EXHIBIT A

Services Not Offered For Resale

BDS/LAN
Customer Provided Equipment
Customized Billing Reports
Inline Products
Semi-Public Telephone Booths and Enclosures
911 Universal Emergency Number Equipment
Inside wiring products

EXHIBIT B (Page 1 of 2)

1. **Available for Resale at Retail Rates**

The Parties have agreed that the following services will be made available for resale by SWBT to all LSPs at the tariff rate for each such service (or in the event that such service is not tariffed, at the rate charged to end user customers, except as otherwise noted):

Construction Charges
Connections with Terminal Equipment and Communications Systems
Maintenance of Service Charges
Suspension Services[1]
Telecommunications Service Priority Systems
Access Services
Exchange Interconnection Services
Wireless Carrier Interconnection Services
Services Offered Exclusively to Accredited Educational Institutions[2]

2. **Available for Resale at Five Percent (5%) Discount**

The Parties have agreed that the following services will be made available for resale by SWBT to all LSPs at a discount of five percent (5%) off of the tariff rate (or in the event that such service is not tariffed, at the rate charged to end user customers, except as otherwise noted):

Bill Plus
Consolidated Billing

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[1] Suspension of Service discounts apply to the discounted rate for the underlying service

[2] The resale rates for Services Offered Exclusively to Accredited Educational Institutions shall include the wholesale discount approved by the Commission in this proceeding.

EXHIBIT B (Page 2 of 2)

3. **Available for Resale at Wholesale Discount**

The Parties have agreed that the following services will be made available for resale by SWBT to all LSPs at the wholesale discount rate ordered by the Missouri Public Service Commission in this proceeding.

A. All services identified or referenced in Exhibit C.

B. All service included in Appendix 9, Attachment 1: Resale, Pricing Schedules I, II and III to AT&T's Petition for Arbitration except for those services previously listed herein.

C. In addition to those services identified or referenced in 3 (A) and (B), the following services will be made available for resale by SWBT to all LSPs:

1. Customized Service Contracts (e.g., CSPP);
2. Enhanced Directory Listings;
3. Prepaid Card;
4. Any other Telecommunications Service provided to SWBT's end user customers on a retail basis that are not telecommunications carriers subsequently identified by any Party which has not been included in Exhibit A, Exhibit B or Exhibit C of this Stipulation;

EXHIBIT C (PAGE 1 of 6)

SOUTHWESTERN BELL TELEPHONE COMPANY
Required Resale Services - Business Services **

LOCAL EXCHANGE SERVICE

Business 1-Party Service
Business Multi-Line Hunting
Business Measured Service
Convention Center Service
Customer Owned Pay Telephone Service
Hunting
Message Rate Service
Message Register Equipment
Mileage Outside the Base Rate Area
Semi-Public Coin Telephone Service
Special Bill Numbers
Telephone Answering & Secretarial Service
Mandatory Extended Area Service
Service Connections, Moves and Changes

TRUNKS

Analog Trunks
Digital Trunks
Digital Loop Service
Dormitory Service
Hotel/Motel Trunks
Hotel/Motel Reservation Service at Municipal Airports
Shared Tenant Services***

OPTIONAL EXCHANGE SERVICES

Optional Metropolitan Calling Area Service

** Grandfathered services also available for resale at the applicable discount.

*** When an LSP resells Shared Tenant Service, the LSP will receive the discount associated with the underlying service used in the shared tenant arrangement.

Required Resale Services - Business Services **

CALL MANAGEMENT SERVICES

Auto Redial
Call Blocker
Call Forwarding
Call Return
Call Trace
Call Waiting
Packages (e.g. Biz Saver[sm] and The Works[sm])
Priority Call
Selective Call Forwarding
Speed Calling
Three Way Calling

CALLER ID SERVICES

Calling Name
Calling Name and Number
Calling Number
Caller ID Value Packages

OTHER VERTICAL SERVICES

Area Wide Networking
Billed Number Screen
Busy Out Arrangement
900 Call Restriction
Call Forward - Busy Line
Call Forward - Don't Answer
Call Forward - Busy Line/Don't Answer
ComCall®
Conference Telephone Service
Customer Alerting Enablement
Disaster Routing Service
Hot Line
Intelligent Redirect[sm]
IntelliNumber
Intercept Services
Night Number associated with Telephone Number
Night Number associated with Terminal
Personalized Ring[sm]
Positive ID
Second Line Control
Simultaneous Call Forwarding
Toll Restriction

