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Pete Sywenki
Director, Federal Regulatory Relations

Law & External Affairs
1850 M Street, NW, Suite 1100
Washington, DC 20036
Voice 202 828 7452
Fax 202 296 3469
pete.n.sywenki@mail.sprint.com

EX PARTE

February 4, 1999

Ms. Magalie Roman Salas
Secretary - Federal Communications Commission
The Portals, 445 Twelfth St., SW
Washington, D.C., 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

RE: CC Docket Nos. 96-45 and 97-160

Dear Ms. Salas,

The attached information is being provided in response to the ex parte presentation made by representatives of AT&T and MCI WorldCom to members of the Bureau staff on January 20, 1999 with respect to the above referenced matters. Specifically, the attached materials demonstrate that in their presentation, AT&T and MCI WorldCom provided no new information on Digital Loop Carrier costs, that the new indoor SAI they presented is a building terminal not a functional SAI, that they understate the cost of SAI protection, and that they underestimate splicing time. Additionally, the attached information discusses maintenance expenses in relation to structure sharing.

We request that this information be made a part of the record in the above referenced dockets. The original and three copies of this notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) for this purpose. If there are any questions, please call.

Sincerely,

Pete Sywenki

Attachment

cc: Craig Brown, Bryan Clopton, Abdel Eqab, Katie King, Bob Loube, Bill Sharkey, Richard Smith, Adrian Wright, Chris Frentrup(MCI)

AT&T/MCI have provided no new Digital Loop Carrier Cost Information

AT&T/MCI provided no new, fact based information relative to the costs of Digital Loop Carriers. The Commission still has before it actual invoice costs from several ILECS and unsupported "expert" opinions from AT&T/MCI. Sprint's actual *material costs* alone for Digital Loop Carrier systems are well in excess of the *total system installed costs* proposed by AT&T/MCI which are purported to include engineering and installation costs.

AT&T and MCI suggested that greater savings could be achieved over the ILEC DLC invoice costs by buying pre-engineered and packaged "kits" rather than designing and purchasing each system individually. Sprint agrees that this is the lower cost approach, and has used this *industry-standard* approach for many years. Sprint's DLC invoice costs already reflect these "savings".

AT&T/MCI's "New" Indoor SAI is a Building Terminal, not a functional SAI.

In a previous ex parte meeting, Mr. John Donovan, representing AT&T and MCI presented a photograph which he represented to be an indoor Serving Area Interface (SAI). Mr. Donovan expressed concern that the components reflected in the photograph could not reasonably be expected to be as costly as the Sprint Model Input values would suggest.

On July 30, 1998, Sprint presented a detailed analysis of the SAI installation depicted in ATT/MCI's photograph, detailing the material and labor costs of the individual components parts. Sprint clearly demonstrated that an indoor SAI could not possibly be constructed for anything even approaching the cost proposed by AT&T/MCI. While not exactly the installation that Sprint would probably make for a large Indoor SAI, Sprint and AT&T/MCI agreed that, the photograph did represent an Indoor SAI.

AT&T/MCI's response in the January 20, 1999 ex parte, was to disavow their previous (industry standard) representation of what constituted an SAI and "invent" a new SAI. Their new "SAI" had significantly fewer components and, of course, a lower cost. Unfortunately, it won't function as an SAI. The "66 Split Block" that was represented as being the cross-connect point cannot possibly perform that function[1]. The "new" SAI is nothing more than a building terminal. Both HAI and BCPM recognize a clear distinction between SAI's and Building terminals in function and in cost. A brief comparison is attached as Exhibit 1. It clearly demonstrates that this installation that Mr. Donovan has seen many times in urban areas was a building terminal, and not an SAI.

AT&T/MCI Understate the Cost of SAI protection

The cost of the "Protection" is still the single greatest contributor to the difference in Sprint's and AT&T/MCI's Indoor SAI Costs. AT&T/MCI allegedly substantiate their input value of $2.00 per pair for the entire material, installation and splicing of SAI protection by comparing the cost to the $4.00[2] cost of the module that plugs into the NID at a residence or small business. However, the $4.00 module cost is just the material cost of module itself. It does not include the cost to install it or splice it, the cost of the

[1] The "66 Split Block" used in a building entrance terminal performs the same functions as the NID used in a residential application. 1) It provides a clear point of demarcation between telephone company owned and customer owned facilities; and 2) It provides an easy access point for opening a line to determine if any "trouble" is in the telephone network or in the customer's wiring or equipment. This is done by removing the small "bridging clip" that Mr. Donovan demonstrated. The 66 split block is designed only for straight through, 1:1 connections. It is a simple test point, and will not support the interconnection of 3100 feeder pairs to 4100 distribution pairs as Mr. Donovan suggests.

