MODEL & INPUT CONSISTENCY

Internal consistency in the inputs to any model is essential. There is a set of four interrelated inputs in CPRO for which an analyst or a reviewer should be particularly careful to maintain internal consistency. The variables are:

- **Revenue Per Line**: The CLEC's prices for various packages of services.
- **Customer Acquisition Cost**: The amount of money that the modeled CLEC spends acquiring customers.
- **Market Share**: The size and speed of market share growth for the CLEC across time.
- **Churn Rate**: The rate at which CLEC customers disconnect service and leave the CLEC.

There is not a single, precisely defined set of decisions relating to customer acquisition spending and service prices that a CLEC must adopt to be successful. CLECs will choose different combinations of marketing activities and prices for service that achieve the best results for them, given their past decisions and the decisions of their competitors. CLECs that set lower prices will, all else being equal, achieve higher market shares and have lower churn rates. CLECs that spend more on customer acquisition will achieve a higher market share and achieve it more quickly, but will also need higher average revenues. Analysts and reviewers must be careful to consider the impact of changing one variable on the value of other interrelated variables before presenting a run of the CPRO Model.

The TRO contains specific guidance about estimating the revenues and costs of a CLEC. The TRO contains two key points relating to creating an internally consistent set of inputs describing the marketing decisions of a CLEC and its performance. First, the TRO states that revenues should be based on today's prices; therefore, the prices in CPRO are based on service plans offered today by MCI. "[W]e expect states to consider prices and revenues prevailing at the time of their analyses. We believe that these are reasonable proxies for likely prices and revenues after competitive entry and will result in a more administrable standard."[2] That is why the modelers have chosen MCI's current prices as the basis for their assumptions on average revenue. The MCI prices are a reasonable approximation of what a CLEC can achieve today. Second, the TRO states that a business case of a CLEC must be based on an efficient carrier rather than a carrier-specific analysis.[3] Because the model begins with current MCI prices, the modelers have chosen values for market share, customer acquisition costs, and churn that are consistent with those prices. In many cases, CLECs and analysts have forecast~~ed values~~ more favorable values ~~to the CLECs' claims of economic impairment~~ for ~~the~~ churn and customer acquisition costs~~ variables~~. For internal consistency, values in the *baseline view* are consistent with today's experience rather than forecasts of the future.

[2] *Id.*, ¶520, footnote 1588.

[3] *Id.*, ¶517