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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

January 4, 2002

Magalie R. Salas, Esq.
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: CC Docket Nos. 00-218 & 00-251
In the Matter of Petition of AT&T Communications of Virginia, Inc., TCG Virginia, Inc., ACC National Telecom Corp., MediaOne of Virginia and MediaOne Telecommunications of Virginia, Inc. for Arbitration of an Interconnection Agreement With Verizon Virginia, Inc. Pursuant to Section 252(e)(5) of the Telecommunications Act of 1996.

In the Matter of Petition of WorldCom, Inc. Pursuant to Section 252(e)(5) of the Communications Act for Expedited Preemption of the Jurisdiction of the CC Docket No. 00-218 Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., and for Expedited Arbitration

Dear Ms. Salas:

Enclosed for your files please find an original and 3 copies of the public version of the response of AT&T and WorldCom to Commission staff record requests. Proprietary versions of these responses were originally filed on December 12, 2001. Please note that the CD-ROMs referenced in some of the responses were provided with the proprietary version originally filed on December 12.

Should you have any questions, please do not hesitate to call.

Sincerely yours,

Mark A. Keffer

Recycled Paper

AT&T/WCOM Response to Record Requests

Date	No.[1]	Page	Description
10-23-01	2	3346	What financial book lives do AT&T and Worldcom use, for the following assets, in deriving depreciation expense in reports to shareholders: digital switches, digital circuit equipment, poles, conduit systems, copper aerial cable, copper underground cable, copper buried cable, fiber aerial cable, fiber underground cable, and fiber buried cable (hereafter "record request assets")?

AT&T/WCOM Response:

AT&T and WCOM filed a response to this record request on December 5, 2001.

[1] This refers to the record request number, as indicated in the index of the day's transcript. Requests not identified in the indexes are designated "N/A."

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-23-01	3	3349	Do WorldCom and AT&T use different financial book lives, for any of the record request assets, for their long distance businesses, on the one hand, and their own CLEC facilities-based businesses, on the other? If so, why are different lives used to calculate depreciation expense?

AT&T/WCOM Response:

AT&T and WCOM filed a response to this record request on December 5, 2001.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-23-01	4	3350	Do AT&T/WorldCom believe that economic lives used to calculate economic depreciation should be different for their long distance businesses, on the one hand, and incumbent local exchange businesses, on the other? If so, why?

AT&T/WCOM Response:

AT&T and WCOM filed a response to this record request on December 5, 2001.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-23-01	N/A	3351	Do AT&T and WorldCom, in their CLEC businesses (including, for AT&T, its CLEC service provided over its CATV network) use copper cable? Do AT&T and Worldcom plan on using copper cable in any future CLEC projects? If not, why do they have no such plans?

AT&T/WCOM Response:

AT&T and WCOM filed a response to this record request on December 5, 2001.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-23-01	6	3376	Do the actual, physical ages of any of AT&T's and Worldcom's in-service record request assets, on average, exceed their financial book lives? If so, which of these assets, on average, have longer physical lives? If so, by what length of time do the physical lives of these assets, on average, exceed the financial book lives?

AT&T/WCOM Response:

AT&T and WCOM filed a response to this record request on December 5, 2001.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description

Responses of AT&T to FCC Staff
Record Requests Concerning AT&T Internal Cost of Capital

AT&T respectfully submits the following responses to the record requests concerning cost of capital issues posed to it by the FCC Staff during the hearing on October 24, 2001. The questions appear on pp. 3638-40 of the hearing transcript. (The question numbers are those assigned by the Staff.)

