

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the matter of)
)
Application of SBC Communications Inc.,)
Southwestern Bell Telephone Company,)
and Southwestern Bell Communications) CC Docket No. 97-121
Services, Inc., d/b/a Southwestern Bell Long)
Distance, Pursuant to Section 271 of the)
Telecommunications Act of 1996 to Provide)
In-Region Originating, InterLATA Services)
in Oklahoma)

AFFIDAVIT OF MICHAEL KAUFMAN
ON BEHALF OF PACIFIC BELL COMMUNICATIONS INC.

STATE OF MISSOURI)
) ss.
CITY OF ST. LOUIS)

Michael Kaufman, being sworn on oath, deposes and states as follows:

A. AFFIANT'S BACKGROUND AND DUTIES

1. My name is Michael Kaufman. I am President of Pacific Bell Communications, ("PBCOM"), a wholly-owned subsidiary of Pacific Telesis Group ("PTG"), which is a wholly-owned subsidiary of SBC Communications Inc. ("SBC"). PBCOM was formed in December, 1995, and will provide intraLATA and interLATA service, focused on serving customers in California and Nevada.

I have worked in the telecommunications industry for more than 20 years. Before joining PBCOM, I spent almost four years at Southwestern Bell Telephone Company ("SWBT") as Vice President-General Manager for the central and west Texas market areas.

2. I began my career with SWBT in 1968 and progressed through several positions in the Missouri Rates and Tariffs Department until 1973. After several years in another line of business, I returned to SWBT in 1979, and held numerous finance-related positions with SWBT and SBC, including Vice President-Finance and Treasurer of SBC from 1986 to 1988. I became President and Chief Executive Officer of Southwestern Bell Yellow Pages in 1988. Following that, I was Executive Vice President-Finance and External Affairs, and Executive Vice President-Marketing for SWBT until assuming my position in the Central and West Texas market areas in 1992.
3. I hold Bachelor and Master of Business Administration degrees from the University of Wisconsin.

B. PURPOSE OF AFFIDAVIT

1. The purpose of my affidavit is to make clear that I have replaced Betsy J. Bernard as President of PBCOM and to confirm that the statements made within her affidavit filed in this matter and dated April 9, 1997, are correct and accurate, on information and belief. This affidavit therefore supports the showing that Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance ("SBLD") and PBCOM, together with SWBT ("SWBT"), and Pacific Bell ("PB") and Nevada Bell ("NB"), comply and will comply with Section 272 of the 1996 Act and with the FCC's rules implementing that Section.¹ SBC's "Bell

¹ See In the Matter of Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, First Report and Order, CC Docket No. 96-149, FCC 96-489 (rel. December 24, 1996) ("Non-Accounting Safeguards First Report and Order"); In the Matter of Implementation of the Telecommunications Act of 1996; Accounting Safeguards Under the Telecommunications Act of 1996, Report and Order (rel. December 24, 1996) ("Accounting Safeguards Report and Order"). Applicants reserve their rights with regard to the filing of a petition for review with a court of competent jurisdiction.

operating companies" ("SBC BOCs"), as defined in Section 3(4) of the 1996 Act, are SWBT, PB and NB.² PB is subject to Section 251(c) within its operating area in California. NB is subject to Section 251(c) within its operating area in Nevada. SWBT is subject to Section 251(c) within its operating areas in Oklahoma, Texas, Missouri, Kansas and Arkansas. The Affidavits of Elizabeth Ham, Kathleen Larkin, Karol Sweitzer, James Riley and John Gueldner discuss the SBC BOCs compliance with the 1996 Act, as well as with certain other relevant sections of the 1996 Act. The foregoing notwithstanding, as PBCOM does not seek Commission approval to offer services in Oklahoma, its relationship with the SBC BOCs is not relevant to this matter.

