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November 17, 2004

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Room TWB-204
Washington, DC 20554

RE: CC Docket No. 02-53, Presubscribed Interexchange Carrier Charges

Dear Ms. Dortch:

On November 3, 2004, SBC met with Commission staff to discuss SBC's cost studies provided in response to the Commission's PIC Change Charge NPRM. Therein, Commission staff asked SBC to respond to the following questions raised in the meeting.

1. Justify why the TPV costs should be included in the PIC cost studies.

   SBC has determined that the TPV costs related to PIC changes should not be included in the PIC cost studies; however, TPV costs associated with adding Slamming Protection to a PIC account should be included. The cost study results have been revised to reflect this change and are contained in the attached spreadsheet.

2. Why did SBC use ARMIS actuals in developing its overhead factor, but then used projections in developing the direct costs?

   In preparation for some of our recent UNE proceedings, SBC did not observe a measurable variation in historical overhead-related expenses. Therefore, we did not feel that forecasting an overhead factor for this proceeding was warranted. However, given FCC staffs' inquiry, SBC performed a formal trend analysis of the overhead factor.

   SBC used ARMIS data from years 1994-2003 to compute the existing values for the common factors, revenue factors and resulting overhead factors for the respective time periods. The common and revenue factors for years 2004-2006 were computed using a linear regression based on the actual common and revenue factors from 1994-2003. The forecasted overhead factor of 31.02% was then computed for year 2006, based on the forecasted common and revenue factors for 2006. This analysis displays that there has not been a significant trend in the overhead factor and confirms that the 32.17% overhead factor used in the development of the PIC Change Charge is reasonable. Attached is a spreadsheet summarizing the calculations.

3. Why are manual requests so high? Did SBC include requests to switch to SBC Long Distance?

   SBC provided the actual PIC change activities that were originated by the end user (manual requests) and those which were originated by the carrier (mechanized requests). SBC is not able to determine why the manual requests are so high. One possible explanation is that the customers prefer to do "one-stop-shopping" and can change their PIC and LPIC, along with other services, by calling their local service provider rather than the long distance provider.

   SBC did include requests to switch to SBC Long Distance as this activity is managed the same as any other carrier activity which is processed through CARE.

4. What is SBC's process since "paper" requests are no longer accepted?

   SBC replaced the "paper" PIC change process with an on-line application. With the ESP CARE II on-line process, long distance companies can submit their PIC changes via a Graphical User Interface (GUI) application that utilizes the IXC's internet browser.

5. Were SBC Long Distance slamming disputes included in the slamming costs? Why are SBC's slamming costs higher than Verizon's?

   The slamming costs represent slamming disputes which are handled by the SBC telcos in the role of executing carrier.

   SBC is not able to address Verizon's slamming costs.

6. What are the individual manual and mechanized costs and rates for SBC?

   The mechanized and manual costs and rates have been separately identified per the staff's request and are summarized on the attached spreadsheet.

7. Are the costs attributable to CARE specific to PIC change requests?

   The costs attributable to CARE are all related to PIC activity. SBC is unable to determine which costs are attributable specifically to PIC change requests versus other CARE database activity that is directly related to a PIC subscription.

   The CARE process was developed for the purpose of exchanging PIC activity. Importantly, PIC activity not only includes the actual PIC change but all activity relating to that change, including any future name changes, address changes, number changes, etc. associated with a particular PIC subscription. Given that all CARE activities are directly related to a particular PIC subscription, all costs associated with the CARE process should be recovered via the PIC change charge.

During the ex parte, staff indicated that they were considering establishing bifurcated rates for carrier changes performed manually and mechanically. SBC has a number of concerns about bifurcated rates. Retail customers who contact an SBC business office should not have to "shop" around for the best PIC change rates. There will be a great deal of confusion on the part of customers if they are told to hang up and call their selected long distance carrier if they want a reduced PIC change charge.

Further, creating a bifurcated schedule would drive additional process costs. The billing process for certain CARE products would need to be modified for the CARE system to distinguish between a carrier and LEC initiated change. This would be necessary to ensure proper billing of the customer or, when the IXC absorbs the PIC change charge, the appropriate credit to the customer's account. The retail billing systems would have to be modified in a similar manner. New rate elements (for billing and adjustments) would have to be created to identify carrier-initiated versus customer-initiated PIC changes. Additional costs would include M&P updates, service rep training, and customer education.

SBC anticipates that the costs to complete PIC changes will rise if a dual rate system is mandated as the fixed costs of processing the changes will be recovered by fewer "PIC only" changes.

If you have any questions, please contact the undersigned at 202-326-8843.

