WEST's entire interoffice network on an as-needed basis, rather than access to any particular facility or capacity within a facility, with the new entrant paying only for its actual use of the network. Prices would be cost-based and usage-sensitive. In addition, a new entrant would be able to require U S WEST to provide a combination of "network elements" comprising its interoffice network plus local switching plus a U S WEST-provided unbundled loop, which would be in all respects the functional equivalent of the finished local exchange services that U S WEST provides to its business customers. U S WEST's competitors would be able to obtain the equivalent of U S WEST's finished retail services at U S WEST's cost of providing those services rather than at the discounted wholesale rates that the States have set pursuant to the procedures of the Telecommunications Act of 1996. In addition, competitors would be able to obtain the equivalent of the exchange access services that U S WEST provides to long distance carriers, but again at cost-based prices.

3. As U S WEST had envisioned a new entrant's local exchange network built on U S WEST's unbundled network elements, the new entrant would construct its network with discrete piece parts provided by U S WEST. The transport between switches, which is essential to such a network, would be reserved by the new entrant on a dedicated basis, as would local switching and signaling. Unbundled loops would in effect be reserved in their entirety. Thus, the new entrant would obtain complete control over facilities which it used to provide its own service. And the new entrant would pay for the elements based on U S WEST's costs of providing them. In contrast, if a new entrant wished to resell a local exchange service that U S WEST itself sells to end users, the new entrant would purchase the local exchange service itself at a price based on the regulated retain price set by state regulators for the local exchange

service. I understand that, with shared transport as the Commission has defined it, new entrants may be able to purchase an entire local exchange service at the prices established for unbundled network elements. In other words, resold local exchange service and a local exchange service constructed completely out of network elements would become perfect substitutes for each other, with a difference only in the prices at which U S WEST must offer them.

4. I make this declaration to describe the effects that this order, if it is allowed to go into effect, will have on the ability of U S WEST to (a) recover the costs that it incurs in fulfilling its universal service obligations and (b) recover appropriate compensation for its costs of transporting new entrants' traffic.

A. Requiring U S WEST to provide shared transport at cost-based prices will prevent it from recovering legitimate costs incurred in fulfilling its universal service obligations.

5. U S WEST's current rates for local exchange and exchange access services contain state-imposed implicit subsidies that support universal service. In particular, U S WEST is permitted to charge rates that exceed its costs, and thus to earn substantial profits, on its services to business customers; at the same time, U S WEST is required to price its services to residential customers, especially those in the rural areas throughout U S WEST's service territories, at a level that is below U S WEST's average cost of providing those services (and in many cases far below the actual cost of serving the rural customer). The states require this even though U S WEST's costs of providing business services are on average less than its costs of providing residential services. In effect, lower cost business customers subsidize higher cost residential ones. Similarly, U S WEST has been required to charge rates well

above its costs for exchange access service -- the service of carrying traffic between the facilities of long distance carriers and their intended end users.

6. For example, in Colorado U S WEST's average cost of providing local service, calculated using a TELRIC methodology, is $27.32. U S WEST's costs of providing residential service is higher than that for business service, because residences are more dispersed than businesses and thus require longer and less dense loops. Nevertheless, U S WEST's rate for local business service in Colorado is $36.71 per month, while its residential rate is $14.58 per month. In effect, state regulators require U S WEST's Colorado business customers to pay relatively high rates for business service in order to subsidize below-cost residential service.

7. When a new entrant purchases local service for resale in Colorado, the new entrant pays either the residential or business rate, less a 9% or 16% wholesale discount, respectively. The wholesale residential rate therefore would be $13.27 and the wholesale business rate $30.84. While it may seem anomalous to provide a discount on residential service that is already priced below cost, at least the basic rate structure of above-cost prices for business services and below-cost prices for residential services is retained, so that the business customer continues to provide substantial universal service subsidies to support the low residential rate.

8. If new entrants are able to obtain the equivalent of U S WEST retail services at U S WEST's cost of providing them, entrants will have a choice of two pricing options for the same service: either the wholesale discounted retail rate established by the Telecommunications Act for resold

services, or a cost-based rate established by the Reconsideration Order. New entrants will no doubt choose to pay the cost-based rate for those retail services that U S WEST prices above cost, such as business exchange service, to avoid the implicit universal service subsidies embedded within the wholesale rate for such services. For services that are the recipients of implicit subsidies, such as residential exchange service, new entrants will choose to pay the wholesale rate rather than the cost-based one - in order to obtain the benefits of the implicit subsidies. Taking the example of Colorado, new entrants will choose to pay the cost-based rate of $27.32 for business service rather than the wholesale rate of $30.84. For residential services, new entrants will select the wholesale rate of $13.27 rather than pay the cost-based rate of $27.32.