C. PBCOM COMPLIES WITH THE "SEPARATE AFFILIATE" REQUIREMENT SECTION OF THE ACT

1. To clarify two points raised by Sprint in its Comments, at page 34, PBCOM will not market or sell telephone exchange services of the SBC BOCs unless those same telephone exchange services can be sold by other entities under the same terms and conditions. Also, no person serving as a PBCOM employee, officer or director will simultaneously hold a position either as an employee, officer or director of an SBC BOC.

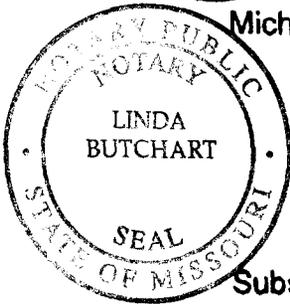
² As used herein, SBC BOCs refers to SWBT, PB and NB, both collectively and individually.

D. CONCLUSION

1. As demonstrated above, PBCOM will comply with the requirements set out by the 1996 Act and the Federal Communications Commission. Thus, the FCC should immediately grant SBLD's application.



Michael Kaufman



Subscribed to and sworn before me this 21st day of May, 1997.



Notary Public

LINDA BUTCHART
NOTARY PUBLIC STATE OF MISSOURI
ST LOUIS COUNTY
MY COMMISSION EXP NOV 19, 1998

exchange carrier within its operating areas in Oklahoma. Southwestern Bell Communications Services, Inc., d/b/a Southwestern Bell Long Distance ("SBLD") is an affiliate through which SBC will provide in-region interLATA services under the 1996 Act.

2. As a District Manager of SWBT, I am responsible for regulatory compliance and public policy analysis within SWBT, particularly with regard to accounting issues. My responsibilities include regulatory compliance and planning, and affiliated interest matters and audits.²

PURPOSE OF AFFIDAVIT

3. I filed an affidavit in support of the Application. This affidavit is intended to Reply to the matters set forth in the Oppositions of AT&T, MCI, and Sprint relating to regulatory compliance. This affidavit particularly responds to the statements set forth by AT&T (at page 36) regarding the provision of tangible evidence of compliance with the FCC accounting safeguards as ordered in CC Docket No. 96-150, Released December 24,

²In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, First Report and Order, CC Docket No. 96-149, FCC 96-489 (rel. Dec. 24, 1996) ("Non-Accounting Safeguards First Report and Order"); In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996, Report and Order, CC Docket No. 96-150, FCC 96-490, 11 FCC Rcd 17539 (rel. Dec. 24, 1996) ("Accounting Safeguards Report and Order"). Applicants reserve their rights with regard to SBC's Petition for Reconsideration in CC Docket No. 96-150 and with regard to the filing of a petition for review in a court of competent jurisdiction.

1996. Finally, this affidavit rebuts the erroneous statements put forth in the Sprint response regarding SBC's compliance with those accounting safeguards.

CONTRARY TO AT&T'S ASSERTIONS, SWBT HAS MECHANISMS IN PLACE TO ASSURE COMPLIANCE WITH SECTION 272 AND THE FCC'S RULES

4. SWBT has a centralized affiliate oversight group in the Regulatory and External Affairs Organization that has primary responsibility for the application of the accounting safeguards (state and federal) associated with SWBT sales to and purchases from affiliated companies. This includes the responsibility for:

- a. Operating Practice 125;
- b. Contract oversight for affiliate transactions;
- c. SWBT affiliate-only³ services contracting, pricing, and billing;
- d. Compliance review for SWBT purchases from affiliates; and
- e. Compliance with the FCC Cost Allocation requirements for affiliate transactions.

Amendment of Operating Practice 125 in accordance with the Telecommunications Act and FCC Rules

5. Operating Practice 125 (OP125) is the policy and procedures manual for Nontariffed Activities and Affiliate Transactions. Attachment 1 provides a copy of the current edition of OP125. This Operating Practice is being modified to include the new requirements of Sections 271 and 272 of the 1996 Act and other procedural updates. While these updates

³ Should any of the services that have been traditionally provided only to affiliated companies be provided to a Section 272 affiliate, SWBT will comply with the nondiscrimination requirements of Section 272 (c).

have not been finalized the significant areas of change are summarized in paragraphs 6-15, following.

