

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-1

**QUESTION:** Please identify each person who participated in the drafting of the C&W Proposal.

**REPLY:** We note that the purpose of the first interrogatory phase of the FLLRIC proceeding is to “develop a sufficient record that will enable [the Authority] to set out, on a preliminary basis, appropriate economic and regulatory principles and parameters for a FLLRIC model”. This interrogatory does not address economic and regulatory principles, and a response to this interrogatory would be irrelevant to the Authority’s determination in this proceeding. Indeed, being responsive to such interrogatories may be ill-advised as it could set the expectation that irrelevant interrogatories are acceptable in the future. However, in an effort to be responsive, C&W provides the following response:

The C&W Proposal was drafted by in-house staff.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-2

**QUESTION:** Please identify each person who participated in the preparation of the responses to these interrogatories, and please identify as to which interrogatory or interrogatories each such person participated

**REPLY:** We note that the purpose of the first interrogatory phase of the FLLRIC proceeding is to “develop a sufficient record that will enable [the Authority] to set out, on a preliminary basis, appropriate economic and regulatory principles and parameters for a FLLRIC model”. This interrogatory does not address economic or regulatory principles, and a response to this interrogatory would be irrelevant to the Authority’s determination in this proceeding. Indeed, being responsive to such interrogatories may be ill-advised as it could set the expectation that irrelevant interrogatories are acceptable in the future. However, in an effort to be responsive, C&W provides the following response:

All interrogatory responses in Phase 1 of this proceeding were drafted by C&W in-house staff.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-3

**QUESTION:** Please identify the consulting firms and the primary consultants assigned by each such firm to work on the C&W proposal and/or the C&W FLLRIC project.

**REPLY:** A response to this interrogatory is irrelevant to the Authority's determination in this proceeding, and is outside the scope of the proceeding established by CD (2004) 1. However, in an effort to be responsive, C&W provides the following response:

With respect to the implementation of the FLLRIC model(s), at this time we do not know what consulting firms or primary consultants C&W may employ. Indeed, as the initial request for an estimate of the cost of the FLLRIC modeling was made some time ago and, in advance of Phase I of the proceeding, it is possible that the Authority will want to consider a whether a new request should be made of any potential consultants. Furthermore, as part of Phase I or Phase II of this proceeding we expect to receive guidance from the Authority as to the role any chosen consultancy plays in the development of the FLLRIC modeling.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-4

**QUESTION:** Please provide all correspondence and communications (including email) between C&W and each consulting firm identified in response to Interrogatory No. 3.

**REPLY:** Please see response to WVCIL-CW 1-3

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-5

**QUESTION:** Please provide copies of all documents related to each such consulting firm's responses to any C&W requests and/or work performed on C&W's behalf.

**REPLY:** Please see response to WVCIL-CW 1-3

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-6

**QUESTION:** Please provide copies of all documents (in electronic format where possible) that are cited in the text or the footnotes of the C&W Proposal.

**REPLY:**

1. Section 48 of the Information and Communications Technology Authority Law.  
[http://www.icta.ky/dev/da\\_telephony\\_regs.php](http://www.icta.ky/dev/da_telephony_regs.php)
2. Section 7 of the First Report and Order in the Matter of the Local Competition Provisions in the Telecommunications Act of 1996.  
[http://www.fcc.gov/Bureaus/Common\\_Carrier/Orders/1996/fcc\\_96325.pdf](http://www.fcc.gov/Bureaus/Common_Carrier/Orders/1996/fcc_96325.pdf)
3. Directive 97/33/EC of the European Parliament and of the Council on Interconnection in Telecommunications with Regard to Ensuring Universal Service and Interoperability through Application of the Principles of Open Network Provision (ONP), Commission Recommendation of 8 January 1998 on interconnection in a liberalised telecommunications market (Part 1 – Interconnection pricing)  
<http://europa.eu.int/ISPO/infosoc/telecompolicy/en/intconen.doc>
4. “Access Pricing Principles –Telecommunications: a guide”, July 1997  
<http://www.accc.gov.au/content/item.phtml?itemId=324346&nodeId=file40e3c1e6a51db&fn=Access%20pricing%20principles.pdf>
5. “Application of a TSLRIC Pricing Methodology- Discussion Paper, New Zealand Commerce Commission, 2 July 2002.  
<http://www.comcom.govt.nz/telecommunications/pdf/TSLRIC%20discussion%20paper%202%20July%202002.pdf>
6. BT Long Run Incremental Cost Model—Relationships and Parameters, 13 November 1998. A newer version of this



BT\_RelsandParams.p  
df

document is attached.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

7. "Cost Oriented Access and Interconnection in Sweden", pg.