While answering these questions, AT&T must emphasize that neither the 15.31 cost of capital discussed in response to questions 2 through 9, nor the more recent cost of capital for AT&T's facilities-based entry into local markets discussed in response to question 10, equal or even approximate the cost of capital that must be estimated in this proceeding. The value discussed in questions 2 through 9 reflects the risks of the interexchange business; the value discussed in question 10 reflects the risks of a new entrant in local markets, facing the prospect of making large sunk investments in new and untried technology to compete against entrenched incumbent monopolies such as Verizon. By contrast, the cost of capital to be determined in this proceeding should reflect the minimal competitive risks that Verizon will face for the foreseeable future as the near-monopoly wholesale supplier of UNE's in its Virginia service territory. (Alternatively, the relevant cost of capital is that of a firm in a perfectly contestible market, where investments can be made and withdrawn instantaneously, costlessly, and without the creation of any sunk investment that would be stranded should the firm withdraw from the market. The risks of investments in such a market would, in principle, be even lower than those actually facing Verizon as a wholesale supplier of UNEs.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-24-01	2	3638	AT&T used a 15.31 percent cost of capital in its incremental costs model in 1997 (hereafter "15.31 percent cost of capital"). Is this an after-tax cost of capital?

AT&T Response:

AT&T has been unable to ascertain the precise source of the 15.31 percent cost of capital input used in the model in 1997. The individuals involved in its preparation are no longer with the company, and the surviving documentation is incomplete. It appears, however, this number was simply AT&T's 1997 hurdle rate of 15 percent for traditional long distance services, before rounding. The 15 percent hurdle rate was based on a weighted average cost of capital estimate of 14 percent plus a 1 percent premium to provide a margin of safety. As such, the 15.31 percent figure was based on an after-tax cost of capital.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-24-01	3	3638	What cost of equity models did AT&T use to develop the cost of equity capital reflected in the overall 15.31 percent cost of capital?

AT&T Response:

The CAPM was used to develop the 14.31 percent weighted average cost of capital. Then a margin of safety of one percent was added to arrive at the 15.31 percent hurdle rate.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-24-01	4	3639	What proxy group of firms did AT&T use to develop the cost of equity capital reflected in the overall 15.31 percent cost of capital?

AT&T Response:

AT&T used MCI and WorldCom as comparables for its 1997 cost of equity estimate for long distance services.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-24-01	5	3639	What growth rate assumptions were used if a discounted cash flow model was used to calculate the cost of equity capital reflected in the overall 15.31 percent cost of capital?

AT&T Response:

Not applicable to the CAPM.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-24-01	6	3639	What risk-free rate, what beta, and what risk premium were used if a capital asset pricing model was used to calculate the cost of equity capital reflected in the overall 15.31 percent cost of capital?

AT&T Response:

In 1997 the following inputs were used for estimating the long distance cost of equity of 14 percent (the basis for the 15 percent hurdle rate):

Riskfree rate: The 30-year U.S. Treasury yield of 6.92 percent;

Levered Beta: 1.03. AT&T's long distance beta was estimated with reference to Worldcom and MCI as comparables. The average beta for each company was calculated using available COMPUSTAT, Value Line, Bloomberg and Merrill Lynch betas. Then the average beta for each company was unlevered, weighted using firm value, and summed to create a weighted average unlevered beta. This aggregate beta was then relevered using the target market alue debt/equity ratio.

Risk Premium: 7.5 percent, estimated by considering the historical risk premium based on the Ibbotson Associates historical approach.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-24-01	7	3639	What capital structure did AT&T use to estimate the overall 15.31 percent cost of capital?

AT&T Response:

The 14 percent cost of capital underlying the 1997 hurdle rate of 15 percent was based on a target capital structure of 10 percent debt and 90 percent equity.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-24-01	8	3640	Was this 15.31 percent cost-of-capital estimate used to decide whether to invest in facilities-based local exchange services?

AT&T Response:

No.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-24-01	9	3640	If this 15.31 percent cost-of-capital estimate was not used to decide whether to invest in facilities-based local exchange services, for what types of investment decisions was the 15.31 percent cost of capital used?

AT&T Response:

Investments in traditional long distance service, and apparently cable and wireless investments as well.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-24-01	10	3640	What costs of capital do AT&T and WorldCom use to evaluate local exchange projects, assuming that, for AT&T, it is something other than 15.31 percent? Please specify whether these costs of capital are after-tax or before-tax costs.

