31, 1997. SWBT has agreed to provide MCI and AT&T an implementation schedule by switch no later than December 1, 1996. In the event MCI and AT&T become the providers of intraLATA toll in conjunction with resale or use of unbundled elements, SWBT has agreed to provide customized routing of 0+intraLATA, 0+HNPA-555-1212 (intraLATA), and 1+HNPA-555-1212 (IntraLATA) calls. (Exhibit 1, Exhibit 82, Deere Rebuttal at 8-9, Tr. At 1180-81).

Customized routing is essential, enabling the combination of MCI and AT&T proprietary operator and directory assistance services with resold or unbundled SWBT services. (Gaddy Direct at 42-44, Jacobson Direct at 19-22, Laub Direct at 10-14). It is technically feasible. (Jacobson Direct at 21-22 and SS-2, Rebuttal at 11-12, Laub Rebuttal at 6). The FCC has ordered provision of customized routing. See FCC Order at para. 536; 47 CFR 51.319(c)(1)(i)(C)(2).

20. Should SWBT be required to brand all Directory Assistance and Operator Services calls in the name of an LSP where the call originator is an LSP customer?

SWBT has agreed to provide branding of directory assistance and operator services in the name of the LSP, with software implementation starting March 1, 1997, and being completed by June 30, 1997. In the interim SWBT will, if allowed by law,[30] unbrand LSP operator services and directory assistance calls handled by live SWBT operators (i.e. SWBT's name will not be announced). Calls will not be unbranded in the interim on automated operator systems. (Exhibit 1, Exhibit 82).

Branding is essential in the resale/unbundled element environment when the LSP does not have its own operator services/ directory assistance systems and in the rare instances when customized routing is not feasible. Without it, the LSP customer would be told services are being

[30] Laws requiring the identification of the provider of operator services should not be misinterpreted to require misbranding of resold services provided by LSPs.

provided by SWBT rather than the LSP, creating confusion and an improper competitive advantage to the incumbent SWBT. (Laub Direct at 10-14, Gaddy Direct at 44, Jacobson Direct at 19-22). It is feasible. (Id, Rebuttal at 11-12, Gaddy Rebuttal at 19-20). The FCC has ordered branding. See FCC Order at para. 971.

21. Shall an LSP be given direct access to Busy Line Verification (BLV) and Emergency Interrupt (EI) Service?

SWBT has agreed to provide access to BLV/EI on resold/unbundled SWBT lines through a SWBT operator upon request by an LSP operator at no charge. SWBT has agreed to meet the same performance results for LSP customers as for its own customers, and will size the necessary trunk groups in accordance with volume demands. SWBT has agreed to provide quarterly performance reports on access and success rates for one year from the date of the Interconnection Agreements. (Keener Direct at 9-10, Rebuttal at 5, Dalton Rebuttal at 10-11).

These services make it possible to determine whether there is a conversation in progress on a line, and to interrupt a conversation and request release of the line. (Keener Direct at 7).

22. What types of electronic access to Operational Support Systems (OSS) for pre-ordering, ordering, provisioning, maintenance and repair, and billing should be required?

MCI identified its needs for access to Operations Support Systems in Schedule JR-1 to the Direct Testimony of Joann Russell and in Attachment VIII to MCI's proposed Interconnection Agreement, Schedule JR-2. In summary, MCI requests access equal in quality as ordered by the FCC in docket no. 96-98, through parity of access and parity of service performance by nondiscriminatory

real-time electronic access (including electronic bonding systems) under nationally standardized gateways to functions for pre-ordering, ordering (including "transfer-as-is"), provisioning and installation, maintenance and repair (with a full time single point of contact), and billing of unbundled elements and resold services. Billing from SWBT to MCI should be in CABS format. Billing regarding MCI end-users should be in Exchange Message Record format. MCI requests audit rights and regular delivery of comparative data to ensure compliance. Available information must include: centrex business group; intercept; operator reference; customer records (CRIS), emergency services, repair/dispatch; service order processing; switch network ID, local area calling; CMDs (billable messages); plant inventory; and number assignment (Russell Direct, JR-1 and JR-2, Russell Rebuttal 1-7). Given the "white paper" nature of Schedule JR-1, MCI simply incorporates it herein by this reference, rather than restating it in full.

Witness Watts indicated SWBT agreed to meet MCI's requests, other than the immediate availability of CABS - like billing. (Tr. at 1329). Ms. Russell explained that CABS - like billing for interconnection, unbundled elements and resale is critical so that MCI can use existing billing validation software (with relatively inexpensive minor adaptations) and can continue to track dispute resolution and the services being provided (all as will be done with NYNEX and Pacific Telesis and hopefully the rest of the country). (Russell Rebuttal at 2-3, Tr. at 1094-95, 1104-05). SWBT witness Watts indicated SWBT was working on CABS-like billing, but could not even project when it would be available. (Tr. at 1329).