"Sweden

Interconnection.pdf"

52-56 and Annex 2.

8. Oftel, Long-Run Incremental Cost: the Bottom-up Model, Version 2.2, March 1997. As cited in in # 5 above.
9. HAI Consulting, HAI Consulting Inc., HAI Model Release 5.0a Model Description, 16 February 1998  
<http://www.hainc.com/model.html#documentation>
10. Estimating the Long-Run Incremental Cost of PSTN Access, January 1999, NERA.  
[http://www.nera.com/Publication.asp?p\\_ID=800](http://www.nera.com/Publication.asp?p_ID=800)
11. "Analytical Cost Model for the National Core Network" Wik,



"Analytical Cost  
Model.pdf"

14 April 1999

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

released September 15, 2003.

[http://hraunfoss.fcc.gov/edocs\\_public/attachmatch/FCC-03-224A1.pdf](http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-03-224A1.pdf)

19. Telecom Public Notice, CRTC, 2003-8, 23 October 2003  
<http://www.crtc.gc.ca/archive/ENG/Notices/2003/pt2003-8.htm>
20. Consumer and Corporate Affairs, 1992. The application of these guidelines in telecommunications can be found in Telecom Decision CRTC, 94-13, 13 July 1994.  
[http://www.regtp.de/imperia/md/content/internatio/PIBs\\_on\\_LRIC.pdf](http://www.regtp.de/imperia/md/content/internatio/PIBs_on_LRIC.pdf)
21. Niels and Ten-Kate, "Predatory pricing standards: is there a growing international consensus", Anti-trust Bulletin, Vol. 45, No. 3, 2000. page. 805. **Copying would result in infringement of copyright laws.**
22. "Imputation Tests for Bundled Services: A Report for the ACCC, NERA, January, 2003.  
[http://www.nera.com/Publication.asp?p\\_ID=1172](http://www.nera.com/Publication.asp?p_ID=1172)
23. EC Notice on the application of the competition rules to access agreements in the telecommunications sector, OJ 98/C 265/02  
<http://europa.eu.int/ISPO/infosoc/telecompolicy/en/ojc265-98en.html>
24. "The Application of the Competition Act in the Telecommunications Sector", Oftel, January 2000.  
<http://www.ofcom.org.uk/static/archive/oftel/publications/indguidelines/cact0100.htm>
25. Phase II Costing Manual, 31 May 2002, pp. 8-10.



PhaseIICanada.zip

26. "Mobile LRIC model specification: Final version for the industry working group", Post & Telestyrelesen, 12 June 2003.  
<http://www.pts.se/Archive/Documents/SE/Model%20Specification%20-%20Final%20version.pdf>
27. "Study on the Preparation of an adaptable Bottom-up Costing Model for Interconnection and Access Pricing in European Union Countries" Europe Economics, April 2000,  
<http://europa.eu.int/ISPO/infosoc/telecompolicy/en/lricexsum.pdf>
28. "An Analytical Cost Model for the National Core Network, Consultative Document", Wissenschaftliches Institut fur

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

Kommunikationsdienste (Wik), 14 April 1999,  
[http://www.regtp.de/imperia/md/content/reg\\_tele/anakosteng/5.pdf](http://www.regtp.de/imperia/md/content/reg_tele/anakosteng/5.pdf) or see #11.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-7

**QUESTION:** Does C&W plan to adopt, in full or in part, a particular forward-looking cost model from another jurisdiction? If so, please indicate which model.

**REPLY:** Phase 1 of this public consultation is intended to, "identify generally accepted economic and 'best practice' regulatory costing principles to be adopted by Cable & Wireless in a FLLRIC model." It would be premature to adopt a particular forward-looking cost model from another jurisdiction without the initial Phase 1 determinations by the Authority. Once the initial Phase 1 determinations have been made, C&W will consider whether advocating a particular forward-looking cost model from another jurisdiction, in full or in part, is appropriate.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-8

**QUESTION:** In Section 2.1 of the C&W Proposal, you identify the “underlying principles” that C&W believes should apply to development of a LRIC model. Please identify all principles that C&W considered for this section and chose not to include, and please state the basis for the decision not to include each such principle.

**REPLY:** The list of principles in Section 2.1 of the C&W Proposal constitutes all the general principles C&W believes should apply to development of a LRIC model. Where we believe it appropriate to further develop our position on issues and principles relevant to Phase 1 of this proceeding, we have done so in response to relevant interrogatories.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-9

**QUESTION:** Please provide C&W financial depreciation schedules for all equipment and assets (or groups of equipment and assets) that will be involved in or included in C&W's FLLRIC analysis.