** Grandfathered services also available for resale at the applicable discount.

Required Resale Services - Business Services **

CALL MANAGEMENT SERVICES (cont)

Voice Dial
Warm Line

REMOTE CALL FORWARDING

Remote Access to Call Forwarding
Telebranch®

MTS

IntraLATA MTS

OPTIONAL TOLL CALLING PLANS

1+ SAVER℠
1+ SAVER DIRECT℠ (Pending Commission Approval)
Community Optional Service
Outstate Calling Area Service

WIDE AREA TELEPHONE SERVICE

Business Common Line 800
800 Service
WATS

PLEXAR®

Plexar I®
Plexar II®
Plexar Custom®

DIGITAL LINK SERVICES

Apartment Door Answering
Announcement Distribution Services
Business Video Service
DOVLink
Public Response Calling Service
Frame Relay
MegaLink II®
MegaLink III®
MicroLink I®
MicroLink II®
Multi-Point Video
Network Reconfiguration Service

** Grandfathered services also available for resale at the applicable discount.

Required Resale Services - Business Services **

DIGITAL LINK SERVICES (cont)

Service Loop Facility Modification Service
Broadband Educational Videoconferencing Service

ISDN

Digiline℠
SelectVideo Plus®
Smart Trunk℠

PRIVATE LINE

Analog Private Lines
FX/FSO Service
Group Alerting

OPERATOR SERVICES

Directory Assistance Services
Operator Services

** Grandfathered services also available for resale at the applicable discount.

SOUTHWESTERN BELL TELEPHONE COMPANY

Required Resale Services - Residential Services **

LOCAL EXCHANGE SERVICE

Lifeline Discount Telephone Service
Link Up
Mileage Outside the Base Rate Area
Residence 1-Party Service
Residence 1-Party Measured Service
Service Connections, Moves and Changes
Mandatory Extended Area Service

OPTIONAL EXCHANGE SERVICES

Optional Metropolitan Calling Area Service

CALL MANAGEMENT SERVICES

Auto Redial
Call Blocker
Call Forwarding
Call Return
Call Trace
Call Waiting
Packages (e.g. The Works[sm])
Priority Call
Selective Call Forwarding
Speed Calling
Three Way Calling

CALLER ID SERVICES

Calling Name
Calling Name and Number
Calling Number
Caller ID Value Packages

** Grandfathered services also available for resale at the applicable discount.

Required Resale Services - Residential Services**

OTHER VERTICAL SERVICES

Billed Number Screen
900 Call Restriction
Call Forward - Busy Line
Call Forward - Don't Answer
Call Forward - Busy Line/Don't Answer
ComCall®
Conference Telephone Service
Customer Alerting Enablement
Hot Line
Intercept Services
Personalized Ring[sm]
Simultaneous Call Forwarding
Toll Restriction
Voice Dial
Warm Line

REMOTE CALL FORWARDING

Preferred Number Service
Remote Access to Call Forwarding

MTS

IntraLATA MTS

TOLL OPTIONAL CALLING PLANS

1+ SAVER[sm]
1+ SAVER DIRECT[sm] (Pending Commission Approval)
Community Optional Service
Outstate Calling Area Service

WIDE AREA TELEPHONE SERVICE

Residence Common Line 800

ISDN

Digiline[sm]

OPERATOR SERVICES

Directory Assistance Service
Operator Services

** Grandfathered services also available for resale at the applicable discount

E

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CARL J. LUMLEY

November 15, 1996

Cecil Wright, Executive Secretary
Missouri Public Service Commission
Truman State Office Building, 5th Floor
301 West High Street
Jefferson City, Missouri 65101-1517

Re: Case No. TO-97-40, et al.

Dear Mr. Wright:

Enclosed for filing in the above-referenced matter please find an original and fifteen (15) copies of the Reply Brief of MCI Telecommunications Corporation and its affiliates including MCImetro Access Transmission Services, Inc. Please file stamp the extra copy and return to the undersigned. If you have any questions, please contact us. Thank you.