AT&T identified its needs in the Direct Testimony of Nancy Dalton, starting at page 12, and in AT&T's proposed Interconnection Agreement, Resale Attachments 2, 3, 4, and 5, and Unbundled Elements Attachments 7, 8, 9, and 10. Ms. Dalton testified that SWBT has agreed to meet AT&T's

requests as summarized in Schedule ND-1 to her testimony. (Dalton Direct at 6, 25-26). Specifically, she stated at page 26 that SWBT had agreed to provide the following:

- For services resale - company-to-company practices and electronic interfaces required for ordering; provisioning; repair and maintenance; local account maintenance; and billing, including usage data transfer, local account maintenance, and supplier billing.

- In essence the parties have agreed to implement an electronic transaction-based interface for pre-service ordering, a standard Electronic Data Interface (EDI) for ordering provisioning and supplier billing and a standard Electronic Bonding Interface (EBI) for repair and maintenance.

- To implement a direct interface necessary for customer billing to exchange customer usage data in the industry-standard Exchange Message Record (EMR) format and the local account maintenance CARE process for services resale.

- For services resale - interfaces will be available for real-time data exchange at the industry-standard Exchange Message Record (EMR) format and the local account maintenance CARE process for services resale.

- For services resale - interfaces will be available for real-time data exchange at the transaction level and communication for each of these areas by January 1, 1997.

She restated these agreements on pages 2-4 of her Rebuttal. These agreements in principle are outlined in detail in AT&T's proposed Interconnection Agreement in Resale Attachments 2, 3, 4, and 5. (Dalton Direct at 27). SWBT witness Watts agreed with Ms. Dalton's testimony. (Rebuttal at p. 2, Tr. at 1318-19).

Ms. Dalton explained in her Rebuttal that SWBT was back-tracking from its agreement to provide an electronic data interface (EDI) for ordering and provisioning. (Rebuttal at 4). Ms. Dalton explained that manual interfaces were not acceptable (i.e. an impediment to competition) except when

SWBT provisions its own similar orders on a manual basis. (Rebuttal at 5-6). Hence, Ms. Dalton recommended that the Commission order SWBT to adhere to its agreements by providing all service order types and functions by EDI no later than the end of the first quarter of 1997, and by January 1, 1997 for the most critical ones. (Rebuttal at 9, Tr. at 1046, 1321, Exhibit 84). Ms. Russell agreed for MCI. (Rebuttal at 4-7, Tr. at 1096, 1107).

Ms. Dalton indicated that SWBT had not agreed to meet AT&T's requests regarding electronic operation interfaces and procedural practices regarding

- unbundled network elements
- notice of new service or changes to existing services[31]
- customer billing usage transfer for outcollect messages [32]

With regard to electronic interfaces for ordering and provisioning unbundled elements, Ms. Dalton explained that new entrants need to be able to order and provision various combinations on a single service order and obtain them already interconnected. She explained that SWBT maintenance should be done on advance notice to the new entrant subject to adequate control and supervision. She explained the need for full access to unbundled databases, including the ability to input information via electronic interfaces using gateways. AT&T and SWBT could not reach agreement on such issues because the underlying issues regarding unbundled elements remain unresolved. (Dalton Direct at 28-30).

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[31]See Issue 40 for discussion.

[32]Ms. Dalton reported in her Rebuttal at pages 9-10 that SWBT had agreed to meet AT&T's needs in this area. Mr. Watts agreed in his (Rebuttal at page 7).

Hence, the Commission needs to order "real-time" electronic interfaces and procedures for unbundled elements to be implemented by March 1, 1997. (Dalton Direct at 30-31, Tr. at 1046). Mr. Watts indicated a March deadline could be met. (Watts Rebuttal at 4, 6, Tr. 1325).[33]

As explained by Ms. Russell and Ms. Dalton, operational support systems are essential ingredients to competitive entry. Pre-ordering, ordering, provisioning, repair, maintenance, and billing are all critical aspects of serving the customer. "Real time" access through electronic interfaces must be available, as recognized by the FCC at ¶ 525 of its Order.

Consequently, the Commission should generally order SWBT to fulfill its above-described agreements to meet the requests of MCI and AT&T in this area, on the agreed schedule (Exhibit 84). Specifically, the Commission should order SWBT to adhere to its agreement to provide EDI ordering and provisioning.

Additionally, the Commission should order SWBT to provide "real time" electronic interfaces for unbundled elements and CABS-like billing by March 1, 1997.

Subject to the requests, the Commission should approve Attachment VIII to MCI's proposed Agreement, and Resale Attachments 2, 3, 4, and 5 and Unbundled Elements Attachments 7, 8, 9, and 10 to AT&T's proposed Agreement.

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[33]The deadline wold be six months after Commission order for additional unbundling beyond the FCC Order. (Tr. at 1326).

