

**NEVADA BELL TELEPHONE COMPANY
DESCRIPTION AND JUSTIFICATION
TRANSMITTAL NO. 116
DECEMBER 13, 2005**

PURPOSE

Nevada Bell Telephone Company (NBTC) is proposing to introduce Optical Carrier Network (OCN) Point-to-Point Service to the SBC Federal Access Solution Transport Program (FAST).

DESCRIPTION

With this filing, NBTC proposes to introduce OCN Point-to-Point Service to its SBC Federal Access Solution Transport Program (FAST). The SBC FAST Program allows each of the Federal Government's authorized contractors providing network services under contract to obtain discounted rates for specified services. Along with DS1, DS3, GigaMAN, and MON services, the SBC FAST Program will now offer the OCN Point-to-Point Service. OCN Point-to-Point Service is a transport service that is designed to connect customer locations and SBC wire centers in a linear (point-to-point) configuration. Large volumes of information can be transported between two locations in a dedicated, high-bandwidth optical path. Specifically, the OCN Point-to-Point Services can handle voice, data, video, imaging, Internet traffic and other advanced broadband applications.

COST DEVELOPMENT

This cost study uses a Circuit Equipment Cost Analysis Tool (CECAT) approach to costing. In order to provide a service, certain activities have to be performed. Since the model is spreadsheet based, all of the inputs and calculations are easy to audit and edit.

The following is a detailed description of how the CECAT model is used to identify the values.

Recurring Costs:

The following calculation can be found in the tab "Investment and Cost Development".

- (1) **Vendor Price Including Sales Tax:** SBC cost analysts identify and input the material price for each piece of equipment necessary to provision the rate element under the material price column. This is necessary to provide the model with the basic information required to identify recurring costs for the elements being studied. Sales tax is then applied to the Vendor Price of the equipment. Some states include sales tax in the development of the in-place factor. When this occurs, sales tax is excluded in the investment and cost development.
- (2) **Total Installed Investment:** This identifies the equipment investment for each piece of equipment by adding the Vendor Price Including Sales Tax and the EF&I (Engineered, Furnished & Installed) investment.
- (3) **Power and Equipment Investment:** Takes the Total Installed Investment for each piece of equipment and multiplies it by the power factor.
- (4) **Circuit Equipment Investment:** Takes the Total Installed Investment and adds it with Power and Common Equipment Investment.
- (5) **Total Investment:** This identifies the total investment for the rate element in three steps. First, the circuit equipment investment for each piece of equipment is divided by the equipment's capacity, relative to the rate element being studied, and the overall utilization of the equipment. It is then multiplied by the units required to identify the total investment. Second, the values resulting from

step one are summed by field reporting code ("FRC") to identify circuit equipment investment for the rate element. Third, land and building factors are applied to the total investment values to identify the land and building investments attributable to the rate element being studied.

(6) **Circuit Equipment Cost:** This takes the total investment and multiplies it by the total annual cost factor.

(7) **Total Monthly Cost:** Takes the Circuit Equipment Cost and divides it by twelve (12) to get a monthly recurring cost.

ANNUAL CHARGE FACTORS:

SBC applies factors to calculate expenses for a service. These factors are a ratio of current expense to current investment. When this ratio is multiplied by current investment, the result is the current expense associated with the investment. SBC's use of factors makes the cost study flow easy to understand and audit. SBC develops the following types of factors:

Investment Factors calculate the capitalized expense SBC incurs when equipment is installed. Sales tax, engineering, and plant labor are expenses which must be treated as capital (i.e. investment). These factors determine the amount, in addition to the purchase price of the equipment, to treat as investment.

Investment Recovery Factors (depreciation, cost of money, and income tax) identify the cost of purchasing equipment. Depreciation is the annual expense of recovering capital invested in telephone plant over the service life of the plant. When any company places equipment, it incurs a cost for the interest and dividends it must pay for the use of the money that bought the equipment. Because this cost of money is earnings, income tax must be paid on those earnings.

Operating Expense Factors calculate the yearly operating cost associated with equipment. Maintenance and support assets are examples of this type of cost. Factors are relationships between expense and investment. Expense is current, but investments have been placed at different points in time. SBC applies a Current Cost to Book Cost (CC/BC) ratio when it develops factors to ensure that current expense is compared to current investment. Applying a CC/BC factor ensures that the cost factors develop the proper relationships.

Inflation Factors are used to identify changes in costs that will occur during the study period. Inflation factors for equipment are based on the Telephone Plant Index (TPI), while inflation factors for expense are based on the Consumer Price Index (CPI). SBC uses the TPI or CPI, as appropriate, to assure that its costs reflect the best forecast of future cost changes in each case. SBC's factor method is a sound means to project future expenses from current financial data. Factors ensure that capitalized expenses are treated correctly. They identify the capital costs incurred when equipment is placed--cost of money, depreciation and income tax. They identify operating expenses that will be incurred when equipment is placed. For these reasons, SBC's factor process is a sound, easy to understand, and auditable way to identify costs.