Very truly yours,

Carl J. Lumley LRZ

Carl J. Lumley

CJL:dn
Enclosures
cc. SWBT
Public Counsel
AT&T

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of AT&T Communications of the Southwest, Inc.'s Petition for Arbitration Pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Southwestern Bell Telephone Company.	))))))	Case No. TO-97-40
Petition of MCI Telecommunications Corporation and its Affiliates, Including MCImetro Access Transmission Services, Inc., for Arbitration and Mediation Under the Federal Telecommunications Act of 1996 of Unresolved Interconnection Issues with Southwestern Bell Telephone Company.	)))))))	Case No. TO-96-67

REPLY BRIEF OF MCI TELECOMMUNICATIONS CORPORATION

November 15, 1996

Table of Contents

I. What costing model should the Commission utilize in this proceeding?

The FCC's Order regarding cost studies expressly calls for a study like the Hatfield Model and not studies like those SWBT has cobbled-up.[1] As quoted by SWBT, the FCC identified and approved the "third approach" as follows:

> prices for interconnection and access to unbundled elements would be developed from a forward-looking economic cost methodology based on the most efficient technology deployed in the incumbent LEC's current wire center locations.

Order at para. 685. The FCC went on to explain that this combination of forward-looking technology with existing wire center locations "mitigates incumbent LECs' concerns that a forward-looking pricing methodology ignores existing network design, while basing prices on efficient, new technology that is compatible with the existing infrastructure." In the final sentence of the paragraph, omitted by SWBT from its quotation at page 2 of its Brief, the FCC states:

> We, therefore, conclude that the forward-looking pricing methodology for interconnection and unbundled network elements should be based on costs that assume that wire centers will be placed at the incumbent LEC's current wire center locations, **but that the reconstructed local network will employ the most efficient technology for reasonably foreseeable capacity requirements.**

Order at para. 685 (emphasis added).

The FCC expressly required that a hypothetical, forward-looking network be "reconstructed", with the one exception that existing wire center locations be used. Given that SWBT chose to omit the final sentence of paragraph 685 from its quotation, it is not reasonable to conclude that it has innocently misinterpreted the clear language of the FCC's Order as somehow calling for replication

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[1]As SWBT admitted in its opening statement, it has presented the very same studies the Commission rejected in Case No. TO-89-56. (Tr. 95). See In the matter of Southwestern Bell Telephone Company's application for classification of its non-basic services, 1 MoPSC 3d at 54, 70 (1991). The Commission has now rejected them again in the MFS/SWBT arbitration. See Arbitration Order, page 7, Case No. TO-97-23 (November 6, 1996).

of the existing network. Rather, SWBT has chosen to play games and intentionally tried to obscure the FCC's express conclusion to combine a forward-looking network with existing wire centers.

In short, from the outset of its Brief, SWBT sets up a false presentation of the FCC Order. It then proceeds to demonstrate how its cost studies meet that ersatz "Order", and how the Hatfield Model does not meet the ersatz "Order". Not a very helpful approach to a complicated subject to say the least. And because it is based upon a fundamental misstatement of the law, SWBT's entire discussion of the relative merits of the cost studies is a meaningless exercise in sophistry. That SWBT found it necessary to employ such methods underscores the strengths of the Hatfield Model and the weaknesses of the Bell "studies".

SWBT's footnote 2 drives home the point. Paragraph 685 of the FCC Order indeed clearly resolves the matter, but in exactly the opposite way from SWBT's assertion. The Hatfield Model does precisely what the FCC instructed: as SWBT admits at page 9 of its Brief the Hatfield Model reconstructs a new network using forward-looking technology and reasonable estimates of demand, using existing wire centers.