Policy/Pricing/Resale

23. How should network elements be priced?

A. Generally/Prices

This issue is inextricably linked with Issue 1 (what costing model should the Commission use in this proceeding). The HCM presented by the Applicants: complies with the FCC's concept of a forward-looking economic cost model; complies with the FCC's concept of total element long-run incremental cost; and complies with the FCC's concept of an efficient network configuration. F. Warren-Boulton Direct, ATT Ex. 32, at 4-18; F. Warren-Boulton Rebuttal, ATT Ex. 33, at ; S. Goodfriend Direct, MCI Ex. 52, at ; S. Goodfriend Rebuttal, MCI Ex. 53, at. The HCM uses appropriate fill factors. R. Flappan Direct, ATT Ex. 34, at 30-31 and Exhibits RPF-1 and 2; D. Rinehart Rebuttal, ATT Ex. 38, at 19-21. Finally, the HCM uses appropriate depreciation lives and rates. R. Flappan Direct, ATT Ex.34, at 34-36 and Exhibits RPF-1 and 2.

The appropriate prices for unbundled elements under the HCM are set out in Schedule RPF-3 of Mr. Flappan's direct testimony. In summary, those prices are as follows:

Network Interface Device	Per line/month	$ 0.49
Loop Distribution	Per pair/month	$ 8.37
Loop Concentrator	Per line/month	$ 2.19
Loop Feeder	Per pair/month	$ 2.70
End Office Switching: Port	Per line/month	$ 1.28
End Office Switching: Usage	Per minute	$ 0.0021
Signaling Links	Per link/month	$26.91
Signal Transfer Point	Per message	$ 0.00006
Signal Control Point	Per message	$ 0.00084

Common Transport	Per minute/leg	$ 0.00170
Dedicated Transport	Per DSO/month	$ 4.96
Tandem Switching	Per minute	$ 0.0019
Operator Systems	Per line/month	$ 0.1527

R. Flappan Direct, ATT Ex. 34, at 33.

B. Fill

The Applicants believe that the appropriate utilization (fill) for network elements is as set forth in Attachment C to the testimony of Mr. Flappan. R. Flappan Direct, ATT Ex. 34, at 30-31; Attachment C. Due to their importance, the Applicants will further discuss the feeder and distribution fill factors herein.

The feeder and distribution plant fill factors are very important in this case. *Cf.* Tr. At 781. Because of the expense associated with loop plant (particularly distribution), the fill factor issue has a great impact on ultimate costs. The lower the fill factor, the higher the costs. J. Moore Rebuttal, SWB Ex. 8, at 3. It's that simple. SWB would use an unreasonably low fill factor for feeder (66%-74%) and distribution (29%-36%) plant. Moreover, its criticism of the Hatfield Model fill factors is misplaced.

Fill factor is a representation of the usage of the lines. SWB says that about two-thirds of its existing loop plant is unused. SWB has opted to utilize a fill factor of well less than 40%. This number, which was derived from a backwards-looking assessment of actual historic fill, *Id.* At 4-5, should not be utilized in the TELRIC models. As Mr. Flappan pointed out, the experienced fill may be influenced by uneconomic amounts of plant in the field either because of fiber laid in advance of video or because older technologies did not allow as much "pair gain" as today's technology. R. Flappan Direct, ATT Ex. 34, at 30-31; D. Rinehart Rebuttal, ATT Ex. 38, at 5, 19-20. Also,

whatever inefficiencies may exist as a result of past monopoly operations and the disincentives for efficiency under rate regulation (the more lines, the more rate base, the more authorized return) must not be included in the forward-looking factor.

In a forward-looking model, the system should be efficiently engineered. The Hatfield Model does this by using reasonable assumptions about the need for plant in the planning process, reasonably sizing the cables to meet the need, and then recording the investment. The investment is summed over CBGs.[34] The investment thus represents the reasonable and necessary investment to provide the increment of demand. This is the investment which should be utilized for cost purposes. This approach is fair and avoids, up front, arguments regarding what may or may not be involved with excess plant, old technologies, monopoly inefficiencies, etc., which become important when one looks at final results.[35]

The fill factors set forth in Appendix C, Schedule RFP-2 to Mr. Flappan's testimony are not the fills that are expected in the field. Having reasonably and fairly set the initial investment, all that investment is used in costing out the unbundled elements. The effective fills generated by the model

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[34] AT&T Witness Rinehart made a very important observation in the way that SWB uses its unreasonably low fill factor to obtain total investment. D. Rinehart Rebuttal, ATT Ex. 38, at 20 and Attachment DPR-2. Because SWB divides cost per loop by 40%, SWB inflates all associated costs by a factor of 2.5 times. This grossly overstates the cost to install spare plant. Compare this calculation to dividing the expected demand (need) by the appropriate fill factor, sizing the cable accordingly, then figuring out the investment needed. It is demand or need, and not cost or investment, to which the fill factor relates.

[35] Suppose a closed subdivision was wired for distribution cable. Suppose also that the amount of cable was calculated using the methodologies incorporated into the Hatfield Model. The proper amount of cable would be put in the ground for the expected demand. Suppose the subdivision was not a success and many lots were left unsold. The fill experienced would be much lower than expected. Using this experienced fill factor to determine the forward-looking cost of a loop in an efficient network would necessarily result in an overstatement of cost to serve the demand. By using a fill factor based on historical experience, SWB is making this exact mistake.

are lower than the target fills set forth in Appendix C.[36] This is because of "lumpiness" or "modularity" in the cable sizes. Tr. at 778. Even if actual fills turn out to be lower than expected, the investment has already been incorporated into the costing of the unbundled element. The planning parameters of the Hatfield Model are fair and reasonable, and the fill factors used by the model should be adopted.