**REPLY:** C&W does not have financial depreciation schedules for all equipment and assets that will be included in the FLLRIC analysis. C&W's position is that an asset's depreciation life should be based on the economic life of the asset, and that the asset lives C&W uses for its audited financial reports serve that purpose. This contrasts with "regulatory" lives, which is often argued by proponents of longer asset lives. More fundamentally, the Authority will have to confirm the principle on which depreciation expenses are derived. C&W's position is that economic depreciation is the best approach. We propose that it be implemented with the application of a tilted annuity wherein the expected changes in assets prices are captured in the annualized cost factor. Once this principle is confirmed, C&W will be able to provide financial depreciation schedules for all equipment and assets.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-10

**QUESTION:** Does C&W have any formal guidelines for accounting techniques used in “bringing forward historic costs” (as discussed in Section 3.3 of the C&W Proposal)? If yes, please provide all documentation related to those guidelines.

**REPLY:** There are generally two methods to bring forward historic costs: (1) indexation and, (2) the absolute method. In the indexation method the assets historic purchase price is brought forward through the use of a price index. For example, if the asset was bought in 1995, at a price of \$100, and a price index indicates that the price for that asset has increased 25% from 1995 to 2004, bringing forward that cost would result in a current cost of \$125. In the absolute method an analyst investigates the market (e.g., through vendor quotes) to obtain the current price of the asset. This may be obtained on a replacement value or modern equivalent asset basis.

We note that in our proposal the use of historic or top-down asset data would be required in both network and non-network capital costing. In the case of network costing, we would be using asset data only as support or cross-check to ensure that the estimates produced by the bottom-up modeling are reasonable. In particular, where the bottom-up model includes an asset that is currently used in the existing network, the current cost of that existing asset may be used in the bottom-up model or may be used to cross-check the cost generated in the bottom-up model.

Please note we are not suggesting that a full top-down LRIC model is necessary to reconcile the results of the bottom-up model with a current costing of C&W accounts. In fact, we should qualify paras. 4.16 and 4.34 under the C&W proposal for network design. Full reconciliation of assets will not be possible to the extent that the assets of the modeled network differ from the type of assets found in the actual network. A straight-forward comparison of many asset costs may not be feasible.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-11

**QUESTION:** Please describe any indexation techniques C&W plans to use in its efforts to compute replacement cost of capital assets.

**REPLY:** Where an asset used in the LRIC model is the same specification as one used in C&W's own network then it may be feasible to apply indexation techniques to C&W assets to obtain the current value of the asset being modeled. In these cases, an index may be calculated from C&W data (e.g. change in wage rates or change in price paid for the same asset) or it may be obtained from an external source (e.g. equipment vendor or consultant).

C&W will consider the use of indexation versus absolute valuation on an asset by asset basis, with the availability of an appropriate index, and the ability to obtain information from vendors being the key determinants of the decision. An index typically shows the historic annual change in the price of an asset (or group of assets). In some cases, it is necessary to combine indexes to obtain a single asset price index. For example, a specific asset capital cost index may be combined with a generic labour rate index to obtain an aggregate asset price index that reflects both capital and labour components

Where C&W chooses to use indexation as the method to obtain the current price of a particular asset then the value of the asset may be brought up to date using the following formula:

Current asset cost = historic asset cost \* (1+ growth rate to get to current period)

Growth rate to get to current period = (Current Time Period Index Value /  
Historical Time Period Index Value)- 1

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-12

**QUESTION:** Please provide any “engineering or statistical studies” (as discussed in Section 3.5 of the C&W Proposal)” undertaken, past or present, to estimate the cost volume relationship.

**REPLY:** C&W has not undertaken any engineering or statistical studies to estimate the cost volume relationships in the Cayman Islands. We would like to clarify that, according to our proposal, the use of cost-volume relationships (CVR) would only be used in the analysis of non-network capital costs (e.g., buildings, vehicles, power, air-conditioning) and opex (e.g., finance, regulatory, legal) where necessary. In cases where the non-network costs and opex are fully variable to the volume increment, it will not be necessary to develop a CVR. Network assets both for the fixed and mobile networks would be modeled on a bottom-up basis and would not require CVRs.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-13

**QUESTION:** Will C&W perform the “engineering or statistical studies” required to compute the cost-volume relationship, or will that work be outsourced to a consulting firm? If so, to whom will the work be outsourced? Please provide copies of all correspondence related to such outsourcing.