The Joint Board in its Universal Service Recommendations concluded that the Hatfield Model was one of the two "best available" studies, and recommended that it be further examined for use in calculating costs of supported services. Jt Bd Rec at para 279. Forward-looking economic costs have been endorsed by numerous states, including Illinois, Wisconsin, Wyoming, Iowa, Minnesota, Texas, Maryland, Vermont, Nevada, Tennessee, Georgia, Colorado, Ohio, Montana, and Michigan.[2]

[2]Contrary to SWBT's representations, the Eighth Circuit Court of Appeals did not rule that it would be improper for states to select a forward-looking cost approach. The Court merely recited LEC objections to such studies in the course of explaining the background of the stay request. See Order Granting Stay, slip op. at 11-12, 16-17.

While MCI and AT&T continue to urge the Commission to use the Hatfield Model either on a permanent or interim basis,[3] should the Commission decide to set other interim proxy rates as suggested by Public Counsel[4] in order to investigate cost studies further, then the approach should be to proceed with such investigation immediately. The Commission should not sit back and wait for the Eighth Circuit to rule as SWBT suggests. This SWBT proposal is yet another delay tactic and, therefore, another barrier to entry, notwithstanding SWBT's repeated proclamations of its altruistic intent to support competition.

The comparison of results from the Hatfield Model to "actual" or "historic" costs does not reveal a problem with the Model. To the contrary, the comparison reveals what MCI and AT&T have long maintained: SWBT has been over-spending, and consequently over-charging. For this very reason, competition must replace monopoly for the public good. Departure from exorbitant historic costs is not a departure from the Act or the Constitution - it is a recognition of competitive marketplace reality.

With regard to SWBT's footnote 16, as SWBT itself recognizes latter in its Brief at page 61, MCI withdrew Dr. Jernigan's testimony as duplicative of Mr. Flappan's testimony in order to speed the case along. MCI concurs in and co-sponsors Mr. Flappan's testimony and relies upon that testimony and all the other evidence provided by MCI and AT&T regarding the cost issues. That evidence is more than sufficient to provide this Commission with a basis for adopting the Hatfield

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[3]MCI recognizes that the Commission created its own modified cost studies in its Order in the MFS Arbitration, but MFS did not provide the Commission with an alternative to the Bell studies as MCI and AT&T have done with the Hatfield Model. See Arbitration Order, pages 6-7, Case No. TO-97-23 (November 6, 1996).

[4] As Public Counsel observes at page 2 of its Brief, the FCC proxy rates are cost-based to a sufficient degree for interim purposes.

Model results in this proceeding.

10. How should the Parties interconnect their networks?

In this section SWBT's Brief expressly confirms many of the areas of agreement noted in the Joint Initial Brief of MCI and AT&T, including interconnection at as few as one point per LATA (SWBT Brief, p. 40), interconnection at the access tandem for all traffic (p. 40), types of interconnection (p. 38-39), special trunking (p. 38), and two-way trunking (p. 40-41).

The Commission should confirm all areas of agreement identified in the Joint Initial Brief, and should order:

> (1) SWBT to allow interconnection at any technically feasible cross-connect point, as determined on a case-by-case basis on request;
>
> (2) SWBT to allow collocation within three months of request;
>
> (3) SWBT to meet MCI's and AT&T's other requests as outlined in the Joint Initial Brief, to the extent SWBT's Reply Brief departs from its agreements.

11. What types of number portability should be provided by SWBT?

SWBT's proposal to limit INP to RCF and DID would establish a barrier to entry. As Mr. Lancaster testified, RCF and DID are inadequate solutions for mid-size and larger customers. (Direct at 10, 13-15, Rebuttal at 6-7, Tr. at 1767). Contrary to SWBT's Brief, MCI witness Laub did not testify RCF and DID are sufficient, but rather in the very testimony cited by SWBT expressed MCI's desire for the Route Indexing solutions described by Mr. Lancaster. (Tr. 150-51). MCI and AT&T witnesses did not testify that Route Indexing was infeasible, or that the FCC held such methods to be infeasible, but rather testified such INP methods are feasible and identified situations where such methods are actually already being put in place. (Lancaster, Tr. at 1765-66).

Mr. Lancaster also rebutted Mr. Deere's testimony regarding supposed problems with Route Indexing in areas with multiple NPAs. Mr. Lancaster testified:

> Mr. Deere makes one solitary, and incorrect, comment regarding Route Indexing. He erroneously states that "It would appear that because of the addition of the route index, it would not be possible using the current design of the SS7 network to transmit the NPA associated with the called number." This statement is incorrect. Procedures have been developed to allow RI solutions to operate in areas with 10 digit dialing, dual NPAs, dual access tandem switches, and single or multiple new entrant switches.