C. Depreciation

In its order, the FCC concluded that the best starting point for depreciation rates and lives for TELRIC calculations is that currently authorized at the federal or state level for the ILEC. Incumbent LECs must prove why a different rate should apply. FCC Order, ¶702. Depreciation inputs for the Hatfield Model are contained in Appendix C, Schedule RFP-2 and page 35 to Mr. Flappan's testimony. ATT Ex. 34. These figures were derived from the depreciation lives and rates approved for SWB by the FCC in its Order No. 96-22. The HCM inputs are the proper inputs to use for depreciation, and the rates and lives in the FCC's order are the proper starting place in their derivation.

SWB has used unreasonably short depreciation lives in its studies. The cost studies in this case are for the purpose of calculating prices for unbundled elements for the provision of basic telephone service. The equipment used for that purpose has relatively long useful lives, as evidenced by the fact that SWB still utilizes switches which were put in place in the 1970s. *Cf.* Tr. at 464-65. In no event should SWB be able to recover anything for investment in broadband services and other "advanced" services SWB might be planning to offer for the future. *See* ATT Ex. 71. The fact is that

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[36] Mr. Flappan stated that the effective fill factor was 52%. Tr. at 778. This means that under the Hatfield Model, nearly half the loop plant is expected to be idle. SWB wants at least 60% to be presumed idle.

short depreciation lives increase cost. SWB's depreciation lives and rates should be set as approved by the FCC and calculated for the Hatfield model. SWB has failed to demonstrate otherwise.

D. Forward-Looking Common Costs

The FCC's rules specifically forbid using "the costs that the incumbent LEC incurred in the past and that are recorded in the incumbent LEC's books of accounts." 47 C.F.R. § 51.505(d)(1). SWB uses such embedded costs in its studies and they should be rejected as explained under Issue 1.[37]

The FCC has defined "forward-looking common costs" (FLCC) to be:

> ... economic costs efficiently incurred in providing a group of elements or services (which may include all elements or services provided by the incumbent LEC) that cannot be attributed directly to individual elements or services.

(47 CFR Sec. 51.505). Any calculation of FLCC in a TELRIC study must therefore include only costs incurred in efficiently providing the element in question and which could not be directly attributable to the element. According to the FCC, the common costs associated with an element "should be smaller than the common costs associated with the long-run incremental cost of a service." FCC Order, ¶695. The use of TELRIC, rather than TSLRIC, results in smaller common costs allocable to the element. FCC Order, ¶¶ 678 and 694; F. Warren-Boulton Direct, ATT Ex. 32, at 13. This is because in a properly done study, almost all of the incremental costs will be directly allocated to the provision of the element. Any significant mark-up to TELRIC costs is therefore suspect and would likely smack of embedded rather than incremental cost recovery.

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[37] The Hatfield model does base some of its inputs on SWB's most recent cost experience, but discounts those amounts to make the costs forward-looking. SWB uses 100% of the costs in its studies.

SWB has the burden to prove the specific nature and magnitude of its claimed forward-looking costs. FCC Order, ¶695. By this, SWB must show that those costs relate directly to the element (and not a service); that they would be incurred in an efficient, procompetitive environment; and that they are incremental rather than embedded. This SWB simply has not done. Despite the FCC's expectations to the contrary, SWB has requested a large mark-up to its claimed TELRIC costs. Given the expectations of the FCC and economic theory, this fact alone makes SWB's request suspect. F. Warren-Boulton Rebuttal, ATT Ex. 33, at 1-3.

Moreover, SWB did not categorize the alleged common costs and show that they were directly related to network elements. Rather, SWB has apparently simply added up its "common costs" and allocated them to network elements. These common costs are historical expenses incurred by SWB. *Id.* at 2-3. They are embedded costs. MCI and AT&T submit that what SWB has in fact done is more in line with a fully allocated costing approach, which is economically suspect and has been rejected by the FCC. No adjustment was made to these costs in consideration of the advent of an efficient, procompetitive market; they were used as they had been incurred. For these reasons, SWB's study does not meet the tests of the FCC's rule, is economically suspect, and should be rejected.

