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G. Michael Crumling
Executive Director-
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USWEST

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October 24, 1996

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222, SC-1170
Washington, DC 20554

RE: CC Docket 96-112: OVS Cost Allocation

Dear Mr. Caton:

Please be advised that Marie Breslin, John Broten, and Edward Shakin (Bell Atlantic); Maury Talbot (Bellsouth); Sherry Herauf (Pacific Telesis); Jane Knox (SBC) and the undersigned, representing U S WEST, met today with Andy Mulitz of the Accounting and Audits Division, Legal Branch to discuss the above-referenced proceeding. The attached material was provided at the meeting.

In accordance with Section 1.1206(a)(2) of the Commission's Rules, the original and one copy of this letter, with attachment, are being filed with your office for inclusion in the public record.

Acknowledgment and date of receipt of this transmittal are requested. A copy of this letter is provided for this purpose.

Please call if you have any questions.

Sincerely,

M Crumling

Attachment

cc: Mr. Andy Mulitz
Ms. Marie Breslin
Mr. John Broten
Mr. Edward Shakin
Mr. Maury Talbot
Ms. Sherry Herauf
Ms. Jane Knox

No. of Copies rec'd 0+1
List ABCDE

Formulation of "Stand-Alone Telephony" Common Loop Costs Consistent with the Alfred Kahn Ex Parte

1. Various parties, and in particular, Dr. Alfred Kahn, have referred to the "stand-alone telephony" common loop costs. This precipitates the question of how to formulate such a cost. The following process addresses this concern.

2. The process requires analysis by the engineering personnel who design the joint architecture. The first step is to isolate those costs which are directly assigned to telephony or video. The remaining costs are "common loop costs" (CLC) which must be allocated.

   The Kahn approach is to identify those CLCs that would be incurred to provide "telephony only" under the new architecture. Any incremental increases in CLCs necessary in order to provide video over the new architecture would be allocated to nonregulated.[1]

3. The ratio of the "stand-alone telephony" CLC to the sum of the "stand-alone telephony" CLC and the incremental increases would produce the % allocation to telephony.[2] In the **attached example**, the allocation to telephony would be 900/1000 or 90%.

4. The % allocation would apply to the plant-in-service as it is constructed. This would accommodate the fact that the actual cost will differ from the engineered cost.

5. Under Part 64, the investment allocation can be used to drive cost pools such as depreciation, maintenance, support equipment and overheads. This ensures that nonregulated would get its share of those expenses.

6. An exogenous adjustment is not necessary and would be a significant disincentive to upgrading the network.

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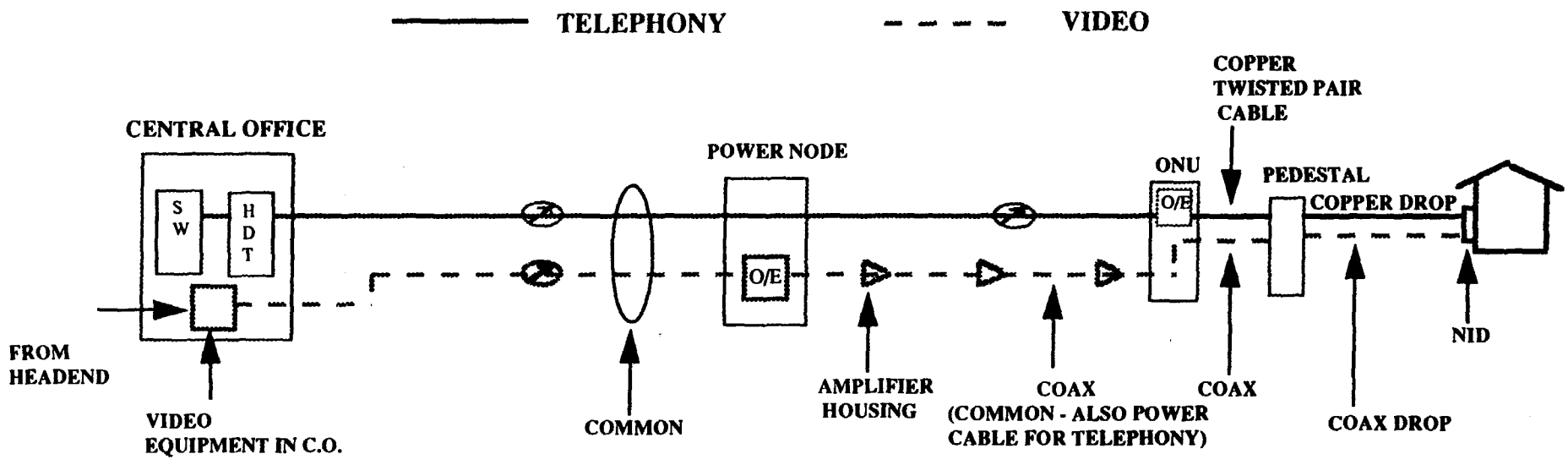
[1] Modifications would include such things as larger terminals/enclosures, larger cables, larger power supply, etc.

[2] Administration of the cap could be at the overall job level or, more likely, on an account-by-account basis. It can be done once for a particular architecture and updated as needed.

Example Of A Joint Architecture



SECTION	1	2	3	4	5	6	7

Section	Direct Telephony	Direct Video	Common
1	HDT	Video Equip	Fiber Cable
2	None	O/E Interface	Power Supply/Housing
3	Fiber	Amplifiers	Coax/Trenching
4	O/E Interface	None	Housing
5	Copper Cable	Coax Cable	Trenching
6	None	Splitter	Pedestal
7	Copper Drop	Coax Drop	NID/Trenching

Stand alone telephony common loop cost* $900

Changes to common loop costs to add video:

Section		
1	Larger fiber cable	+40
2	Larger enclosure & more power	+50
3 - 6	No change	
7	Larger NID	+10
Joint Architecture common loop cost		$1000

Allocation to telephony = 900 / 1000 = 90%

* Costs are per home passed and are illustrative only.