Sincerely,

/s/ Toni Acton

Attachments

cc: Deena Shetler
Judy Nitsche
Steve Funkhouser
Jennifer McKee
Alvaro Gonzalez

## PIC Direct Cost and Rate Summary (After Removal of TPV Related Costs)

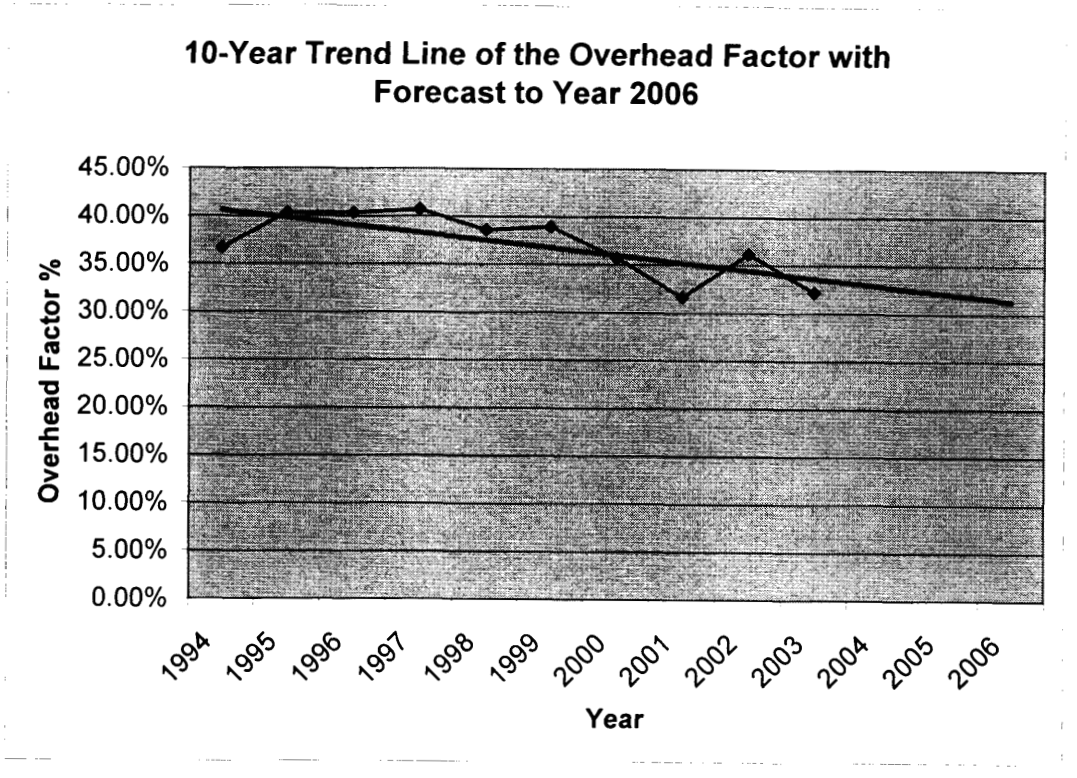
**PIC Cost Summary**

| State | Combined | 100% Manual | 100% Mechanized |
|---|---|---|---|
| MO - Initial | $3.39 | $4.04 | $1.57 |
| MO - Supp | $1.40 | $1.58 | $0.88 |
| OK - Initial | $3.49 | $4.21 | $1.60 |
| OK - Supp | $1.45 | $1.66 | $0.92 |
| KS - Initial | $3.76 | $4.48 | $1.77 |
| KS - Supp | $1.53 | $1.73 | $0.97 |
| AR - Initial | $3.76 | $4.46 | $1.88 |
| AR - Supp | $1.61 | $1.81 | $1.08 |
| TX - Initial | $3.34 | $4.17 | $1.61 |
| TX - Supp | $1.37 | $1.60 | $0.88 |
| IL | $2.85 | $3.35 | $0.98 |
| IN | $2.78 | $3.25 | $0.95 |
| MI | $3.10 | $3.47 | $1.11 |
| OH | $2.66 | $3.31 | $0.92 |
| WI | $2.90 | $3.30 | $0.99 |
| CA | $2.44 | $3.27 | $1.15 |
| NV | $2.91 | $3.58 | $1.57 |
| CT | $4.02 | $5.43 | $1.82 |