6. Section 1.0 of OP125 will cite the regulatory authority (FCC Orders, Rules, etc.) for the structural and transactional requirements and nondiscrimination safeguards governing relationships between SWBT, other affiliates and Section 272 InterLATA affiliates resulting from the Telecommunications Act of 1996.
7. Section 2.0 of OP125, Purpose, will not be amended.
8. Section 3.0 of OP125, Definitions, will be revised to add definitions of the following terms:

Estimated Fair Market Value

Incidental InterLATA Services

Non-discrimination Safeguards

Operation, Installation, or Maintenance (OI&M)

Presumptively Prevailing

Prevailing Price

Section 272

272 Affiliate

272 Oversight Team

9. Section 4.0 of OP125, Regulatory Requirements, will be revised to refer to CC Docket No. 96-150 and the amended affiliate transaction rules that the FCC adopted therein. Those amended rules include the following requirements:

- A biennial external audit of SWBT transactions with Section 272 affiliates will be conducted and will include joint federal and state regulatory participation.
 - Incidental InterLATA services will be accounted for on SWBT books and records as nonregulated activities.
10. Section 5.0 of OP125, Service Classification Process, will specify that proposed transactions with Section 272 Affiliates must be reviewed by SBC's 272 Oversight Team prior to entering the classification process.
11. Section 6.0 of OP125, Regulated Nontariff Contract Classification; Section 7.0 of OP125, Incidental Activities Contract Classification; and Section 8.0 of OP125, Nonregulated Contract Classification will provide that proposed transactions with Section 272 Affiliates must be reviewed by SBC's 272 Oversight Team prior to entering the classification process. Additionally, these sections will provide that SWBT must record sales to affiliates at the higher of estimated fair market value and fully distributed cost, or net book cost for assets, when there is no applicable tariff, publicly-filed interconnection agreement, statement of general terms and conditions or prevailing price. The sections enumerated in this paragraph will provide an Affiliate Oversight Group contact name and telephone number for assistance with estimated fair market value studies for services provided to affiliates. Finally, these sections will provide that a prevailing price can be established only if more than 50%⁴ of an individual service or item quantity is sold to

⁴ In the Accounting Safeguards Report and Order, CC Docket No. 96-150, the FCC re-examined its accounting safeguards in light of the requirements of the Telecommunications Act of 1996, including Section 272. As a result, the FCC adopted certain changes "to provide more complete protection against cross-subsidization." Id. Para 109. Among other changes, the FCC expanded the affiliate transaction rules to be applicable to transactions between a BOC and its Section 272 affiliates. Id. Para 176. Also, the FCC restricted the use of the prevailing price method by requiring that,

unaffiliated third parties. Documentation supporting determination that a prevailing price is established must be provided to the Affiliate Oversight Group.

12. Section 9.0 of OP125, Affiliate Transaction Rules, will provide a matrix of unique structural and transactional rules that apply to affiliate transactions with a Section 272 affiliate. This section will also provide that proposed transactions with Section 272 affiliates must be reviewed by SBC's 272 Oversight Team prior to contracting. This section will reflect the applicability of Affiliate Transaction Rules to nonregulated transactions. This section will provide a comparative matrix of old and new rules, with the following new rules emphasized:

- SWBT may use rates filed in public interconnection agreements and statements of generally available terms and conditions when tariffed rates are not available.
- Prevailing price is established only if sales of a particular asset or service to nonaffiliated third parties encompasses greater than 50% of total quantity of such product or service sold.
- Because the rates for services subject to Section 272 must be made generally available to both affiliates and third parties, the 50% threshold does not apply to SWBT prevailing price sales of facilities, services or information that are subject to the nondiscrimination requirements of the Telecommunications Act of 1996.

as a condition of using that method, more than 50% of the sales of a particular product or service must be to third parties. Id. Paras. 135-136. However, in view of the nondiscrimination requirements of section 272, the FCC created an exception to this 50% threshold in the case of transactions with Section 272 affiliates. Therefore, "products and services subject to section 272 need not meet the 50 percent threshold in order for a BOC to record the transaction involving such products and services at prevailing price." Id. Para. 137. The FCC described this as a rebuttable presumption that the rates for services subject to Section 272 represent prevailing prices. The FCC has been asked to reconsider this exception.