**REPLY:** At this time, C&W has taken no action to compute cost-volume relationships and will not unless a determination is made in Phase 1 that cost-volume relationships are necessary in the FLLRIC modeling. If that determination is made, C&W expects to consider who will perform the computation in consultation with the Authority and interested parties.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-14

**QUESTION:** What internal human resources are available to C&W to perform the “engineering or statistical studies” required to compute the cost-volume relationship? Please describe the qualifications of each such person.

**REPLY:** Please see response to WVCIL-CW 1-13.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-15

**QUESTION:** What internal or external C&W data will be used in performing the “engineering or statistical studies” required to compute the cost-volume relationship? If this data is available, please provide it in electronic format (either as a spreadsheet or database).

**REPLY:** Please see response to WVCIL-CW 1-13. We have proposed to rely on internal C&W cost data for computing these relationships. In so doing, we would expect interested parties to comment on the techniques in Phase 2 of the proceeding. We would expect, however, that the Authority would hold the data in confidence. If C&W could not rely on such confidentiality, it may have to consider a different approach.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-16

**QUESTION:** What specific statistical techniques does C&W plan to use in performing the “engineering or statistical studies” required to compute the cost-volume relationship?

**REPLY:** Please see response to WVCIL-CW 1-13. Further, the nature of the engineering and statistical studies depends on the nature of the cost for which the CVR is being constructed. The exact type and methodology for the study is not determined until full analysis of the cost type and, particularly, the cost driver, has been undertaken. Examples of studies that may be considered when developing CVRs include:

- Engineering Models that attempt to model an asset’s costs on the basis of underlying unit costs of component parts; and
- Statistical Techniques such as time series regression analysis, cross sectional regression analysis, structural change analysis, derivations of economies of scale, or headcount analysis.

The technique that is employed is determined by the nature of the cost and the availability of sufficient survey data.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-17

**QUESTION:** Please describe the nature of the “forward-looking efficiency adjustments” described in Section 3.12 of the C&W proposal.

**REPLY:** If a forward-looking efficiency adjustment is appropriate, the adjustment would take the form of a factor that, when applied to expenses, would adjust an expense level. For example, if C&W’s annual maintenance cost for a switch was \$100, and it could be shown that C&W’s maintenance expenses could be expected to improve by 5%, then the cost model would use \$95 as the annual maintenance expense of a switch.

Phase 1 of this public consultation is intended to, “identify generally accepted economic and ‘best practice’ regulatory costing principles to be adopted by Cable & Wireless in a FLLRIC model.” If the Authority considers a forward-looking efficiency adjustment to be an appropriate costing principle, C&W will develop an appropriate adjustment factor in Phase 2 of this proceeding, at which time other parties to the proceeding will have an opportunity to comment on the derivation of the factor.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-18

**QUESTION:** Please provide documentation for any engineering rules that C&W plans to use for the FLRRIC analysis.

**REPLY** C&W does not maintain documentation for any engineering rules beyond those submitted to the ICTA confidentially in the biannual "Development Plans." The biannual development plans include network performance indicators and Key Performance Indicators (KPI) maintained by C&W. These KPIs (grade of service, coverage, etc.) provide one set of parameters that can be used as a starting point for dimensioning the network.

Examples of the kinds of rules that will be used for bottom-up dimensioning rules can be found in literature cited in response to WVCIL-CW 1-6, for example, #11 and #27 (sections 4.3, 5.4). The dimensioning of the mobile network will require specification of such technical assumptions as spectrum, carrier bandwidth, carriers per sector, geographic traffic distribution, cell capacity, coverage, cell sectorization, grade of service as well as the subscriber and traffic volumes.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-19

**QUESTION:** What adjustments does C&W propose to make in order to account for inflationary/deflationary pricing trends for capital equipment and labor?

**REPLY:** Phase 1 of this public consultation is intended to, "identify generally accepted economic and 'best practice' regulatory costing principles to be adopted by Cable & Wireless in a FLLRIC model." C&W will not be able to identify what adjustments to make to account for inflationary/deflationary pricing trends until the Authority confirms the principles from which any adjustments would arise in this Phase of the proceeding. The kinds of determination that the Authority will have to make before we can assess what pricing trends are relevant are primarily twofold: 1) whether we are using top-down data for opex and non-network assets, and 2) how depreciation expenses are modeled. The top-down data may have to be adjusted to ensure that it is costed on a current basis, which may require pricing trends (e.g. if indexation is used).