(Lancaster Rebuttal at 5).

SWBT mistakenly contends that the absence of testimony regarding specific MCI or AT&T switch installation plans demonstrates a lack of need for INP. As MCI's and AT&T's witnesses explained, pro-competitive rulings by the Commission on INP and other issues are needed so such construction plans can be made. (Tr. 1763-64). Restrictive INP would be a barrier to entry, as would failure to promptly investigate and institute PNP.

12. How should the costs of INP be recovered?

Section 251(e)(2) of the Act does not state that interim number portability costs must be borne by carriers that are not involved in such an interim program. The statute leaves such matters to the FCC. In its Number Portability Order, the FCC did not mandate that non-participating carriers must bear such interim costs. Rather, it recognized that it would be appropriate to exclude non-participating carriers. See FCC NP Order at paragraphs 130-38. There is no legitimate reason to tax non-participating carriers to support INP.[5] INP is a local service issue.

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[5]Again, IXCs that do not participate in the local market should not be taxed, but companies offering a package of interexchange and local exchange services should bear some of the INP costs. (Laub Tr. at 142).

For the same reasons, SWBT's EAL proposal is inappropriate. Either each participating company should bear its own costs to save all such companies the expense of a short-term apportionment process, or costs should be allocated among participating local providers based on active lines. (Laub Direct at 4-6, Rebuttal at 2-3, Lancaster Direct at 27-29, Rebuttal at 8-9, Tr. 1769-70).

By proposing that the Commission postpone a ruling and require LSPs to track INP costs for potential retroactive billing, SWBT improperly seeks an indirect stay of the FCC's NP Order. To obtain such relief, SWBT must go to the Court handling the review process (as was done with regard to the pricing rules). See 28 USC § 2342, 2349 (court of appeals has exclusive jurisdiction to suspend FCC order or otherwise preserve status quo). Further, SWBT's one-time snapshot approach - in contrast with the annual approach proposed by MCI and AT&T - would unfairly prejudice late local market entrants and not be competitively neutral as required by the Act and the FCC.

13. How should SWBT be required to manage LSP White Page Directory Information and Directory Assistance Information?

The FCC ordered LECs to share their listings. See NP Order at 141 *et seq.* SWBT's proposal to charge facility-based LSPs on a per-listing basis for White Pages and DA would establish a barrier to entry. The exchange of listings is critical to market entry, and mutually beneficial to the companies and their customers. There are no listing costs to be recovered. (Laub Direct at 17-18, Rebuttal at 4, Dalton Direct at 40). SWBT simply seeks to play upon the imbalance of listings at the commencement of competition to make the exchange of essential entry information cost-prohibitive and thereby deter facility-based competition. Such a barrier to entry would violate the intent and the non-discrimination provisions of the Act and the FCC's Orders.

The citation to the pertinent part of MCI's proposed agreement was inadvertently omitted from page 39 of the Joint Initial Brief - it is Attachment VIII, Sections 6.1.4, 6.1.5, and 6.1.6. (Russell Direct at JR-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?**

In its Initial Brief SWBT has reversed its interim agreement to unbrand LSP operator services and directory assistance calls handled by live SWBT operators (i.e. SWBT's name will not be announced). See Ex. 82. Now SWBT says it will use its own brand until it becomes technically feasible to rebrand (SWBT Initial Brief p. 53). Even on an interim basis SWBT should not be permitted to use its own name when it is technically feasible to unbrand when using a live operator. AT&T witness Gaddy testified that SWBT had admitted such "unbranding" is technically feasible. [Gaddy Rebuttal at pp. 20-21]. Until June 30, 1997, by which date SWBT plans to install its software program, SWBT should be required to give AT&T and MCI the option to have SWBT unbrand their directory assistance operator services. Such an option is not against the law, as SWBT has erroneously suggested, nor will it lead to customer concerns that they have been "slammed". However, if they have selected AT&T or MCI, but hear the SWBT brand, they will think Bell has slammed them. SWBT's opposition to such a straightforward request is yet another barrier to entry.