**PIC Rate Summary**

| State | Combined | 100% Manual | 100% Mechanized |
|---|---|---|---|
| MO - Initial | $4.48 | $5.34 | $2.07 |
| MO - Supp | $1.85 | $2.09 | $1.17 |
| OK - Initial | $4.61 | $5.56 | $2.11 |
| OK - Supp | $1.92 | $2.19 | $1.21 |
| KS - Initial | $4.97 | $5.92 | $2.34 |
| KS - Supp | $2.02 | $2.29 | $1.29 |
| AR - Initial | $4.97 | $5.90 | $2.48 |
| AR - Supp | $2.13 | $2.40 | $1.43 |
| TX - Initial | $4.41 | $5.51 | $2.13 |
| TX - Supp | $1.81 | $2.12 | $1.16 |
| IL | $3.77 | $4.43 | $1.30 |
| IN | $3.67 | $4.30 | $1.26 |
| MI | $4.10 | $4.59 | $1.47 |
| OH | $3.52 | $4.37 | $1.22 |
| WI | $3.83 | $4.36 | $1.31 |
| CA | $3.22 | $4.32 | $1.52 |
| NV | $3.85 | $4.73 | $2.08 |
| CT | $5.31 | $7.18 | $2.41 |

| Overhead Factor Calculation | | | | | | | | | | | | Based on 10-year Actual Data Forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Description** | **Source** | **1994** | **1995** | **1996** | **1997** | **1998** | **1999** | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** |
| Common Factor | Calculated from ARMIS Data | 25.90% | 25.50% | 24.29% | 26.10% | 21.74% | 20.71% | 18.34% | 13.26% | 19.30% | 18.84% | 15.18% | 14.05% | 12.92% |
| Revenue Factor | Calculated from ARMIS Data | 8.53% | 11.85% | 12.92% | 11.58% | 13.84% | 15.08% | 14.64% | 16.20% | 14.10% | 11.21% | 15.22% | 15.62% | 16.03% |
| **Total Overhead Factor** | =(1+ Common Factor) * (1+ Revenue Factor) - 1 | **36.65%** | **40.37%** | **40.35%** | **40.70%** | **38.58%** | **38.90%** | **35.67%** | **31.60%** | **36.12%** | **32.17%** | **32.71%** | **31.87%** | **31.02%** |



# Cost & Rate Results

**SBC East, West, and Midwest**

| | SBC CT | SBC CA | SBC NV | SBC IL | SBC IN | SBC MI | SBC OH | SBC WI |
|---|---|---|---|---|---|---|---|---|
| Direct Cost | $4.02 | $2.44 | 2.91 | $2.85 | $2.78 | $3.10 | $2.66 | $2.90 |
| Overhead | 32.17% | 32.17% | 32.17% | 32.17% | 32.17% | 32.17% | 32.17% | 32.17% |
| **Rate** | **$5.31** | **$3.22** | **$3.85** | **$3.77** | **$3.67** | **$4.10** | **$3.52** | **$3.83** |

**SBC Southwest**

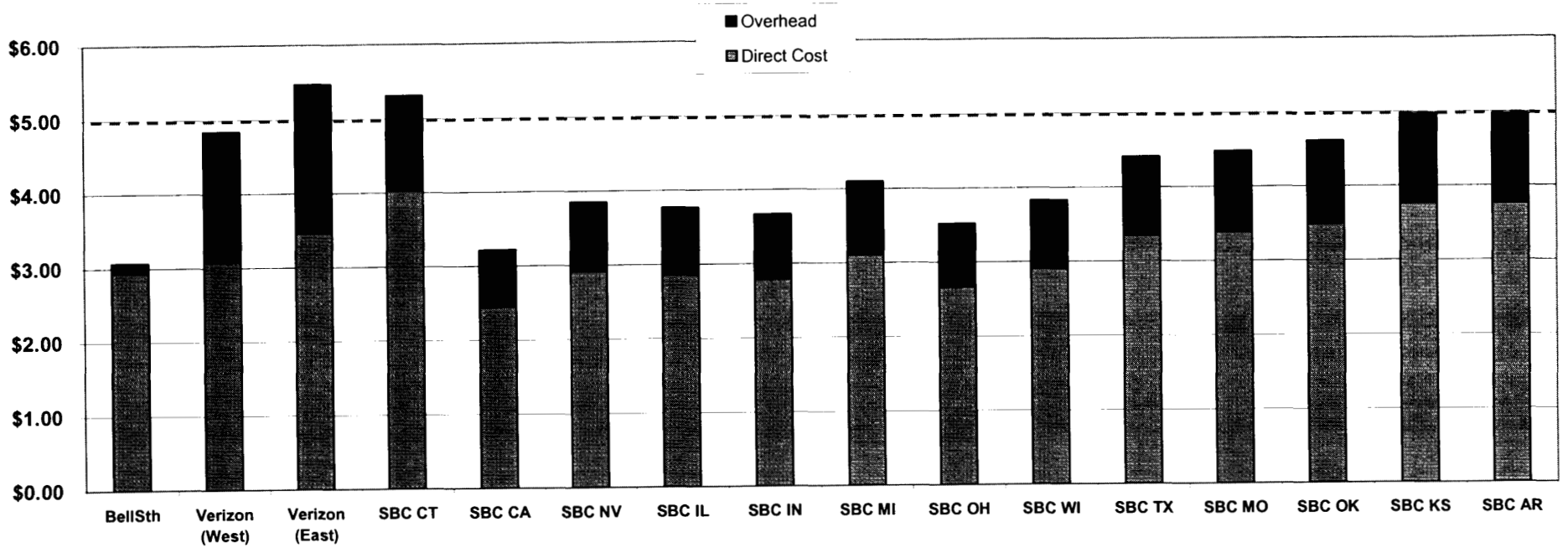
| | SBC TX | SBC MO | SBC OK | SBC KS | SBC AR |
|---|---|---|---|---|---|
| Direct Cost | $3.34 | $3.39 | $3.49 | $3.76 | $3.76 |
| Overhead | 32.17% | 32.17% | 32.17% | 32.17% | 32.17% |
| **Rate** | **$4.41** | **$4.48** | **$4.61** | **$4.97** | **$4.97** |