E. Burden of Proof

As the incumbent LEC, SWB bears the burden of proof with respect to the costs and prices at issue in this phase of these arbitration proceedings. In the area of TELRIC-based pricing of network elements, the burden of proof is directly imposed by 47 C.F.R. § 51.505(e) and Paragraphs 619, 680, 695, 702, and other provisions of the FCC Order. Recognizing that incumbent LECs have greater or "asymmetric" access to the necessary cost information, the FCC finds in Paragraph 680

"that incumbent LECs must prove to the state commission the nature and magnitude of any forward-looking cost that it seeks to recover in the prices of interconnection and unbundled network elements." *See also*, FCC Order, ¶¶ 695 ("in the arbitration process, incumbent LECs shall have the burden to prove the specific nature and magnitude of forward-looking common costs") & 702 (ILECs bear "burden of demonstrating with specificity" business risks justifying higher rate of return than currently authorized). If the ILEC wishes the state commission to base prices on the ILEC's TELRIC study, then it must present information that enables the commission to "create a factual record, including the cost study, sufficient for purposes of review after notice and opportunity for the affected parties to participate." *Id.*, ¶ 619.[38]

In this case, SWB has failed to meet this burden of proof which it bears on TELRIC pricing issues. The SWB studies were essentially a statement of results, merely "numbers on a page," with no back-up or methodological explanation. Without proper documentation and supporting workpapers, these studies could not be effectively analyzed and were thus "of little or no value to the PSC, AT&T, or any other party" for purposes of establishing TELRIC-based rates. D. Rinehart Rebuttal, ATT Ex. 38, at 13-15.

The Hatfield Model, on the other hand, has been shown to have many positive attributes that contrast sharply with SWB's cost studies. The HCM employs non-proprietary data, uses transparent

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[38] The PSC allowed for data requests to be filed by September 20, 1996. AT&T requested the cost studies and attendant workpapers at that time. SWB made available for inspection--but not copying or taking of detailed notes--the cost studies and limited supporting documentation on September 27, 1996 in St. Louis. The studies were made available in SWB's Austin office on September 30, 1996. D. Rinehart Rebuttal, ATT Ex. 38, at 12. Finally the supporting documentation of the cost studies was made available in a hotel room in Jefferson City the week of October 7, 1996, after it became evident the Commission was interested in the degree to which the Applicants had access to such data. Tr. at 646-47.

SWB's cost studies should not be given the imprimatur of the PSC if for no other reason because of the difficulty the Applicants had in gaining access to those studies. The fact that SWB was able to file as much rebuttal testimony critical of the HCM speaks favorably to the openness of rather, than any failings of, the HCM.

methodologies, is totally accessible and verifiable, fully complies with the FCC Order, and produces credible results. R. Flappan Direct, ATT Ex. 34, at 8-15. It clearly represents "the best information available" to the Commission for setting rates for SWB in this proceeding in compliance with the Act. *See* FTA, § 252(b)(4)(B). The Applicants therefore urge adoption of the Hatfield Model, at this time and in this proceeding, for purposes of setting SWB rates under the FTA for interconnection and unbundled network elements.[39]

F. Interim Rates/Subsequent Cost Proceeding

AT&T suggested bifurcating the arbitration proceeding in order for the Commission to examine the cost issues in a subsequent proceeding. The Applicants submit that the HCM provides the Commission the basis for setting rates on a permanent basis; however, should the PSC establish a separate cost proceeding it should set interim rates based on the HCM but in no event higher than the proxy rates established by the FCC. The Applicants should have full access to SWB's cost studies if such a proceeding is established.

The Applicants note that the present proceeding is apparently the first time that in-house MCI and AT&T *non*-attorneys (*i.e.* subject matter experts) were permitted to examine SWB's cost studies. Dr. Goodfriend strongly urged the Commission to adopt an even more open policy toward examination of SWB's cost studies in future proceedings. Tr. at 642-44. A more open policy would be extremely important if the Commission bifurcates this proceeding by adopting interim rates and conducting a subsequent "cost study" proceeding (as suggested by AT&T during the hearing). SWB filed a great deal of rebuttal testimony on the HCM as compared to the rebuttal testimony critical of

[39] To the extent the Commission might have any lingering questions about the inputs used by the Applicants in their HCM runs, then those issues could be taken up in a separate cost issue proceeding as urged by AT&T during the hearing.

SWB's cost studies. This condition is due in large part to the parties having to go to SWB's offices during normal business hours to view the studies, subject to the prohibition on making copies or taking detailed notes. The Commission should require SWB to provide the studies and supporting workpapers outright--with the details of the operational, functional, and structural characteristics of those studies. Such action would represent a departure of past Commission practices but one that is warranted under the new telecommunications environment. If the Commission establishes a separate cost proceeding and the Applicants are denied free and open access to SWB's cost studies--meaning the Applicants are unable to use the studies and supporting documentation and run the models in their own offices--the Commission will have conducted a cost study proceeding likely resulting in no meaningful discourse or clash of ideas. In short: The Commission's historic protective order should be scrapped for all future proceedings regarding cost studies.

24. <u>How should unbundled network elements be deaveraged?</u>

Rates for unbundled elements should be deaveraged on a census block group basis into six groups, as was done in the HCM. This more finely granulated approach to geographic deaveraging under Paragraph 764 of the FCC Order tracks costs far better than SWB's approach of collapsing its exchange rate groups into three exchange-level categories (particularly since those exchange rate groups were established to set retail rates under residual ratemaking rather than cost-based pricing principals, resulting in rate levels that were inversely related to costs.) The CBG-by-CBG approach of the HCM also accounts for density and other cost driver differences *within* each exchange, something that SWB's exchange-level study, by definition, cannot do.