AT&T Response:

This response contains information that is proprietary to AT&T

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-24-01	10	3640	What costs of capital do AT&T and WorldCom use to evaluate local exchange projects, assuming that, for AT&T, it is something other than 15.31 percent? Please specify whether these costs of capital are after-tax or before-tax costs.

AT&T Response (continued):

[END AT&T PROPRIETARY]

To make the above figures comparable with the current cost of capital of a wholesale supplier of UNEs in the dominant position of Verizon in Virginia would require a number of adjustments, a number of adjustments would be necessary. The most important of which are as follows:

(1) The assumed return on 10-year Treasury bills should be reduced by about one percentage point to reflect the decline in the cost of risk-free debt since the end of 2000.

(2) The credit spread and the technology premium should be eliminated from the cost of debt.

(3) A beta reflecting the lower risks of the wholesale supplier of UNEs in Virginia should be substituted for the higher value assumed by AT&T.

(4) A smaller long-term market premium should be substituted for the premium assumed by AT&T, to reflect the growing body of research indicating that a smaller premium is now warranted.

(5) The technology premium should be removed from the cost of equity.

(6) For the reasons stated in Mr. Hirshleifer's testimony, the flotation cost adjustment should be removed as well.

(7) Reflecting the lower risks of a business devoted to the wholesale supply of UNEs, the capital structure should be more leveraged.

Detailed explanations for these adjustments appear in the testimony of AT&T/WCOM witness Hirshleifer, and will not be repeated here.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-24-01	13	3676	Please place into the record documentation explaining how BARRA estimates equity betas.

AT&T/WCOM Response:

AT&T and WCOM will provide a response to this record request as soon as possible.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-25-01	2	3764	Please place into the record, on a computer disk, the UNE cost-of-equity capital study that is reflected in AT&T/WorldCom's proposed UNE cost of capital for Verizon-VA. As part of this request, please include all models, formulas, equations, work papers, data, calculations, and a list of assumptions and a list of cites to sources of all data reflected in this study (the list of assumptions and the list of cites to the data sources may be provided on hard copy). Please submit this information in the software format used to develop the study. For example, submit this information in Excel if Excel was used to make calculations, not in PDF format. The software should retain any formulas rather than just values developed as part of that study. It should permit the staff to revise the study by editing the submitted study instead of replicating it entirely and then making changes to the replicated study.

AT&T/WCOM Response:

AT&T and WCOM will provide a response to this record request as soon as possible.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-25-01	N/A	3766	Please submit cites to any literature that compares the relative accuracy of one-stage versus multi-stage discounted cash flow models.

AT&T/WCOM Response:

AT&T and WCOM will provide a response to this record request as soon as possible.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-30-01	1	4420	To the extent AT&T/WorldCom have run Verizon's model with modified inputs, please identify what modifications have been performed, and the impact of these modifications.

AT&T/WCOM Response:

AT&T/WorldCom have identified both the individual impact and the cumulative impact of modifications it made to Verizon's statewide average two-wire loop costs. These impacts were quantified for both Verizon's July 2, 2001 loop cost study and the updated two-wire loop cost study Verizon produced on November 1, 2001. Overall, the AT&T/WorldCom Panel testimony discusses 26 modifications to Verizon's two-wire loop cost study. These are summarized as follows in the order in which each appears in the Panel discussion:

1. 100% IDLC
2. 100% GR303
3. 4:1 DLC Concentration Ratio
4. Changes in Unit Cost Source Data
    a. Use 1997 Cable Unit Cost Data
    b. Use 1998 Conduit Investment Data
5. Change Telephone Plant Index (TPI)
6. Cable Sizing Adjustment (Including LCAM formula correction)
7. Pole Investment (Including LCAM formula correction)
8. Copper Distribution Utilization at 60%
9. Fiber Utilization at 100%
10. Copper Feeder Utilization at 80%
11. Plug-in Utilization at 90%
12. Common Electronics Utilization at 80%
13. Conduit Utilization at 100% (plus additional $0.72 per foot)
14. Change Plug-in EF&I
15. Modify Structure Sharing
16. Spread Costs Over Future Anticipated Growth
17. Remove Forward-looking-to-Current (FLC) Factor
18. Include CC/BC Ratio
19. Use Forward-Looking Asset Lives
20. Use Forward-Looking Cost of Capital
21. Reflect Anticipated Merger Savings
22. Adjust Cable Repair and Maintenance Costs
23. Remove Advertising Expenses
24. Remove Y2K Expenses
25. Remove NRC Adjustment from Recurring Costs
26. Remove OSS Other Support Adjustment