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

SWBT's refusal to make the LSP Service Center accessible 24 hours/day, 7 days/week, is a barrier to competition. (Tr. 1335-38). In the monopoly environment, SWBT was free to place time limits on customer access to service representatives. However, competitors cannot tell customers by recorded message to call back later - problems must be addressed promptly for all customers including those with businesses that are open 24 hours/day. So long as competitors are dependent upon SWBT's network, SWBT must cooperate to make such levels of customer service possible. (Russell Direct, JR-1 at 11-12).

As stated in the Joint Initial Brief, Ms. Russell's testimony sets out MCI's specific requests in great detail. It is incomprehensible that SWBT has difficulty understanding this information.

23. __How should network elements be priced__

As discussed under Issue No. 1, the Commission should adopt the results of the Hatfield Model. Alternatively, if the Commission decides to set other interim rates, the FCC proxies are cost-based, derived from the information supplied by numerous parties from all perspectives. SWBT's cavalier offer of its embedded cost for unbundled loops on page 59 of its Brief raises an interesting question. How can a competitor bring the benefits of competition to its customers if it is forced to operate from a monopoly cost base? Obviously, it cannot. (Goodfriend Rebuttal at 11, Gaddy Rebuttal at 4). For that very reason SWBT offers no argument in support of its "proposal" to use embedded costs.

On an evidentiary front, the Commission would err three times over if it relied upon SWBT's late-filed cost studies: they were not presented during discovery, they were not subjected to cross-examination, and in any event they are just as defective as the others.

24. __How should unbundled network elements be deaveraged?__

SWBT's proposal to charge statewide average rates for unbundled local loops and local switching would establish a barrier to facility-based entry. Just as SWBT did when it built its network, new entrants will almost certainly have to build in the more densely - populated areas first.

However, they will be able to serve everyone by resale.[6] SWBT simply seeks to forestall metropolitan (and therefore essentially all) facility-based competition through statewide average rates which, by definition, means higher rates in dense metro areas than would result from deaveraging. This approach would not set cost-based rates and, therefore, would violate Section 252(d)(1)(a)(i) of the Act.[7] The Commission should reject SWBT's attempts to preserve its monopoly on facilities and maximize its market power.

The deaveraging format of the Hatfield Model is not inconsistent with SB 507, contrary to SWBT's unsubstantiated assertion at page 61 of its Brief. SWBT offers no support for its claim that differences in loop costs within an exchange would accelerate requests for pricing differences. Its claim is belied by its own averaged pricing practices in the face of such existing cost differences. Further, SWBT surely does not mean to propose a below-cost pricing analysis on a loop-by-loop or customer-by-customer basis (p. 62) given its own exchange-wide (averaged) prices. Pursuant to the Hatfield Model deaveraging format, MCI and AT&T propose to pay rates based on SWBT's costs, as required by the Act and the FCC.[8]

26. Should SWBT be required to tariff physical collocation arrangements?

SWBT's refusal to develop fully a set or sets of standardized parameters for collocation is a barrier to entry. The FCC declined to require federal tariffs, but urged state review. See Order at

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[6] See FCC Order at para. 12.

[7] See FCC Order at para. 764.

[8] Unlike the MFS Arbitration, MCI and AT&T have provided the Commission with sufficient evidence that the proposed line density zones reflect actual cost. See, e.g., the discussions of the wide variety of density-driven cost differences in the Loop Module and Convergence Module in the Hatfield Model attached to Mr. Flappan's Direct Testimony.

para. 567-69. Without standards, competitors cannot make plans and SWBT can delay responses to requests to collocate. (Powers Rebuttal at 14, Jacobson Direct at 35-36, Rebuttal at 12-13).

SWBT provided no credible evidence that it can not immediately draw upon current market conditions and its recent experience in installing facilities to identify standard parameters, much as it suggests new entrants will eventually be able to draw upon their own experiences. (Tr. at 1208). From its Brief, it appears SWBT recognizes some parameters are feasible. (SWBT Brief, p. 66). Hence, the dispute appears to be a matter of degree. (Powers Tr. 900). The Commission should require SWBT to establish standard collocation parameters to the maximum extent possible.