SWB's "deaveraging" proposal would have the effect of forcing new entrants to pay averaged loop costs regardless of the area in which the loops were purchased. "The effect of SWB's proposal would be to force new entrants to price their end user services in a manner similar to SWB. Attempts to make the new entrant's services look like the incumbent LEC's would dampen the robustness of competition to the detriment of Missouri consumers." P. Gaddy Rebuttal, ATT Ex. 45, at 4.

25. <u>How should compensation for interconnection facilities be set?</u>

Each company should be responsible for delivering traffic to the interconnection point, plus the costs of the proportion of dedicated trunk capacity provided by the terminating carrier and used by the interconnecting carrier. P. Powers Direct, MCI Ex. 58, at 17-23; P. Powers Rebuttal, MCI Ex. 59, at 10-11.

26. <u>Should SWBT be required to tariff physical collocation arrangements?</u>

The Commission should require SWBT to establish and tariff standard components of the cost of physical collocation. (Jacobson Direct at 35-36, Powers Rebuttal at 14, Tr. 900). ICB pricing denies new entrants information which they need to plan their businesses. (Jacobson Rebuttal at 12-13, Powers Rebuttal at 14). Further, it affords SWBT the opportunity to delay collocation, as AT&T has experienced (Jacobson Rebuttal at 12, Powers Rebuttal at 14). Tariffing would also reduce the risk of discrimination by making terms and conditions as uniform and available as possible. SWBT opposes Tariffing, claiming every situation will be different, yet in contradiction suggests new entrants will eventually be able to look back at their previous collocation experiences to predict future costs. (Deere, Tr at 1208).

However, the tariffing process should not become an excuse for SWBT to postpone collocation, and MCI and AT&T should remain free to establish collocation arrangements immediately.

To the extent the first collocator bears costs for the benefit of future collocators, those future collocators should reimburse the first entrant. (Powers Rebuttal at 14).

27. <u>What charges should apply for transport and termination of AT&T and MCI's traffic?</u>

AT&T and MCI support a Bill and Keep mechanism for traffic exchange between AT&T, MCI, and SWB for at least the first nine months after the initiation of the passage of commercial traffic between the companies. After the nine-month period, Bill and Keep should remain in place unless and until a significant and continuing disparity in the levels of traffic terminated on the respective networks can be demonstrated. P. Gaddy Direct, ATT Ex. 44, at 49-55; P. Gaddy Rebuttal, ATT Ex. 45, at 4-6. The Applicants note, however, that there may be one possible interpretation of the applicable FCC rule which would result in Bill and Keep only being applicable to termination, an approach that would undermine competition. The lack of symmetry caused by Bill and Keep being applicable to only one element (*i.e.* termination) would create a significant barrier to entry.[40] S. Goodfriend Direct, MCI Ex. 52, at 35, 47. Accordingly, the best means by which to achieve symmetry, and the one which should be adopted by the Commission, is that Bill and Keep should be the method for establishing reciprocal compensation for transport *and* termination of local calls.

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[40] This barrier results from the fact that LSPs will be assessed higher transport charges due to the inefficiencies of the incumbent. To compensate (and keep its rates competitive), the LSP will have to be more efficient (to reduce its own costs). These pressures may well discourage LSPs from entering the market.

Alternatively, should the Commission decide on a compensation arrangement, SWB should be paid for tandem switching, transport between the tandem and end office, and for end office switching to the extent these elements are used. The rates should be set at the results of the HCM. Traffic should be measured by auditable Percent Local Usage reports, and not by any expensive and unnecessary new measurement system. SWB should pay the Applicants the same rates. S. Goodfriend Direct, MCI Ex. 52, at 17, 33-47; S. Goodfriend Rebuttal, MCI Ex. 53, at 19; P. Powers Direct, MCI Ex. 58, at 17-23; P. Powers Rebuttal, MCI Ex. 59, at 10-11; P. Gaddy Direct, ATT Ex. 44, at 49-55; P. Gaddy Rebuttal, ATT Ex. 45, at 4-6.

28. <u>When should local transport and termination charges apply?</u>

Absent a showing by SWB that there is a cost differential to terminate traffic in an EAS area compared to termination in the local calling area, flat rate extended area plans (optional or mandatory) should identify the local area for purposes of reciprocal compensation. Local competition is not furthered if potential entrants to the market are discouraged because they cannot recover all of their costs. Imposing a more serious cost burden on entrants, such as switched access charges as proposed by SWB--charges which are many, many times their true cost, thus forcing the new entrant to charge higher prices--will send a signal to customers who prefer optional calling plans that they should deal with only one carrier--the incumbent. P. Gaddy Direct, ATT Ex. 44, at 55-59; P. Gaddy Rebuttal, ATT Ex. 45, at 6-7; S. Goodfriend Direct, MCI Ex. 52, at 33.

29. How should compensation between SWBT and MCI and AT&T be handled with regard to calls within a Metropolitan Calling Area (MCA)?