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-30-01	1	4420	To the extent AT&T/WorldCom have run Verizon's model with modified inputs, please identify what modifications have been performed, and the impact of these modifications.

AT&T/WCOM Response (continued):

The impacts of these modifications to Verizon's statewide average two-wire loop cost studies are set forth in four attachments to this response.

Attachment 1 – Shows the individual impact of making each change individually to Verizon's July 2, 2001 filed statewide average two-wire loop costs.

Attachment 2 – Shows the cumulative impact of making each change to Verizon's July 2, 2001 filed statewide average two-wire loop cost. The AT&T/WCOM cumulative restated rate of $6.46 in Attachment 2 is the same as the statewide average restated two-wire loop rate shown in Attachment A to the AT&T/WorldCom Panel Rebuttal Testimony.

Attachment 3 – Shows the individual impact of making each change individually to Verizon's November 1, 2001 filed statewide average two-wire loop costs.

Attachment 4 – Shows the cumulative impact of making each change to Verizon's November 1, 2001 filed statewide average two-wire loop cost. The AT&T/WCOM cumulative restated rate of $6.18 in Attachment 4 is the statewide average loop rate that results from applying all of AT&T/WorldCom's proposed modifications to Verizon's updated two-wire loop cost study.

Details and electronic documentation underlying these Attachments are included on the accompanying compact disk.

FCC 10-30 Request 1 Attachr FCC 10-30 Request 1 Attachr FCC 10-30 Request 1 Attachr FCC 10-30 Request 1 Attachm

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-30-01	2	4548	Did AT&T and WorldCom, in their CLEC facility-based services, in the last three years, install GR-303 DLC equipment exclusively, to the extent they installed any DLC equipment? Why or why not?

AT&T Response:
For the last three years, AT&T has predominantly used GR-303 DLC equipment for its residential services. (AT&T has a few customers being served off of legacy platforms that use TR-008 protocol.)

AT&T uses the GR-303 protocol on local transport T-1s to deliver its residential service and uses multiple types of digital loop carrier equipment to terminate these GR-303 T-1s. Types of equipment that AT&T Broadband uses includes Host Digital Terminals (HDT) on it's Hybrid Fiber Coaxial (HFC) network and Digital Loop Carriers (DLC) for large multiple dwelling units (MDU) in and out of the HFC footprint. One example of AT&T HDT equipment is the Arris Cornerstone HDT while an example of the MDU DLC is the Nortel UE9000.

AT&T uses GR-303 DLC equipment because it is the latest generation technology and because it is a more efficient than the TR-008 arrangement. GR-303 DLC uses fewer switch ports and less transport than TR-008 because the concentration occurs at the DLC unit itself as opposed to within the switch with TR-008.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
10-30-01	3	4548	Going forward from today, do AT&T and WorldCom, in their CLEC facilities-based services, plan on installing GR-303 DLC equipment exclusively, to the extent they plan on installing DLC equipment? Why or why not?

AT&T Response:

AT&T plans to continue to use GR-303 DLC equipment for it's current services. However, as new types of equipment and technology are introduced, AT&T will evaluate such equipment and technology to determine if it meets the criteria required for its current and potential future services.

AT&T/WCOM Response to Record Requests

Date	No.	Page	Description
11-28-01	8	5322	Please submit the study that is the basis of the per-line default value for the analog line circuit offset for DLC lines, *i.e.*, the credit for DLC equipment, in the HAI switching and transport module.

AT&T/WCOM Response:

In accordance with the schedule established by the Staff, AT&T will respond to this record request by December 21, 2001.