9. If U S WEST is required to offer new entrants the ability to choose between these two pricing options for the same retail service, U S WEST's ability to recover the universal service contributions that it earns from more profitable customers and that support the cost of serving higher cost customers at below-cost rates will be eliminated. Customers that currently pay above-cost rates will have a strong incentive to shift their business to a new entrant. As U S WEST loses its above-cost customers, it will lose its ability to recover the entire portion of universal service costs currently contributed through rates for local exchange and exchange access services.

10. In the Colorado example, U S WEST will lose many of its business customers because competitors will purchase U S WEST's services at the cost-based rate of $27.32 and resell them to business customers at a price substantially lower than the $36.71 that U S WEST is required to charge. Each customer lost in this fashion will result in a loss to U S WEST of $3.52 per

month in universal service support (the $30.84 that U S WEST would have collected if the competitor had been required to pay the wholesale price, minus the $27.32 cost-based price that U S WEST actually will receive). U S WEST has 686,838 business lines in Colorado; therefore, the quantity of U S WEST's universal service support put at risk in this manner is about $29 million per year in the state of Colorado alone.

11. In addition, I understand that under the Reconsideration Order a new entrant may buy shared transport at cost-based rates to provide interstate exchange access for any customer to whom the entrant already provides local service. I further understand that under the Commission's rules, new entrants offering interstate exchange access using an incumbent's facilities are not required to pay access charges to the incumbent. Therefore, as new entrants attract away U S WEST's local customers, they will be able to attract away its interstate exchange access business as well. This will cause U S WEST to lose the substantial universal service support contributed through rates for interstate access services. Each Colorado business line for which U S WEST loses the associated interstate exchange access business will result in an average loss to U S WEST of approximately $14.81 per month in universal service support. The quantity of U S WEST universal service support put at risk in this manner is approximately $122 million per year in the state of Colorado alone.

12. Even if new entrants eventually lose the ability to obtain the functional equivalent of U S WEST's finished services at cost-based rates, it will not be possible to measure the harm to U S WEST that their exploitation of that opportunity will have had in the interim. The availability of shared interoffice transport at cost-based rates will inevitably have a substantial

impact on business strategies and hence the service needs of new entrants, making it extremely difficult to estimate later the amount of wholesale or exchange access service that new entrants would have purchased from U S WEST in the absence of that opportunity. It also would be extremely difficult to determine later the amount of local service business that U S WEST lost to new entrants as a result of that opportunity.

B. Requiring U S WEST to provide shared transport at cost-based prices will prevent it from recovering the full costs of transporting new entrants' traffic, thereby giving its competitors an unwarranted cost advantage that will cause U S WEST to lose customers.

13. The Reconsideration Order can be read to allow new entrants to pay only for their actual use of U S WEST's interoffice network, rather than being required to obtain or pay for excess capacity that might be necessary to anticipate fluctuations or growth in demand. Therefore, U S WEST itself would be required to bear the full costs of building and maintaining the excess capacity needed to cope with changes or unevenness in the traffic patterns of new entrants.

14. To build such capacity and keep it ready for use by new entrants, U S WEST would incur substantial costs, whether or not new entrants actually use the capacity. These costs are properly attributable to new entrants as an expense of their business. Because new entrants apparently will not be required to compensate U S WEST for building and holding that capacity in reserve for them, they will have an artificial and unfair cost advantage. A new entrant will be able to pay for a "network" in which no capacity ever goes unused, since it will have to pay only after-the-fact based on its actual use of U S

WEST's network. In the meantime, U S WEST will have to bear the full cost of maintaining its entire transport network, including excess capacity to meet fluctuations in demand for not only its own services but also those of new entrants. Thus, the shared transport network element artificially increases U S WEST's costs by the same amount that it reduces those of new entrants.

15. This artificially created disparity in costs will provide new entrants a substantial financial advantage that they will be able to exploit competitively to lure customers away from U S WEST. As a result, U S WEST will lose customers and revenues to new entrants over and above those it will lose for the reasons described in part "A" of this declaration.

I declare under penalty of perjury that the foregoing is true and correct. Executed on September 9, 1997.

Michael R. Jude

CERTIFICATE OF SERVICE

I, David M. Sohn, do hereby certify that on this 9th day of September, 1997, I have caused a copy of the foregoing to be served via messenger upon the persons listed on the attached service list.

David M. Sohn

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