Reciprocal transport and termination rates should apply within established local calling areas. To compensate SWB for MCA ported numbers on a usage-sensitive basis would simply protect SWB from the effects of competition, rather than subject it to competition. Under TELRIC principles, SWB is only to be compensated for functions and services it actually provides. There would be no competition if SWB were to charge switched access rates to new entrants while providing its customers flat-rated MCA service. SWB could potentially make the entire LATA one local, flat-rated calling area, thus inhibiting competition in the long distance market as well as in the local market. P. Gaddy Rebuttal, ATT Ex. 45, at 6-7. That situation would result in the classic price squeeze. "Reciprocal compensation should be applicable to the transport and termination of traffic within the geographic boundaries of both mandatory and optional EAS and EAS-like arrangements." *Id.* at 7.

Access charges should *not* be assessed on these types of calls. There is no competitive rationale for doing so. Second, traffic-sensitive access costs are substantially in excess of even SWB's proposed prices for local switching and transport. Third, there is no plausible basis for the artificial distinction between mandatory and optional EAS-type calling plans. Finally, this Commission may define the local calling area.

30. Should SWBT's switched access rates be changed in this proceeding?

MCI and AT&T continue to believe that it is critical for the Commission to reform intrastate access charges based on the Hatfield Model, so that Missouri can keep pace with interstate access

reform and coordinate access reform with universal service reform. Nevertheless, MCI and AT&T recognize that it will be difficult for the PSC to undertake access reform within the context of the instant arbitration proceeding. MCI and AT&T urge the Commission to initiate a separate intrastate access reform proceeding now. Taking charge of intrastate access reform now will not only give the Commission better control over the development of competition (including any attempt by SWBT to enter the interLATA market under Section 271 of the Act), but also allow the Commission to coordinate its access charge reform with its creation of a competitively neutral universal service support mechanism. (Goodfriend, Direct at 48-50, Rebuttal at 19-20, Tr. at 590-91.).

31. <u>What compensation arrangement should be adopted for intermediate transport?</u>

Intermediate transport should be provided based on the HCM model. The "mix" of traffic is irrelevant; SWB is providing network elements. Accordingly, it is the location of the two LSPs who are transmitting the traffic to the SWB tandem that is important. P. Powers Rebuttal, MCI Ex. 59, at 11.

It should not matter to SWB what agreement, if any, two LSPs have with each other. As a practical matter, the LSPs will have their respective agreements with SWB, no doubt covering the pricing and operational aspects of providing intermediate transport. Finally, the LSPs should be able to directly interconnect with each other in a collocated facility and not have to go through SWB to effect the connection.

32. Should the Commission address intraLATA toll-dialing parity in this proceeding?

SWBT has the duty "to provide dialing parity to competing providers of telephone exchange service and telephone toll service." See Section 251(b)(3) of the Act. According to Section 153(a)(39) of the Act, "dialing parity" means that "a person that is not an affiliate of a local exchange carrier is able to provide telecommunications in such a manner that customers have the ability to route automatically, without the use of any access code, their telecommunications to the telecommunications services provider of the customer's designation from among 2 or more telecommunications services providers (including such local exchange carrier)."

In other words, MCI's and AT&T's customers should have access to local, toll, directory assistance, and operator services using identical dialing sequences. Consumer choice among local service providers is meaningless unless MCI and AT&T and other competitors are able to provide service at least equal in quality to the service provided by SWBT. Furthermore, any new entrant should be able to expect that the features, functions, and capabilities it purchases from SWBT will operate for its customers as they do for SWBT customers, unless another method is agreed upon. Customers will demand this result.

Specifically, when AT&T and MCI are providing local service through resale or use of unbundled elements, their customers should be able to utilize "1+" dialing for intraLATA toll, "1+411" for directory assistance, "0" for operator services, "911" for emergency assistance, and switch-based server activations. AT&T and MCI believe SWBT agrees on this point.

There have been no costs identified with providing dialing parity beyond the costs for providing the related service. To the extent that costs are identified, however, they should be

determined based on TELRIC and recovered on a competitively neutral basis from all local service providers, including SWBT. (Lancaster, Direct, pp. 29-31, 34).

Additionally, The Commission should order SWBT to file its dialing parity plan to comply with the FCC's deadline of February 8, 1999, outlining deployment of 2-PIC software at all SWBT end offices, limit balloting to offices which have not converted on interLATA basis, establish uniform PIC change process with only one charge if interLATA and intraLATA changed at same time, and SWBT customer service representatives remaining provider-neutral. Cost recovery must be limited to incremental costs and allocated in a competitively-neutral manner, and that call set-up and call processing times must be equivalent. SWBT should routinely report proposed changes. (Laub Direct pp. 7-10, Rebuttal pp. 9-10). Action now will assure simultaneity of dialing parity with SWBT interLATA entry. (Laub Tr. at 142-43). Further, SWBT witness Deere agreed efficiency could be achieved by deploying the 2-PIC software now in conjunction with ongoing switch upgrades. (Tr. at 1144).

