

**BEFORE THE ILLINOIS COMMERCE COMMISSION**

**Docket No. 03-0553**

**Rebuttal Testimony of Ronald Flitsch  
On Behalf of SBC Illinois**

**SBC Illinois Exhibit 3.1**

**March 10, 2004**



24 A. No. I provided three perspectives on this issue because they all contain relevant  
25 information. My analysis began with the SBC Illinois Aggregate Revenue Test (“ART”)  
26 because the ART workpapers contained LRSICs and revenue for each of the proposed  
27 service categories that I examined in my analysis. These data are filed annually with the  
28 Commission, and the Commission Staff is very familiar with them. Therefore, they  
29 provided a good starting point for my analysis and a benchmark for evaluating the other  
30 analyses I performed. I then prepared separate studies for services provided under  
31 tariffed, discounted term plans and those offered under ICBs, because the discount levels  
32 vary between these two categories. None of the analyses are “flawed,” however. They  
33 simply address different issues.

34

35 **Q. On page 11 of his testimony, Mr. Koch requested additional information on the**  
36 **assumptions SBC Illinois used to derive the LRSIC and revenue figures. Please**  
37 **explain how the assumptions were developed.**

38 A. The relevant products and services that are offered in SBC Illinois’ tariffs on a term basis  
39 are as follows: Local Usage Saver, Centrex, DS-1, DS-3, SONET OC-12, Primary Rate  
40 Interface (PRI) - w/o flat rated usage and CustomBizsaver. The first step in my analysis  
41 was to determine a “typical customer configuration” for each of these product and  
42 services. This “typical customer configuration” identified the relevant rate elements and  
43 the amount of each rate element purchased by customers for these products on an average  
44 basis. I developed the typical customer configuration based on consultations with  
45 Marketing personnel that have responsibility for these products and services.

46

47 **Q. Please provide the typical customer configurations that you used.**

48 A. The following assumptions were used for each product or service category:

49 **Local Usage Saver:** This package has only a 12-month contract commitment period.

50 The usage information was based on a 2002 SBC Illinois analysis that examined the  
51 spending patterns of access line customers and the average number of minutes of calling  
52 on those lines. I assumed 947 local minutes in my analysis, which represents the average  
53 usage of customers expected to purchase this package.

54

55 **Centrex:** The typical customer configuration assumed a 20-station customer in Access  
56 Area B, under a 36-month term agreement. The 36-month contract period was based on  
57 the view that customers would opt for shorter contracts due to technological and pricing  
58 changes in the marketplaces. The 20-station assumption was based on a weighting of  
59 four different line sizes between 2-400 lines. The Access Area B assumption was used as  
60 a proxy for the average costs of Access Areas A, B, and C. The rate elements I assumed  
61 in my analysis were as follows: the Centrex system charge, Centrex lines, the federal  
62 End User Line Charge (“EUCL”), telephone numbers, standard features, and the  
63 following optional features: Calling Name Display on Intercom, Message Waiting  
64 Indicator, Speed Call Long – 100, Call Number Delivery and Speed Call Long MBS.  
65 The feature assumptions were based on a 13-state SBC sampling of 591,900 Centrex  
66 retail lines in service as of October 2001.

67

68 **DS-1:** SBC Illinois’ DS-1 analysis was based on an Access Area B customer under a 36-  
69 month term agreement. I assumed 2 local distribution channels (LDC) and 2 channel

70 mileage terminations (CMT) because they are required for a complete circuit. I also  
71 assumed 5 channel miles (CM), based on an analysis of SBC Midwest DS-1 customer  
72 data by 10-mile bands, i.e., 1-10 miles, 11-20 miles, etc. Over half of the customers were  
73 in the 1-10 mileage band segment. Therefore, the midpoint of 1-10 miles was used to  
74 determine the 5 CM assumption. This is a conservative assumption because a longer CM  
75 assumption would have resulted in additional contribution. The contract length was  
76 based on an average of August 2003 in-service quantities for the 5 available contract  
77 periods (1 year, 2 years, 3 years, 5 years, and 7 years). Again, the Access Area B  
78 assumption was used as a proxy for an average of Access Areas A, B, and C.

