

commission's expectation regarding equipment prices prove to be incorrect. We ask parties to identify any other approaches to economic depreciation that might be used.

41. We also seek comment on whether a reduction in asset lives might be used as a proxy for changing investment costs. Under what circumstances would a carrier retire an asset before the end of its useful life? We ask parties to comment on how unregulated companies account for the uncertainties associated with equipment price changes and other consequences of advancing technologies.

42. *Expense Factors.* Regulators often estimate projected operating expenses by multiplying the projected investment in the network by an annual cost factor (ACF). An ACF typically is a ratio of current expenses to current investment for a particular account. The ratio is multiplied by the projected investment to obtain the projected expenses. An alternative method of calculating monthly operating costs is to look at current operating expenses and make any adjustments that reflect anticipated experience in the period for which the projection is made, such as adjustments for productivity and inflation. We seek comment on these approaches to estimating expenses. Is one approach superior to the others? Under the network assumptions required by our TELRIC rules, is it correct to assume that expenses will be reduced in proportion to reductions in investment? Would such an assumption be more acceptable if we changed the network assumptions to more closely track an incumbent LEC's existing network? We request parties to explain whether it would be reasonable to assume that an incumbent LEC's current expenses represent the forward-looking costs of operating a network. We also request parties to identify if there are other approaches to projecting expenses that do not rely on an incumbent LEC's past experience. We invite parties to provide empirical evidence that demonstrates the factors that most influence the level of expenses.

43. If we find that the best method of projecting expenses is to make forward-looking adjustments to actual expenses, we seek comment on the type of adjustments that would be appropriate. If adjustments are made for inflation and productivity, how should those factors be measured? From what sources should this information be developed?

44. We ask parties to address any specific issues that arise in connection with estimating non-plant specific expenses, such as customer care or common overhead. How should these

costs be allocated among different elements? Is it appropriate to allocate these costs to non-recurring charges, or should they be recovered only through recurring charges.

45. *Non-Recurring Charges.* Non-recurring costs may be thought of as the "installation" or "set-up" costs an incumbent LEC incurs processing and provisioning a competitive LEC order for a UNE. Non-recurring charges (NRCs) constitute an up-front cost to the competitive LEC that is generally not recoverable if it subsequently loses the end-user customer served with the UNE. Consequently, NRCs can be a barrier to entry, especially if they are unduly high.

46. There are two primary sets of issues that pertain to NRCs. The first set of issues relates to the costs an incumbent LEC should be permitted to recover for the activities needed to initiate service to a competitive LEC. We believe that consistency among the various components of rates is important. Using one set of network assumptions for recurring charges and a different set of network assumptions for NRCs potentially results in some over-recovery or under-recovery. Nevertheless, we are sensitive to the practical concern that network assumptions that depart significantly from an incumbent LEC's existing network might preclude recovery of the cost of non-recurring activities that would be required in establishing a competitive market. We ask parties to address whether our tentative conclusion that the pricing rules should more closely account for the real-world attributes of the routing and topography of and incumbent's network should apply with respect to NRCs and, if it does, whether this ensures that incumbent LECs will be able to recover all of their forward-looking costs of non-recurring activities.

47. A related issue is the relationship between NRCs for manual activities and an incumbent LEC's operational support systems (OSS). In light of our tentative conclusion, above, we seek comment on what assumptions should be made with respect to the capability of the incumbent LEC's OSS. Should OSS costs be recovered through expense factors or through a separate charge? If through a separate charge, how should that charge be calculated? Should incumbent LECs be permitted to recover through separate OSS charges the costs associated with systems that are used for both wholesale and retail services and, if so, how should regulators allocate OSS costs between these functions? Should all costs of making OSS available to competitors be borne by them or are there costs more

appropriately spread among the incumbent LEC's retail customers as well?

48. We seek comment on which activities are susceptible to automation and on how state commissions should determine the costs of performing these activities. We request that parties comment on how, in addition to subjective opinions of subject matter experts, state commissions might develop more objective evidence on non-recurring costs. Would a shift to network assumptions that more closely track the incumbent LEC's existing network eliminate some of the speculation that often characterizes state proceedings? Is it appropriate to establish a presumption that an incumbent LEC's current practices with respect to non-recurring activities are efficient, or are an incumbent LEC's incentives to be efficient diminished when competitive LECs are the primary users of a particular activity?

49. The second main set of NRC issues relates to whether non-recurring costs should be recovered through NRCs or through recurring charges. Generally, the non-recurring costs at issue are labor costs, such as the cost of sending a technician to a particular location to enable the competitive LEC to provide service to a particular end-user. One possible solution to this issue would be to limit recovery through NRCs to those costs that exclusively benefit the competitive LEC ordering the UNE. The cost of activities for which NRCs would not be permitted generally would be recovered in recurring charges through expense factors. We seek comment on this approach. What affect would this approach have on the number of activities for which NRCs would be permitted? How would such an approach be implemented by the states? Although such an approach would reduce the likelihood that NRCs would impose a barrier to competitive entry, would it also provide incumbent LECs with full recovery of their forward-looking costs? Under this approach to NRCs, would there be cost double recovery issues between expenses and NRCs with regard to carriers that already paid the NRCs and would now be paying for the costs again through ACFs in recurring charges?

50. We solicit comment on whether a contrary approach, allowing NRCs for every activity related to a competitive LEC order, would provide sufficient incentive for incumbent LECs to use mechanized processes when it is efficient to do so. Would such an approach increase the risk of over-recovery by the incumbent? Would regulators need to develop mechanisms