12,129	1,721	530	75	1,743	247
13,342	1,893	586	83	1,799	255
14,555	2,065	642	91	1,855	263

The figures in the disconnect columns could easily be summed for each twelve month period and reported in the demand matrix in the DS0 Output tab. Instead the model looks up the disconnect value for the last month in the year. In this case it finds the 642 in the last row of the third column (Res Disc), and it multiplies that number times 12. The result is the 7,700 residential disconnects or churn used by the DS0 Impairment model to calculate hot cut costs and by the BCAT to calculate customer acquisition costs. In fact, the table shows that the residential churn for the year was 4,017 rather than the 7,700 used by AT&T. Making ~~this~~ these changes for both residential and business churn (incremental to the previous correction) changes the result from ($184.61) to ($146.95).

Q. PLEASE EXPLAIN HOW YOUR ADJUSTMENT TO THE CHURN CALCULATION AFFECTS THE HOT CUT COSTS THE MODEL PRODUCES.

A. In the DS0 Impairment Tool, there is a direct relationship between the churn calculation and the calculation of hot cut costs. The DS0 Impairment Tool has a matrix in the ACF Adjustments tab that develops cost factors for items such as present worth, “ramp-up” and cumulative investment including churn ("gross adds"). The gross adds are the total number of line connections the hypothetical CLEC would implement for both line-growth additions and churn

activity. Within the DS0 Impairment Tools, the calculation of investments relating to hot cuts is dependent upon the quantity of gross adds that is generated by the matrix within the ACF Adjustments tab. The default formulas that the model uses to determine the volumes of gross adds for both residential and business lines are based on a 25-year time frame. As a result, the hot cut investments that the DS0 Impairment Tools develops for use in AT&T's BCAT model reflect volumes of growth and churn connections and disconnections that are assumed to occur over 25 years. The use of this time frame is inconsistent with the BCAT's use of a 10-year period to calculate the revenues of the hypothetical CLEC. To correct this inconsistency, I adjusted the default formulas in the DS0 Impairment Tools "Impairment by Office" tab (columns BJ and BK) to use the same 10-year time frame for calculating gross adds that the BCAT uses to calculate revenues. The impact of this change is reflected in the ($146.95) result set forth above.

Q. THE THIRD ERROR YOU MENTIONED DEALT WITH LAND COSTS. WHAT CHANGES DID YOU MAKE TO THAT CALCULATION?

A. The BCAT calculates the land and building costs that are associated with the CLEC switches. The land and building investments are incurred in the first year of the enterprise. Rows 127 and 128 of the Switching Calcs tab in the BCAT contain the calculations that determine the total land purchased and the increase over the previous period. The formula in row 128 compares the value for total land investment in year 2 to year 1 to determine the increase, if any.