as the annual cost factors for transport outside**
22 **plant?**

1 A. Kennebec's capital cost factor is high for the reasons previously described for
2 its switching annual cost factor. When its factor is adjusted to reflect a mix of
3 debt and equity capital and the effects of accelerated tax depreciation,
4 Kennebec's capital cost factor will be approximately [REDACTED] percent.

5
6 The RLECs have assumed buried fiber cable as their forward looking cable
7 type. Maintenance and repair expenses of buried fiber cable as a percentage
8 of investment normally are low. McCook's direct expense factor of [REDACTED]
9 percent is unusually high. A direct expense factor of five percent falls in the
10 range of the other RLECs and should be used as a maximum value.

11
12 Six percent and 12 percent should be used for other operating expenses and
13 the corporate operations expense loading, respectively, as for switching and
14 transport electronics. The combination of these factors yields a maximum
15 ACF of 27 percent.⁴⁵ Santel and West River should use their existing annual
16 cost factors. Beresford should use a [REDACTED] percent factor, reflecting 12 percent
17 as the corporate operations expense loading. The other three RLECs should
18 use 27 percent as their annual cost factors.

19
20 **Cost Issue 3.3: Should transport outside plant cost calculations be modified to be**
21 **based on equivalent DS-1 circuits?**

⁴⁵ 27% = (13% capital costs + 5% direct expense + 6% other operating expenses) X (1 + 12% corporate operations expense loading)

1 **Q. Should equivalent DS-1 circuits be used instead of paths in calculating**
2 **transport outside plant costs?**

3 A. Yes. Base and line equipment of transport electronics are connected to fibers
4 in interoffice cables. Together, these plant components create a network
5 resource used to carry voice trunks and special circuits from one network node
6 to another. This combined resource is consumed based on the number of
7 circuits and bandwidth of these circuits, as I described previously. Equivalent
8 DS-1 circuits provide a better measure of resource capacity consumption and,
9 more importantly, produce a more accurate measure of the cost of voice
10 trunks than the path method. The quantity of equivalent DS-1s used in the
11 transport outside plant cost calculations should be the sum of DS-1
12 equivalents for the RLEC's own voice trunks and special circuits, and DS-1
13 equivalents for transit circuits.

14

15 **Cost Issue 3.4: What annual minutes per voice trunk should be used?**

16 **Q. Should the annual minutes per voice trunk used in the transport**
17 **electronics cost calculation be used in this case?**

18 A. Yes, the annual minutes per voice trunk shown in column G of Exhibit WCC-
19 6.6 should be used. These are based on the FCC's requirement of 9,000
20 monthly minutes per voice-grade circuit, or 108,000 minutes per year,
21 adjusted to recognize that mobile-to-land calls involve a mix of one and two
22 voice trunks for transport.

23

1 Cost Issue 3.5: What are the forward-looking economic costs per minute for
2 transport outside plant?

3 **Q. Are you able to estimate the effect of modifying the RLEC cost studies for**
4 **the recommendations that you have made for transport outside plant**
5 **costs?**

6 **A.** Costs can be estimated for McCook and West River, because these companies
7 provided a breakdown of their transit circuits by bandwidth. The cost
8 calculations are shown in Exhibit WCC-7.3.

9
10 Each RLEC's current interoffice mileage for cable routes used by the
11 transport system is entered in column B. I removed from West River's current
12 mileage [REDACTED] miles of cable to McIntosh. McIntosh is not a West River
13 switch. Alltel asked West River whether this cable route is used to transport
14 its traffic, and it indicated the cable route is used to provide terminating traffic
15 from its access tandem provider (*i.e.*, terminating switched access). Qwest
16 which I understand is the transit carrier handling Alltel traffic has a different
17 meet point with West River's network, so it appears that the cable to McIntosh
18 is not part of transport for mobile-to-land traffic. If West River shows that the
19 McIntosh cable is used for mobile-to-land traffic, its interoffice mileage can
20 be increased accordingly.

21
22 McCook's annual cost factor was lowered from [REDACTED] percent to [REDACTED] percent.
23 West River's annual cost factor remained as [REDACTED] percent.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

The percentage of fiber-miles attributable to the transport system was increased to reflect only the split of cable investment and costs between fibers used for the transport system versus other uses (column F). Based on the changes above, annual costs for the portion of the interoffice cable attributable to the transport system were calculated in column G. These costs are then divided by the quantities of equivalent DS-1 circuits, voice trunks per DS-1 and annual minutes per voice trunk that were used in Exhibit WCC-6.7 for transport electronics cost calculations.

Q. What are the resulting costs per minute, and how do they compare with those in the RLEC cost studies?

A. McCook’s transport outside plant cost was [REDACTED] per minute in its cost study. After the adjustments, its cost is [REDACTED] per minute. The drop in costs is due to shorter interoffice cable mileage, the lower annual cost factor, properly recognizing bandwidth as a driver of capacity consumption and costs, and reflecting the trunk utilization level required by the FCC. West River’s cost per minute decreased from [REDACTED] per minute. West River has considerably more cable mileage than McCook, and it does not have as high transport system utilization as McCook.

Q. Would you expect the transport outside plants of the other RLECs to be similar to these?

1 A. Yes, Beresford's cost per minute already is low due to its short cable distance.
2 The costs of the other RLECs should be near West River's cost of [REDACTED] per
3 minute.

4

5

CONCLUSION

6 Cost Issue 4: What are the forward-looking economic costs per minute for
7 transport and termination?

8 **Q. How should forward-looking economic costs for the RLECs now be**
9 **determined?**

10 A. The Commission should address each of the 17 preceding cost issues and
11 decide appropriate values for the key cost data to be used in the cost studies.
12 Then, the studies should be re-run to determine costs that comply with the
13 FCC rules. Once this is done, proper rates can be established.

14

15 **Q. What do you expect transport and termination costs to be?**

16 A. Transport and termination costs will vary by RLEC and, of course, will
17 depend on how each issue is decided. If Alltel's position on the issues is
18 adopted, transport and termination costs are expected to be approximately
19 [REDACTED] per minute or less. This figure consists of [REDACTED]
20 [REDACTED] per minute for switching, transport electronics and transport outside
21 plant, respectively.

22

23 **Q. Does this conclude your direct testimony?**

1 A. Yes.