- SWBT must record purchases from affiliates at the lower of estimated fair market value and fully distributed cost, or net book cost for assets, when there is no applicable prevailing price. However, SWBT will record at fully distributed cost all purchases from an affiliate that exists solely to provide services to members of the corporate family.
 - SWBT must record sales to affiliates at the higher of estimated fair market value and fully distributed cost, or net book cost for assets, when there is no applicable tariff, publicly-filed interconnection agreement, statement of general terms and conditions or prevailing price.
13. Section 10.0 of OP125, Sales of Assets to Affiliates, and Section 11.0 of OP125, Purchases from Affiliates, will be amended consistent with the changes for Section 6 of OP125, which are described in paragraph 11 of this affidavit.
 14. Section 12.0 of OP125, Other Occasional Asset Purchases from Affiliates, will provide that proposed transactions with Section 272 Affiliates must be reviewed by SBC's 272 Oversight Team prior to contracting.
 15. Section 13.0 of OP125, Affiliate Services, will also be amended consistent with the changes for Section 6 of OP125, which are described in paragraph 11 of this affidavit.

Contract Oversight for Affiliate Transactions

16. As stated in paragraph 4 of this affidavit, SWBT's centralized affiliate oversight group has the responsibility for OP125, as described in the preceding paragraphs. Additionally, this group has responsibility for contract oversight for affiliate transactions. The centralization of contract oversight for affiliate transactions provides for the consistent

and timely execution of SWBT policies and procedures involving affiliate transaction safeguards. The oversight function begins as early as the service classification process as described in Section 5.0 of OP125. An additional benefit of this centralization is the ability to ensure implementation of the non-accounting safeguards associated with the Telecommunications Act as contained in CC Docket No. 96-149. All contracts for services from SWBT's Section 272 affiliates will be reviewed by and retained by the affiliate oversight group.

Contracting, Pricing, and Billing of SWBT Affiliate-Only Transactions

17. As stated in paragraph 4 of this affidavit, SWBT's centralized affiliate oversight group has responsibility for the contracting, pricing, and billing of SWBT affiliate-only services. Centralization of the affiliate-only services function allows SWBT to ensure that all requirements of the affiliate transaction guidelines are incorporated into SWBT's daily operations. Attachment 2 contains a draft of the affiliate oversight letter that is sent to all SWBT organizations. Changes to the previous version are in italics. This draft contains the new requirements of CC Docket Nos. 96-149 and CC Docket 96-150.
18. Attachment 3 contains a draft of the updated Temporary Services Guide. Changes to the previous version are in italics. This Guide is used to provide employee guidance in the proper method of reporting affiliate services that are of a short duration or unique nature that does not warrant a long term agreement for recurring services. This Guide is being updated to reflect both the requirements of Section 272 and CC Docket No. 96-150.
19. Attachment 4 contains copies of all affiliate contracts with SBLD. SBLD contracted with SWBT to receive certain services specified in SWBT's Cost Allocation Manual or as

set forth in SWBT's tariffs. SBLD is receiving the following categories of services from SWBT:

- Official Communications: This function includes the administration of local, intraLATA, and interLATA communications services, and includes consulting and engineering. Official Communications also includes official directory, conference calls, 5-Call message service, and terminal equipment.
- InterLATA Communication: Official Communication through the Southwestern Electronic Tandem Network (SWETN).
- Purchasing and Contracting: This service includes the processing of purchase requisitions for stock and non-stock materials and the provision of consultation services.
- Temporary Projects: This service includes temporary support to SBLD on a project specific basis including, but not limited to, (1) consultation, documentation, and training support; (2) collection of intraLATA and interLATA toll billing data from SWBT customers in response to customer authorization; and (3) engineering and testing of SBLD network.
- Computer Software and Processing: This service involves the licensing or other sale of SWBT programming efforts to create, maintain, or customize software. Programming support would be provided on all SBLD software applications. This service includes the processing of software on SWBT facilities.
- Bellcore Support Services: This service category includes purchase and support of various Bellcore projects.