**Other ILECs**

| | BellSouth | Verizon (West) | Verizon (East) |
|---|---|---|---|
| Direct Cost | $2.93 | $3.08 | $3.46 |
| Overhead | 4.97% | 57.30% | 58.22% |
| **Rate** | **$3.07** | **$4.84** | **$5.47** |

Note: All rates represent charge for a single PIC change.

# Cost & Rate Comparison




| | BellSth | Verizon (West) | Verizon (East) | SBC CT | SBC CA | SBC NV | SBC IL | SBC IN | SBC MI | SBC OH | SBC WI | SBC TX | SBC MO | SBC OK | SBC KS | SBC AR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Direct Cost | $2.93 | $3.08 | $3.46 | $4.02 | $2.44 | $2.91 | $2.85 | $2.78 | $3.10 | $2.66 | $2.90 | $3.34 | $3.39 | $3.49 | $3.76 | $3.76 |
| Overhead | $0.14 | $1.76 | $2.01 | $1.29 | $0.78 | $0.94 | $0.92 | $0.89 | $1.00 | $0.86 | $0.93 | $1.07 | $1.09 | $1.12 | $1.21 | $1.21 |
| **Total** | **$3.07** | **$4.84** | **$5.47** | **$5.31** | **$3.22** | **$3.85** | **$3.77** | **$3.67** | **$4.10** | **$3.52** | **$3.83** | **$4.41** | **$4.48** | **$4.61** | **$4.97** | **$4.97** |

····· = Current Safe Harbor

Note: All rates represent charge for a single PIC change.

# Major Direct Cost Categories

| | CT | | IL | | CA | | TX | |
|---|---|---|---|---|---|---|---|---|
| **General Category** | **Direct Cost $** | **% of Total Direct Cost** | **Direct Cost $** | **% of Total Direct Cost** | **Direct Cost $** | **% of Total Direct Cost** | **Direct Cost $** | **% of Total Direct Cost** |
| PIC Change | **$2.20** | **54.7%** | **$1.87** | **65.6%** | **$1.29** | **52.8%** | **$1.73** | **51.8%** |
| PIC Add Protect/Freeze | $.04 | 0.9% | $.04 | 1.4% | $.03 | 1.2% | $.13 | 3.9% |
| PIC Remove Protect/Freeze | $.02 | 0.5% | $.01 | 0.3% | $.01 | 0.4% | $.17 | 5.0% |
| CARE Support | $.72 | 17.9% | $.07 | 2.4% | $.07 | 2.9% | $.03 | 0.9% |
| Slamming Support | $.11 | 2.7% | $.02 | 0.7% | $.26 | 10.7% | $.35 | 10.5% |
| TPV (Contractor) | $.01 | 0.2% | $.00 | 0.0% | $.00 | 0.0% | $.00 | 0.0% |
| Service Order Computer | $.50 | 12.4% | $.42 | 14.8% | $.36 | 14.8% | $.51 | 15.3% |
| IT Support | $.42 | 10.4% | $.42 | 14.8% | $.42 | 17.2% | $.42 | 12.6% |
| Total: | $4.02 | 100% | $2.85 | 100% | $2.44 | 100% | $3.34 | 100% |