[2] $4 is a reasonable estimate of the cost of this module.

housing to plug it into, or the cost of connecting it to a ground. The comparable installed cost for a residential protector, is $16.50 per line[3], not $4.00.

AT&T/MCI then conclude that for dense applications the entire installation will be half the price of residential protector material costs. It's a little like saying that since the material cost of a fuse is $1.00, the installed cost of fuse and a fuse box is $.50.

The more reasonable comparison, would be to the cost of the Central Office MDF protection. The modules and other hardware are almost identical. In fact, in large installations, Sprint often uses exactly the same equipment. In the Hatfield Inputs Portfolio, AT&T/MCI estimate this cost to be $12.00 per pair.

AT&T/MCI underestimate Splicing Time

During the ex parte meeting, AT&T/MCI demonstrated the splicing of a 25 cable pairs and represented that 300 pairs per hour was a reasonable, achievable level of productivity for a cable splicer.

At one time in Sprint's Texas operations, Sprint paid contract cable splicers on a piece work basis. These cable splicers had every incentive to be as productive as possible and to splice as many pairs an hour as was possible to accurately splice. Based on AT&T/MCI's cable splicing productivity assumption, these splicers would have been able to earn over $375,000 annually (With no overtime!!). The simple fact was that most contract cable splicers were able to earn only a small fraction of that amount.

Unfortunately, most splices are not done in good light, on a table in a comfortable, temperature controlled conference room. The cable does not arrive with the sheath removed, the binder groups prepped and the ends taped. The cable splicer must haul in equipment, remove the sheath, clean the cable, set up the splice, do the work, test the splices for continuity, install a splice case, and bond and ground the cable to a building ground. In this example, the splicer must also install all of the 66 blocks, protection, cable, backboard, run jumpers and other functions.

Mr. Donovan estimated 2 hours set up time for each splice. This is, on average, a reasonable assumption *per splice*. It is not a reasonable assumption per SAI, which might require several different splices, and multiple work days to complete.

The splicing demonstrated by AT&T/MCI used standard industry equipment and techniques. Sprint has assumed this method of splicing in all cost inputs.

Should Maintenance Expense be Applied "post-sharing"?

The real question here is not whether maintenance expenses should be applied on a pre-sharing or post-sharing basis. Maintenance Expenses can be applied in either way. The real question is, "How do you calculate the correct maintenance expense factor when the *structure sharing* assumptions are changed."

Maintenance expense factors are usually calculated by taking current ARMIS expenses and dividing by current investment to get a percentage. The current investment reflects the existing level of structure sharing. If one then *models* using a higher sharing percentage (which reduces investment for the same plant) and applies this same percentage, the maintenance cost will be understated. To the extent that additional structure sharing is assumed in the future, this logically would have no impact on actual dollars of maintenance expense[4].

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[3] Using the HAI input cost for an installed NID of $25 and assuming two lines per NID, the cost per line is ($25+(2*$4))/2=$16.50. Even assuming a fully loaded NID with six protectors at every location, the cost per line is ($25+(6*$4))/6=$8.17

[4] In actual experience, increased structure sharing will tend to increase maintenance expense due to the need to coordinate maintenance with other companies occupying the same trench.

If maintenance expenses are applied post-sharing as AT&T/MCI suggest, then the maintenance expense factor must be increased to compensate for any decreases in investment due to structure sharing assumptions.

For example, assume that Sprint had a foot of buried cable that cost a total of $10 installed in a trench by itself, and that the actual annual maintenance expense on that cable was $1 (a 10% expense loading). Now assume that the *same* cable was placed in a trench that was shared with power and that the total installed cost was only $8. The annual maintenance remains $1, not 10% of investment (or $.80). If someone gives you half the money for a new car, it doesn't suddenly cost you half as much to maintain it!