- Other Administrative Services: This category of services includes but is not limited to; Nonmanagement Employment services which consist of employment testing and hiring services as required; Fulfillment Services which will consist of producing materials and performing direct mail fulfillment services as required; Accounts Payable Services which will consist of providing support for the accounts payable process of SBLD; Budget Analysis Support which will consist of providing financial analysis and direction on budget issues.
- Building Distribution System and Local Area Networks (BDS/LAN) Installation and Maintenance: This service category includes the installation, maintenance, and repair of internal voice and data networks. These services also may include consulting, engineering, administration, management and design activities associated with or required by the installed networks. These networks are customized wiring plans for a building or campus and may consist of copper, coaxial, or fiber cable and wire.
- Network Management Bureau Services: Services included in this category may include network systems installation and start-up, service implementation, switch installation and translations, client specific development, and data communications set-up.
- Legal Services: Services include performance of general legal service on a project-specific basis.

- Revenue and Public Affairs: Services include the ongoing review of general legislative and regulatory support, including, but not limited to, research, identification of bills of potential importance, and lobbying.
- Ad Valorem Tax Services: Services include general ad valorem taxation support.
- Tariffed Services: These services include the following:
 - i. Interstate Access Services. Access services provided under FCC Tariff No. 73, including equal access trunks (Feature Group D) and account maintenance services, special access MegaLink Custom (DS3), High Capacity Service (DS1), MegaLink Data (56Kbps), and SS7 Signaling Service.
 - ii. Local Exchange Services. Local exchange services including normal business tariffed products.
- Human Resource Support: Service includes routine employee related Human Resource consultation.
- Real Estate Management⁵: Services include lease administration, architectural planning, design, and construction; floor space planning; furniture inventory; floor space, conference services, furniture leasing; and parking facilities.
- Central Office Lease Agreement: Services include the provision of leased floorspace in SWBT facilities.⁶

⁵ Physical Collocation has not occurred with any SWBT affiliate in any SWBT premises in Oklahoma.

⁶ The central office lease agreement for Kansas City is included in Attachment 4 as a sample. There are three other locations: Houston, San Antonio, and Dallas.

- Billing and Collections: SBLD will contract for traditional SWBT billing and collections services and any modifications to the billing and collections process required by their contract. Bill insert advertising will also be provided to SBLD.
20. To date, all of the SWBT-provided services have been recorded on a basis consistent with Parts 32 and 64 as determined by the FCC prior to adoption of the Accounting Safeguards Report and Order.
 21. Affiliate-only services provided by SWBT have a complete and straightforward audit trail. The audit trail for these affiliate services begins with the affiliate contract. This contract identifies the services being provided; the unit of measurement (per hour, per page, per sale, etc.); the price for the service.
 22. From this information the audit trail extends to the per unit cost study which identifies the fully distributed cost. The Report and Order in CC 96-150 requires that these services now be booked at the greater of "estimated fair market value" or fully distributed cost, therefore, the unit data in the contract can be tracked to this comparison.
 23. Billing is the next step in the audit trail. This includes documented input from the service provider that identifies the units of service provided during a given month. (Attachment 5 contains the current 1996 version of the Contract Coordinator Billing Guidelines)
 24. By maintaining an audit trail that runs from unit cost to unit billing SWBT can show the appropriateness of all of its outbound affiliate services whether the affiliate buyer is a Section 272 affiliate or any other affiliated company. SWBT's process for providing services to affiliates has been extensively audited by Federal, State, internal and external auditors and has always passed the test.