There are a number of different approaches to depreciation expense that we could use. The preferred course in LRIC modeling is economic depreciation. We believe the most expeditious way to capture the most important attributes of economic depreciation is to use a tilted annuity approach that would take into consideration anticipated changes in the prices of assets.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-20

**QUESTION:** With respect to the weighted average cost of capital (“WACC”) of 13.5% referenced in Section 3.52 of the C&W proposal, please provide the following:

- a) Any comparative analysis performed by C&W regarding the WACC for other telecommunications companies;
- b) Any data gathered by C&W on the WACC for other telecommunications companies;
- c) A listing of all telecommunications companies of which C&W is aware that have a WACC equal to or higher than 13.5%; and
- d) Any further analysis performed by C&W, since the 2003 determination referenced in Section 3.52, regarding its WACC.

**REPLY:**

a) C&W has not conducted a comparative WACC analysis for other telecommunications companies. C&W business units may conduct analysis for their respective markets, but this information is considered confidential to those business units.

b) C&W does not typically gather information on the WACC of other telecommunications companies. However, in the costing proceedings cited, many regulators have published WACC for incumbents. For example,

- In its mobile termination inquiry, the UK’s Competition Commission arrived at a pre-tax WACC rate of between 7.7% and 14.4%, the midpoint being 11.25%, for UK mobile operators.
- Oftel, in its February 2001 Network price control proceeding determined BT’s pre-tax nominal WACC to be 13.5%.
- France Telecom was determined as having a pre-tax nominal WACC of 10.4% in October 2003.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

- Belgacom's WACC was set at 12.88% in May 2003
- In December 2003 in Sweden it was set at 12% for Telia/Sonera.
- The incumbent in Portugal has a WACC of 13.31%,
- Telecom Italia has 13.5% (August 2001),
- OTE of Greece uses 13.12%
- Eircom of Ireland is 12% (July 2002).

Please also see the attached document containing other comparable WACCs.



"Sweden WACC  
report final draft 090

- c) The list of the WACCs presented above gives an indication of which WACCs may be equal to or greater than 13.5%.
- d) C&W has undertaken no additional analysis since 2003 on an appropriate WACC for the Cayman Islands.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-21

**QUESTION:** Please provide a listing of “relatively short” lived assets for which C&W plans not to adjust capital prices, as referenced in Section 4.43 of the C&W Proposal.

**REPLY:** C&W considers it appropriate to value the forward-looking cost of an asset at its historical cost if the asset has an economic life of three years or less.

Where assets have a relatively low value the asset is accounted for at its historical cost and is not revalued. Similarly where the life of an asset is relatively short, such that there is unlikely to be a significant difference between the cost of the asset at the date of acquisition and its gross replacement cost, the asset is not revalued but retained at its historical cost value.

Examples of assets may include: IT projects, computers, consumables, network spares, and office furniture.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-22

**QUESTION:** Please describe in detail the “measures” that “may be necessary to adjust for demonstrable inefficiency,” as stated in Section 5.6 of the C&W Proposal.

**REPLY:** The “measures” to adjust for inefficiency (if one is found to exist) would be to simply remove the cost associated with that inefficiency from the cost analysis. That is, if it can be shown that an inefficiency exists, the costs associated with that inefficiency should not be passed on into the FLLRIC costing.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-23

**QUESTION:** Please define what constitutes a “demonstrable inefficiency,” as stated in Section 5.6 of the C&W Proposal).”

**REPLY:** A demonstrable inefficiency is an inefficiency that can be demonstrated to exist. Processes used to identify demonstrable inefficiencies include appropriate benchmarking analysis (e.g., ratios of line per employee), statistical analysis (e.g. stochastic frontier analysis), mathematical techniques (e.g. data envelope analysis), direct measurement of costs, and time and motion studies.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-24

**QUESTION:** With what firms does C&W intend to compare its efficiency ratios (as stated in Section 5.9 of the C&W Proposal) in an effort to detect “demonstrable inefficiencies?”

**REPLY:** C&W has not considered what firms with which to compare efficiency ratios. If the Authority deems the use of top-down data is appropriate in Phase 1 of this proceeding, C&W will develop the efficiency adjustment factors in Phase 2 of the proceeding, at which time other parties to the proceeding will have an opportunity to comment on the firms chosen for the comparison in indeed such benchmarking is used. In the case of benchmarking, the firms chosen will depend on factors such as the availability of data, the size of the other firm, the regulatory environment of the other firm, and other demographic and economic characteristics.

ICTA FLLRIC Public Consultation  
Response to Interrogatories

**REQUEST:** AT&T, 21 June 2004

**DATED:** 30 July 2004

**ITEM:** WVCIL-CW 1-25

**QUESTION:** Please provide copies of all interrogatories submitted to C&W in this proceeding by any party or entity other than WVCIL, and please provide copies of C&W's responses to such interrogatories.

**REPLY:** C&W will provide a copy, redacted if necessary, of all of its responses to all parties of record.