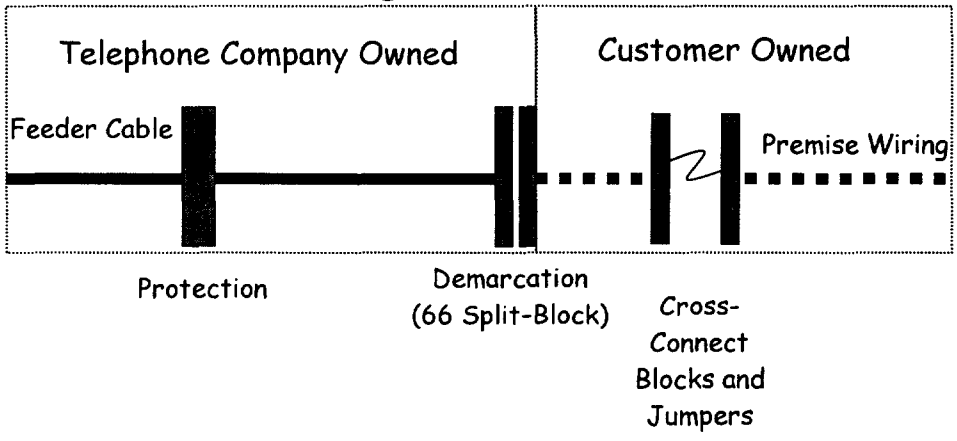
While it is intuitively obvious that having someone write you a check for half the cost of a trench does not reduce the cost to maintain the cable in that trench, AT&T and MCI actually make this assumption in the HAI model. They do this precisely by calculating Maintenance Expense Factors from ARMIS data based on current levels of structure sharing and then applying them "post-sharing" with a higher assumed degree of structure sharing.

Exhibit 1 – Comparison of Indoor SAI's and Building Entrance Terminals.

There are basically two kinds of premise wiring situations that can exist in a multi-tenant building. The premise wiring may be owned by the building owner, or by the telephone company. The ownership of the Inside Wiring determines what type of building entrance facility is used. When the premise wiring is owned by the telephone company, an indoor SAI is used. When the building owner owns the premise wiring, a Building Entrance Terminal is placed. The HAI and BCPM models both contain inputs for each kind of installation.

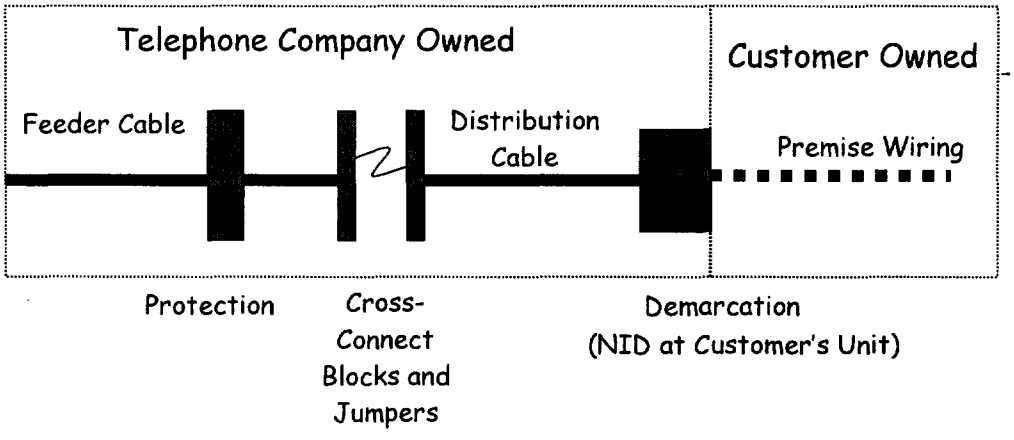
In a building entrance terminal, the Telephone Company provides protection on the feeder cable, and a test point/demarcation point[5]. The Customer or Building owner, connects their cable to the Demarcation and performs their own cross-connect function. As is apparent in this "schematic", the "new" SAI that AT&T/MCI provided is just a building terminal.

Building Entrance Terminal



In an SAI, the Telephone Company provides the protection on the feeder cable, a cross-connect function, the distribution cable through the building, and a NID at each customer premise. The NID is the demarcation point, test point and interconnection point for the customer-owned wiring with in the customer's space.

Indoor SAI



[5] While there are several ways to approach this, all building terminals do the same functions. For smaller installations, it may be purchased pre-packaged. In another variation, the customer may use the 66 split block for the feeder side of cross-connect rather than place a second set 66 Blocks for that purpose.