Compliance Review for SWBT Purchases from Affiliates and Compliance with the FCC Cost Allocation Requirements for Affiliate Transactions

25. Compliance review of SWBT purchases from affiliates is another function performed by the Affiliate Oversight Group. These compliance reviews have the goal of ensuring that all purchases of assets or services from affiliated companies comply with the affiliate transaction guidelines and those revisions contained in CC Docket No. 96-150. This compliance review process has been in place since CC Docket No. 86-111 and the advent of non structural safeguards. SWBT's compliance review process will not change as a result of Section 271 and Section 272 requirements. SWBT will continue to perform these reviews to ensure proper accounting treatment of SWBT's purchases from affiliated companies.
26. Affiliate contracts are required pursuant to SWBT procedures to be forwarded to the affiliate oversight group. Further, managers from the affiliate oversight group are members of SBC's Section 272 Oversight Team. This team will review affiliate services contemplated to be provided to SWBT's Section 272 affiliates to assure compliance with Section 272 requirements. This review occurs prior to execution of such a contract. The main strength to this process is the consolidation of the policy, oversight and compliance process within one group.
27. The affiliate oversight group performs compliance reviews on affiliate allocations to SWBT to ensure that affiliate transactions billed to SWBT meet and comply with the requirements of the FCC cost allocation rules. The procedure of conducting a compliance review has been developed internally for assuring that affiliates are supporting SWBT

efforts to comply with the FCC rules for recording affiliate transactions. SWBT incorporates into each contract or agreement with affiliates the right to inspect and audit charges invoiced to SWBT. Then SWBT reviews the affiliate's methods, procedures, books and supporting records (Such as the review of input, time reporting, factor calculations and computation results for the SBC parent allocation.)

28. The compliance review includes a span of activities necessary to analyze the affiliate's billing procedures. The initial step is to identify the appropriateness of the affiliate's cost methodology (eg. Fully distributed cost, etc.). Further review includes examining the hierarchy of direct charge and indirect charges allocated upon cost-causal allocation factors and general allocation factor and formulas used to calculate loadings to allocable costs. Elements comprising each factor are reviewed for appropriateness of the cost-causal relationship.
29. Oversight activities include interviewing management to discuss mechanized systems, sourcing of data, utilization of mechanized models to perform calculations, and reviewing and analyzing support documentation. The affiliate's billing procedures are tested to ensure costs move through the affiliate's billing system with accuracy.
30. Because the oversight function is centralized, the need for training on how to price services and record revenues at SWBT for services provided to a Section 272 affiliate is limited to the affiliate oversight group itself. The 1996 Act, the rulings in CC Docket Nos. 96-149 and 96-150 provide guidance on how these processes are to function. Therefore, no additional training of the affiliate oversight group appears to be necessary. Likewise, since members of the affiliate oversight group are on the SBC 272 Oversight

Team that reviews all new requests for services to or from SWBT, this allows legal and regulatory knowledge to be centralized and consistently applied. The SBC 272 Oversight Team meets weekly and acts as a gatekeeper for information and oversight of the affiliate relationships between SWBT and any current or future Section 272 affiliate.

31. SWBT does recognize that Employee Information in these changing times is very important. Attachment 6 is a recent piece of training sent to all SWBT management employees outlining SWBT's responsibilities as it relates to competition and the 1996 Act. This same general type of employee guide will be produced specifically addressing the Section 271/272 requirements of the 1996 Act and the modified affiliate transaction rules as implemented in CC Dockets Nos. 96-149 and 96-150. The new guide will include instructions on how to forward items for review to the Oversight Committee and provide a list of subject matter experts.
32. Also provided in Attachment 6 are two examples of letters implementing the Section 272 requirements:
 - Advice on a change in the affiliate transaction accounting safeguards (dated January 31, 1997), and:
 - Advice on the formation of the SBC's 272 Oversight Team (dated April 28, 1997).