79

80 **DS-3:** I assumed an Access Area B customer under a 36-month agreement. I assumed 2  
81 local distribution channels (LDC), 2 channel mileage terminations (CMT) and 5 channel  
82 miles (CM) for the same reasons and based on the same data as the DS-1 assumptions.

83

84 **OC-12:** I assumed an Access Area B customer under a 60-month term agreement. I  
85 assumed 1 local distribution channel (LDC), 1 channel mileage termination (CMT), 10  
86 channel miles (CM), 2 Add/Drop multiplexers, 1 cross-connection of services and 2  
87 Add/Drop Functions per DS-3 add or drop, based on an analysis of SBC Midwest  
88 SONET customers from July 2003. This configuration assumed a connection to the  
89 customer's inter-exchange carrier. Alternatively, if I had assumed a stand-alone SONET  
90 customer circuit configuration having 2 LDCs and 2 CMTs, in addition to the other  
91 components, the contribution level would have been higher.

92

93        **PRI w/o flat usage:** I assumed an Access Area B customer under a 36-month term  
94        agreement with 1 Primary Rate Interface (PRI) port, and DS-1 transport consisting of 2  
95        local distribution channels (LDC), 2 channel mileage terminations (CMT) and 5 channel  
96        miles (CM). The same data and sources used for the DS-1 assumptions were used for the  
97        PRI DS-1 assumptions.

98  
99        **CustomBizsaver Package:** I assumed a weighted average of three package variations:  
100       small package – 1, 2, or 3 lines with 600 Band A and Band B minutes; medium package –  
101       1,2, or 3 lines with 1200 Band A and Band B minutes; and large package – 1,2, or 3 lines  
102       with 3000 Band A and Band B minutes, based on a 12-month term, which is the only  
103       term offered. The rate elements included in these packages were as follows: access lines  
104       – all bands, weighted; usage – Band A and Band B local minutes and Band C blocks of  
105       time for 60, 120 or 300 minutes; Central Office features – the BASICS® package which  
106       is a required element of that offering, and call forwarding as an optional feature. These  
107       CustomBizsaver assumptions were taken from the cost study that was used to support its  
108       August 2003 introduction in Illinois. The usage assumptions were based on the same  
109       2002 analysis that I referred to previously.

110

111    **Q.     What, then, was the next step in the process?**

112    A.     Once the typical customer configuration was determined, the rates and LRSICs were  
113        incorporated into the analysis. The rates for each product or service represent the  
114        discounted tariff rates based on the assumptions I detailed above (i.e., rate elements,

115 contract length, Access Area, etc.). The LRSICs I used are of the same vintage that SBC  
116 Illinois uses to support all competitive tariff filings.

117

118 **Q. Also on page 11 of his testimony, Mr. Koch expresses concern that these**  
119 **assumptions could have lowered the average LRSIC for a particular service**  
120 **category and, therefore, inflated the percentages used to calculate the termination**  
121 **liabilities for the product and service categories. Is that a valid concern?**

122 A. No. I used exactly the same LRSICs that SBC Illinois used in its ART filings and  
123 reflected the assumptions I explained previously.

124

125 **Q. Do you have any additional information regarding these analyses?**

126 A. Yes. I have prepared Schedule RF-R1 which lists the rate elements, associated revenues  
127 and LRSICs for each of the product and service categories I referred to above. This  
128 revenue and LRSIC information served as inputs to the detailed analyses presented in my  
129 Direct Testimony.

130

131 **Q. Please provide more detail on the process used to develop data for the ICB**  
132 **contracts.**

133 A. After the completion of any ICB contract request from a customer, information regarding  
134 the contract is input into a database. From that database, SBC Illinois pulled all contracts  
135 for each product and service category that it entered into during the one-year prior to the  
136 preparation of my analyses. Contract files that contained incomplete or insufficient data  
137 were eliminated from the compilation. Using the remaining information, I developed

138 average revenue and average LRSIC data for each ICB product or service category. The  
139 average revenue was developed by summing the recurring prices for all of the ICBs in  
140 each category and then dividing the total by the number of ICBs in the compilation. The  
141 same methodology was used to determine the average LRSICs for each category. These  
142 data were then used as a basis for the financial analyses in my Direct Testimony.

143

144 **Q. Does this conclude your Rebuttal Testimony?**

145 A. Yes it does.