

EX PARTE OR LATE FILED

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Rochelle D. Jones  
Director-Regulatory

April 8, 1993

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APR - 8 1993

Ms. Donna Searcy  
Federal Communications Commission  
Room 222  
1919 M Street, N.W.  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Re: Data Request in CC Docket No. 92-24  
Local Exchange Carrier Line Information Database EX PARTE

Dear Ms. Searcy:

The Southern New England Telephone Company (SNET) is providing this response at the request of Dr. Chris Frenthrup.

I am filing two copies of this letter pursuant to the requirements of Section 1.1206(a)(1) of the Commission's Rules.

Respectfully,

Wendy Blumenthal  
Rochelle D. Jones for

Attachment

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The following is SNET's response to an informal data request by Dr. Chris Frenthrup to Ms. Wendy Bluemling regarding SNET's LIDB rates.

**ISSUE:**

Please explain why SNET's plant specific factor is very close, but not exactly the same as SNET's ARMIS Plant Specific factor.

**SNET RESPONSE:**

SNET's LIDB plant specific expenses are for the Right To Use (RTU) fee associated with the port. SNET divided this RTU fee by its port termination investment to generate this service specific cost factor. It is only coincidental that the factor closely approximates SNET's ARMIS plant-specific factor.

**ISSUE:**

Since digital technology is being used to provide SNET's LIDB service, why isn't SNET reflecting a shorter depreciation life (higher depreciation factor) to reflect the use of this technology?

**SNET RESPONSE:**

SNET develops depreciation rates for specific classes of plant for use in SNET's economic cost studies. In the development of LIDB rates, SNET used the average service life of eighteen years for the "ESS Digital" class of plant used for the port investment. SNET could have considered a narrower class of plant, more specific to the port investment, which would have shortened the economic life used in SNET's development of rates.

**ISSUE:**

Please explain why, as shown in SNET's March 23, 1993 **Ex Parte**, the federal income tax factor did not change when the net return changed?

**SNET RESPONSE:**

SNET agrees that federal income tax (FIT) would change when the net return changed, however, SNET's March **Ex Parte** was provided to provide an explanation and an example of the difference in direct cost factors between embedded and prospective costs. SNET's example was provided to illustrate why ARMIS factors cannot be used in comparison with prospective cost studies. For simplicity, SNET adjusted the net return, based on the net to gross investment, as an example of the difference in direct cost factors between embedded and prospective costs but did not adjust all the factors (i.e. FIT) to reflect the change in net return. A change to the FIT would be proportional to the change in net return, as Dr. Frenthrup expects. As shown on the attached, with these changes, SNET's direct cost ratio falls even further within the upper limit.

Exhibit – ARMIS Data Adjusted to Reflect Net

Investment, F.I.T, and State Taxes Comparable to STP Port Investment

1991 ARMIS Total Traffic Sensitive		STP Port Termination *				Difference Between
	Investment	Digital Switching Acct 2212	Circuit Acct 2232	Weighted Total for Study	ARMIS & STP Port Term Cost Study	
1 Investment		\$27,400	\$1,749	\$29,149		
2 Investment-GSF						
3 Tot L1+L2						
4 COE+IOT+CWF factor L2/L3						
5 GSF factor L2/LI3						
6 Net investment COE+IOT+CWF	\$286,267			\$27,083		
7 Net investment GSF	\$58,014					
8 Total Net investment L6+L7	\$344,281					
9 Net investment factor COE+IOT+CWF L6/L8	83.15%					
10 Net investment factor-GSF (L7/L8)	16.85%					
Capital costs						
11 Plant specific expense-COE+IOT+CWF	\$14,757			4.88%	0.09%	
12 Plant specific expense-GSF	\$13,748					
13 Depreciation/amortization expense	\$36,018					
14 Depr/Amort-COE+IOT+CWF	\$27,792	5.24%	8.75%	5.45%	-3.57%	
15 Depr/Amort-GSF	\$8,226					
16 Federal Income Taxes	\$5,994					
17 FIT-COE+IOT+CWF(L9*L16)	\$12,657	4.12%	2.47%	5.35%	1.24%	
18 FIT-GSF (L10*L16)	\$1,430					
19 State & Local Taxes	\$6,533					
20 State & local income taxes	\$4,506					
21 St & Local inc tax-COE+IOT+CWF(L9*L20)	\$3,747	2.37%	4.22%	2.48%	1.25%	
22 St & Local inc tax-GSF(L10*L20)	\$759					
23 Net return-COE+IOT+CWF (L6*.1125)	\$32,205	11.60%	11.87%	11.62%	1.17%	
24 Net return-GSF (L7*.1125)	\$6,527					
25 Dir costs lower limit (Lns 11+14+17+21+23)	\$91,158	23.33%	27.31%	29.78%	0.19%	
26 Dir costs upper limit (Lns 11+14+17+21+23+27+29)	\$115,822	23.33%	27.31%	33.38%	-4.21%	
Other costs						
27 Plant non-specific	\$15,169				-4.92%	
28 Customer operations-marketing	\$4,180					
29 Customer operations-services	\$9,495					
30 Corporate operations	\$14,070			3.60%	0.52%	

\* Percentages derived from data submitted in Data Request in CC Docket No. 92-94