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

SWBT continue to make a mountain out of a molehill by misrepresenting that AT&T and MCI want SWBT employees to "deceive" customers by requiring SWBT to "cover up" its logo on service vehicles and employee uniforms. AT&T and MCI do not want this done. AT&T and MCI do, however, want SWBT service employees orally to identify themselves when they appear at an AT&T or MCI customer's premises as representing AT&T or MCI. SWBT's vague suggestion that other LSPs may prefer that SWBT service personnel not identify the LSP by name should not serve as a basis for denying such option to AT&T and MCI.

MCI has requested that SWBT service employees use MCI branded "leave-behind" notices instead of SWBT branded "leave behind" notices following unsuccessfully attempted service calls. SWBT again mischaracterizes this simple request by complaining that it would be "unlawful and inappropriate" to require SWBT employees "to engage in marketing activities on behalf of its competitors." (SWBT Initial Brief, p. 80). Leave-behind cards are not "marketing brochures", but rather are merely courtesy notices to the customer that his or her LSP has responded to the customer's request for service and was not able to gain access to the premises. SWBT uses such courtesy notices for its own customers and it should be required to leave a similar notice card for AT&T or MCI when a SWBT employee is making a service call on their behalf.

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?**

MCI withdraws this part of the Initial Brief. It was included in error.

36. **What discount should be available for resale services?**

SWBT's "service-by-service" avoided costs study does not properly and fully identify avoided costs. It does not study costs from the required perspective of an exclusively wholesale operation and, therefore, does not discount for retail costs which are in fact avoidable. Specifically, SWBT has not considered the following to be avoidable costs: Product Management, Product Advertising, General Support, Corporate Operations Expenses, Depreciation, Return on Taxes, Call Completion, and Number Services. These are all costs identified by the FCC as presumptively avoidable. SWBT has also overstated LSP Service Center costs. Further, it improperly uses LRIC calculations rather than the embedded costs which were used to set the rates to be discounted. As a result, SWBT's study materially understates the wholesale discount to be an average of only 3%. (Klaus Rebuttal at 2-12, Crombie Rebuttal at 2-11).

SWBT's average result of 3% is absurd. The FCC's interim discount range is 17% to 25%. Other state commissions have already ordered discounts of such magnitude, including the Texas order of a 21.6% average discount for SWBT itself. MCI's and AT&T's proposed discounts of 19.63% and 28.61% respectively are both consistent with these other results and further underscore the utter failure of SWBTs purported avoided cost studies.[9] (Klaus Rebuttal at 2-13, Crombie Rebuttal at 2-11).

SWBT's alternative aggregate discount of 13.2% is little better. SWBT continues to fail to rebut the presumptions of avoidable costs established by the FCC. (Klaus Rebuttal at 2-13, Smith Tr. 253-273). The Commission should also take note that this aggregate study was finished 9/4/96 (Smith Rebuttal Schedule 6), about two weeks before direct testimony was due, but SWBT filed it as "rebuttal", to prevent MCI and AT&T witness from having a chance to testify to its defects. Reason enough to reject it. When SWBT's study is appropriately adjusted, the discount rate climbs to a range of 20 to 26%. (Tr. 273).

Under either of SWBT's proposals, competitors would be compelled to subsidize a portion of the costs of SWBT's competing retail business (like advertising), essentially precluding full and fair competition. SWBT will continue to receive its retail costs through its retail operations and should not be allowed to recover them from wholesale transactions with competitors. That is precisely why the FCC avoidable cost methodology is appropriate. (Klaus Rebuttal at 8 and 11, Crombie, Rebuttal at 5-6).

Again, SWBT must come forward with specific proof of costs if it wants to try to establish that CSPP and educational services have no avoidable costs on which to base a discount beyond the retail discount afforded its customers. Existing arrangements cannot be exempt - it matters not what costs SWBT has incurred in the past, for the question is what is avoidable in the future wholesale environment.

[9]The 3% result is even lower than SWBT's routine discount for payment by credit card, which presumably is based on avoided remittance processing costs. (Klaus Rebuttal at 2-3).