

**Mark Connors**

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To: CD 2005-1 distribution list

Further to C&W's distribution of its responses to the second round interrogatories, the Authority attaches the "Introductory comments on terminology used" section from the ICTA/Telcordia second round interrogatory document that was sent to C&W on 16 April 2007. Readers of the C&W interrogatory responses may find it helpful to refer to this document.

....mark

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**SECOND ROUND****Interrogatories Regarding C&W Cost Models**

April 16, 2007

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## 1. Introduction

This document contains questions for the second round of interrogatories prepared by Telcordia for use by the ICTA in the review of C&W cost models.

The ICTA contracted Telcordia to perform a thorough review of the cost models and materials submitted by C&W. In the process of the review, Telcordia has identified a number of areas where it cannot adequately judge the reasonableness and correctness of the models without further information. In January, a first round of interrogatories was submitted to C&W for answers. This document contains further questions for information and clarification that Telcordia has identified in its review of the model and of the C&W answers to the first set of interrogatories.

The questions included in this document address the materials contained in the following models and documents:

- Fixed Model
- Mobile Model
- Consolidated Model
- Background Document Draft Costing Manual
- Fixed Network Document Draft Costing Manual
- Mobile Network Document Draft Costing Manual

As many questions touch on topics addressed in both the models and documentation, Telcordia has organized its questions in to the following categories:

- General
- Fixed Model
- Mobile Model
- Consolidation Model

It should be understood that questions in a specific section may pertain either to the model itself, or the related documentation of the model, or both.

## 2. General

### 2.1 Common Costs, Fixed Common Costs and Joint Costs

#### Introductory comments on terminology used

There seems to be some confusion in the terminology used by C&W when describing FCCs, Joint Costs, ISFCs and Network-Wide Common Costs.

- In paragraph 16 of the Background Document, C&W defines Fixed Common Costs (FCCs) as the fixed costs associated with the production of two or more services (Increments), which cannot be avoided unless production of all services to which they are common is stopped.
- In paragraph 128 of the Background document, C&W explains how it calculates Joint Costs and Business Unit Common Costs, in such a way that it seems that:
  - C&W's models provide the same treatment to Joint Costs and Fixed Common Costs (as per the definition in paragraph 16 of the Background Document).
  - BU Fixed Common (or Business Unit Fixed Common) represent the Intra-Network Common Costs of the Fixed Network.
  - BU Mobile Common (or Business Unit Mobile Common) represent the Intra-Network Common Costs of the Mobile Network.
- In paragraph 18 of the Background Document, C&W states that the FLLRIC models calculate Network-Wide Common Costs and Increment Specific Fixed Costs (ISFCs) for each Cost Category.
- In the Glossary of the Background Document, C&W provides the definition of Increment-Specific Fixed Costs (ISFCs) as those costs which do not vary with a particular driver volume, but which can be attributed entirely to a single increment.
- In C&W's response to ICTA/Telcordia interrogatories, C&W further explains that, from the models' perspective, FCCs are business-wide: common across all Increment groups, i.e., Access and Traffic in the Fixed Model and Subscriber and Traffic in the Mobile Model, and ISFCs are common across an increment group alone, e.g., within the Fixed Access Increment, are common to residential and business access, ISDN access ADSL retail and wholesale.
- It seems that C&W treats Joint Costs (as described in paragraph 128 of the Background Document) and ISFCs as if they were the same thing.
- In paragraph 48 of the Revised Fixed Manual and paragraph 34 of the Revised Mobile Manual, C&W states that the models identify the Increment Specific Fixed Costs (ISFCs) and Network-Wide Common Costs (FCCs) and marks up the pure LRIC to produce D-LRIC and full LRIC for each service. Those definitions are consistent with the definitions provided by C&W in its response to ICTA/Telcordia interrogatories, but they do not appear to be consistent with those definitions in the Background Document (or with the definitions usually found in the specialized literature).

In order to make the interrogatories clearer, we have used a single set of definitions for these same terms. Though there are a variety of definitions for the same terms used in the industry, the definitions below are consistent with the definitions set forth in ICTA's Decision 2005-4 and based on the terminology found commonly in UK regulatory proceedings, which seems to be the terminology adopted by C&W in most parts of its fixed and mobile models documents.

- Pure LRIC of a service is the LRIC calculated as the difference between the total cost upon removal of the respective service volume and the original total cost (before removal of any service volume and before any allocation of Fixed Common and Joint Costs).
- Joint Costs refers to costs incurred when two or more outputs are produced in fixed proportions by the same production process (i.e., when one product is produced, a second product is generated by the same production process at no additional cost). This is the cost of an input which necessarily produces two or more separable outputs in fixed proportions irrespective of volume.
- Fixed Common Costs are the fixed costs that are common to two or more increments, which cannot be avoided except by the closure of all activities to which they are common.
- Intra-Network Common Costs (or Network-Wide Common Costs) are Fixed Common and Joint Costs that are common to all increments of each network (fixed or mobile). They include the various sub-families of network costs (e.g., Access sub-family, Core Transmission sub-family, etc).
- Corporate-Wide Common Costs are the Fixed Common and Joint Costs that are common to the Network and Retail increments.
- Increment-Specific Fixed Costs (ISFCs) as those costs which do not vary with a particular driver volume, but which can be attributed entirely to a single increment.