RESPONSE TO OPPOSITION OF SPRINT

33. Sprint's conclusions regarding the lack of restraining effects of the FCC accounting safeguards associated with affiliate transactions is incorrect at best and purposely misleading at worst. See Sprint at 39, 42-43.

34. In the most recent accounting safeguards order (CC Docket No. 96-150, Released December 24, 1996), the FCC set forth two very plain goals:

“(1) preserving for the benefit of interstate telephone ratepayers legitimate economies of scope that could be realized by the BOCs and other incumbent local exchange carriers when entering markets from which they were previously barred or in which they continue to participate; and (2) discouraging, and facilitating detection of, improper cost allocations in order to prevent incumbent local exchange carriers from imposing the costs of their competitive ventures on interstate telephone ratepayers.”

35. In the Accounting Safeguards Report and Order, the FCC reviewed existing affiliate rules that have been tested over 10 years and that have proven more than adequate in the protection from the concerns of cross-subsidy of nonregulated or competitive endeavors by the regulated ratepayer and strengthened those rules with more stringent cost allocation and reporting requirements. The efficacy of accounting safeguards have been tested over time and have not proven deficient. Further, the allegation that the SBC settlement agreement is "evidence" that SBC has not adhered to those rules is simply incorrect, Sprint at 39, 43. The point of comprehensive audits is to review even the smallest details of record keeping and internal controls as a preventative measure. SWBT agreed in the settlement to document formally and to strengthen an existing control on time reporting and to make a small adjustment for a room rate at a hotel in which an affiliate owned an interest. The FCC deemed neither issue to be a violation or willful non-compliance with accounting safeguards. To the extent that the audit report had

raised questions on how certain allocation factors were developed, those issues were not deemed in the settlement to be a rules violation or to require any modification of procedure by SBC. There is no smoking gun in the settlement, but rather a successful conclusion to a comprehensive audit process.

36. Finally, the Sprint allegation on pages 42-43 of its comments that the FCC "explicitly acknowledged . . . that its rules leave BOCs with opportunities to misallocate the costs of their Section 272 affiliates," is misleading and draws a wrong conclusion.
37. Sprint faults the FCC for failing to adopt the most stringent safeguard - complete structural separation - in support of its contention that cross-subsidization is likely to occur. However, Sprint's analysis omits an objective assessment of the effectiveness of the accounting safeguards, as enhanced in CC Docket No. 96-150. Even without the enhancements, as the FCC stated, "these rules provide effective safeguards against cross-subsidization." Accounting Safeguards Report and Order, para. 108. The FCC further explained that the "cost allocation and affiliate transaction rules, in combination with audits, tariff review, and the complaint process, have proven successful at protecting regulated ratepayers from bearing the risks and costs of incumbent local exchange carriers' competitive ventures." Id. para. 25.

CONCLUSION OF TESTIMONY

The foregoing Affidavit is true and correct to the best of my knowledge, information, and belief.

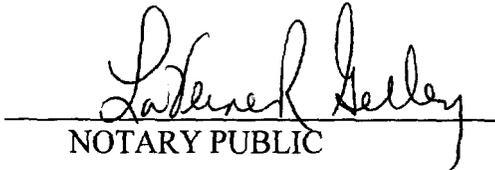
This concludes my Affidavit.



KATHLEEN LARKIN
DISTRICT MANAGER- STATE REGULATORY ISSUES
SOUTHWESTERN BELL TELEPHONE COMPANY

STATE OF MISSOURI)
) ss.
CITY OF ST. LOUIS)

Subscribed and sworn before me, the undersigned authority, on this 23RD day of
 May, 1997.



NOTARY PUBLIC

LAVERNE R GERLEY
NOTARY PUBLIC STATE OF MISSOURI
ST LOUIS COUNTY
MY COMMISSION EXP OCT 11,2000

LARKIN

ATTACHMENT 1