33. <u>Should SWBT be required to "brand" for AT&T and MCI on maintenance, installation and customer functions other than operator services?</u>

In its Order, the FCC stated that brand identification is critical to reseller attempts to compete with incumbent LECs and will minimize consumer confusion. MCI and AT&T contend that SWBT personnel interfacing with end-user customers must notify the customer that they are representing or acting on behalf of MCI or AT&T. For instance, when a SWBT employee visits the premises of a customer, MCI and AT&T request that SWBT's personnel inform the customer that SWBT is on the customer's premises representing MCI or AT&T. MCI and AT&T are *not* requesting that SWBT

personnel wear changeable shirts or hats or drive a truck with changeable signs, but rather that the SWBT employee simply tell the customer that he or she is making the service call on MCI's or AT&T's behalf. (Gaddy, Direct at 47-48; Rebuttal at 11-12, Tr. at 1577-80; Klaus, Direct at 10-12 Tr. 1680-84). During the cross-examination, Mr. Bailey agreed that when making a service call, SWBT can identify the LSP. Mr. Bailey also stated that there may be some LSPs that would prefer SWBT service personnel not identify them by name. (Tr. at 1406-09), but any such other companies can obtain their own terms of interconnection.

One final branding issue is that of "leave-behinds"[41] for service calls. Rather than allowing SWBT to leave behind its own SWBT card on service calls made on behalf of an LSP, SWBT should be required to leave a notice card that indicates a service call was attempted on behalf of MCI or AT&T, with no mention of SWBT. If that is not possible, then a brand-neutral communication should be left behind (e.g., one that simply indicates that a telephone service call was attempted. (Klaus Tr. at 1679-80).

34. Should the Commission adopt a charge on local service providers which purchase local switching in a manner similar to that adopted by the FCC?

No. SWBT has offered no evidence that implementation of interconnection will have an impact on its local rates or on universal services. It would be anti-competitive to artificially attempt to hold SWBT harmless from the effects of competitive entry through a subsidy charge. New entrants will be paying appropriate rates, covering SWBT's costs, so no subsidy should be necessary. Moreover, the FCC's work on universal service reform should be done by May, 1997. (Gaddy,

[41] A leave-behind situation occurs when the service representative cannot gain access to the location where service is needed and leaves behind a note indicating that a representative was there.

Rebuttal at 709). Hence, unbundled local switching rates should be based on the TELRIC results of the Hatfield Model. (See Issue 32).

35. What services should SWBT be required to make available to AT&T and MCI for resale?

Under the 1996 Act, all telecommunications services that SWBT provides at retail to subscribers who are not telecommunications carriers must be made available for resale. [Klaus, Direct, pp. 4, 7; Russell, Direct, JR-2; Gaddy, Rebuttal, p. 13, 18].

AT&T, MCI and SWBT have reached an agreement in fact in Texas (copy attached hereto as Schedule 1) and an agreement in principle in Missouri (copy attached hereto as Schedule 2) with regard to which services should be made available for resale, and with regard to some of the services, the price of those services. While this agreement has not yet been signed, MCI and AT&T believe it is accurately set forth on Schedule 2, except a dispute remains as to whether services to accredited educational institutions should be discounted for avoided costs beyond the discount afforded to such institutions (See Schedule 2, Ex. B, item 1). (Tr. 1415, 1426). Actually, the dispute involves whether there are any such avoided costs, and AT&T and MCI are willing to accept a service specific discount in this one instance for the obvious public policy reasons. (Tr. at 1583-84). Hence, the Commission should order SWBT to provide evidence of its costs for this specific service so that a specific discount can be calculated.

SWBT also apparently wants to include an "escape clause" in this stipulation regarding changes in the law, but MCI and AT&T believe such an issue is generic, not tied to resale, and should

should have been addressed with evidence under item 42. See Section 2 of MCI's proposed Interconnection Agreement. (Russell Direct, JR-2), and Sections 9 and 28 of AT&T's Agreement.

36. What discount should be available for resale services?

The Federal Act provides substantial guidance for determining the wholesale rates for services that SWBT must sell to other carriers for resale. The specific language in § 252(d)(3) of the Federal Act is that "a State Commission shall determine wholesale rates on the basis of retail rates charged to subscribers for the telecommunications service requested, *excluding the portion thereof attributable to any marketing, billing, collection, and other costs that will be avoided by the local exchange carrier.*" (Emphasis added). Thus, to determine wholesale rates, the Federal Act expressly identifies three specific categories of costs that are to be excluded from retail rates: marketing, billing, and collection costs. The Federal Act also prescribes the removal from retail of any "other costs that will be avoided." Effectively, the Federal Act prescribes that *all* retail-related costs are to be removed from retail rates to establish wholesale rates.

Generally, the FCC states that wholesale prices equal retail rates less avoided retail costs. The FCC requires that avoided costs be established by a cost study that considers the following pertinent criteria:

1. The FCC Order finds "that 'the portion [of retail rate] . . . attributable to costs that will be avoided' includes all of the costs that the LEC incurs in maintaining a retail, as opposed to a wholesale, business," FCC Order at ¶ 911;

2. The FCC Order also provides that "an avoided cost study must include indirect, or shared, costs as well as direct costs," FCC Order at ¶ 912;