If capacity is not available, the competitive LEC must dig its own trench and install conduit structures before using the pull tape technique to install fiber optic cable.[10]

37. Significantly, the cost of placing new conduit and fiber, which is the dominant mode of placement in densely populated areas, can easily exceed $200,000 to $300,000 per mile. Less commonly, competitive LECs may be able to bury fiber directly (*i.e.*, not place the fiber in conduit), or pull inner duct and fiber through existing conduit. These alternate placement methods, however, also entail significant costs. Direct burial typically costs competitive LECs $75,000 to $100,000 per mile, and pulling inner duct and fiber through existing conduit typically costs competitive LECs approximately $37,000 per mile.

38. In addition, once the fiber has been placed, it is properly classified as "dark fiber" because no electronics have been attached.[11] Hence, in order to provide transport functionality, competitive LECs must incur costs in attaching transmission electronics to each end of the fiber.

39. Conservatively, then, a competitive LEC providing its own transport must invest approximately $2 million in equipment and outside plant placement before the first customer is

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[10] The approximate time required to execute these steps is as follows: 1,000 feet of capacity can be "rodded and roped" per crew/per day; new conduit can be placed at the rate of 300 feet per crew/per day; inner duct can be pulled at the rate of 600 feet per crew/per day; and fiber can be pulled at the rate of 5,280 feet per crew/per day.

[11] Placing electronics on the fiber permits transmission of optical (light) signals. Once the electronics are installed, the fiber is considered "lit" rather than "dark."

served by a single office.[12] Based upon the number of lines served by such a configuration, the required investment is well in excess of $300 per line.[13]

B. Third-Party Vendors.

40. Excessive access charges have created a potential market for bypass of incumbent LEC access services in the most lucrative telecommunications markets. Such bypass requires alternative providers to deploy their own transport facilities between incumbent LEC end offices and locations desired by the providers' customers, who are typically interexchange carriers. The reality, however, is that little third-party transport capacity exists. The vast majority of AT&T's transport – approximately 82 percent - is provided by incumbent LECs. If purchases from MCI are excluded (because MCI is likely to utilize its own capacity internally on a going-forward basis) the figure jumps to approximately 94 percent.[14]

41. This limited capacity does not provide a meaningful alternative to unbundled dedicated transport. For third-party dedicated transport to serve as a meaningful substitute for unbundled dedicated transport, third parties would have to provide dedicated transport along virtually all the feasible routes between incumbent LEC end offices and tandem switches, competitive LEC points-of-presence, and customer premise switches on which competitive LECs

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[12] In this case, we assume a 200 foot collocation arrangement, housing 10 DLC, each with a maximum capacity of 672 lines. At 90 percent utilization, the arrangement would handle 6,048 loops.

[13] The per line figure is obtained by dividing the $2 million investment by the 6,048 lines served. Competitive LECs also will experience all of these costs and delays in the event that incumbent LECs are not required to provide unbundled access to their dark fiber.

[14] These figures are based on AT&T purchases of equivalent DS1 capacity from incumbent LECs compared to equivalent DS1 capacity obtained from alternative providers and incumbent LECs.

may need to rely. No existing market has anywhere near this degree of third-party dedicated transport availability.

42. In all events, reliance on third-party dedicated transport services would raise pricing concerns. Third parties are not subject to the unbundling requirements of the Telecommunications Act. As a result, third parties could demand rates exceeding TELRIC because they would need only price slightly under the incumbent LECs' special access rates. In fact, the only upward limitation on third-party pricing would be either the access rates for the incumbent LEC or the self-provisioning cost of the competitive LEC, assuming self-provisioning even is feasible.

43. Finally, it can take two months to two years to establish a relationship with an alternative provider. In some cases, negotiations have gone on for even longer periods without closure on an agreement.

C. Access Tariffs.

44. Incumbent LEC access tariffs are not a competitively viable substitute for unbundled dedicated transport. With rare exception, the pricing provisions of access tariffs would significantly increase the competitive LECs' local entry costs compared to the use of unbundled dedicated transport, and would limit the ability of competitive LECs to deploy their own switches or OS/DA platforms at certain customer volumes that would otherwise support the use of these facilities. Special access rates are not based on costs, and have been subject to little competitive pricing pressure. Indeed, as shown in Attachment 1, even if a competitive LEC could tolerate the necessary commitments to obtain access services at its lowest price point pursuant to an optional pricing plan that includes multi-year commitments, special access rates usually exceed TELRIC by a significant margin. Specifically, Attachment 1 lists access charges for a six state sample and the

corresponding unbundled dedicated transport rates, and shows that month-to-month access charges can be more than nine times the unbundled rate. This disparity exists even when service is provided pursuant to long term commitments, reaching multiples of four to five times the unbundled rate, even with a five year commitment. Further, Attachment 2 shows that access rates on average either have been increasing or only slowly decreasing over the last three years, thus providing additional evidence that such rates are not subject to competitive pressures. If a competitive LEC had no alternative but to take dedicated transport pursuant to special access tariffs, these excessive markups often would make local entry commercially unreasonable.

45. Substituting special access tariffs for unbundled dedicated transport also would increase barriers to entry. In order to obtain the lowest possible special access rates, competitive LECs must agree to multi-year commitments, a time frame markedly different from the month-to-month contract period of unbundled dedicated transport. Such a lengthy time commitment reduces an entrant's ability to reconfigure its network as it learns more about consumer demands and traffic patterns. For all practical purposes, the multi-year obligations eliminate a competitive LEC's ability to replace incumbent LEC transport with self-provisioned transport until such time as the special access pricing arrangement has expired. Such obligations can extend as long as 10 years in order to achieve the lowest price point, and in all cases erect an artificial barrier to a competitive LEC's ability to exit a market if competition proves unsustainable.

I declare under penalty of perjury that the foregoing is true and correct. Executed on May 24, 1999.

William S. Beans, Jr.

Sworn to and subscribed to before me
This 24 day of May, 1999

Andrea Somers
Notary Public

ANDREA SOMERS
NOTARY PUBLIC OF NEW JERSEY
My Commission Expires Oct. 17, 1999

I declare under penalty of perjury that the foregoing is true and correct. Executed on ~~May 22, 1999~~.
MAY 25th 1999

NY: County
NY: State

x Meredith R. Harris
Meredith R. Harris

Sworn to and subscribed to before me
This ~~22nd~~ 26th day of May, ~~1999~~ 25th
MAY 1999

Bridgette V. Blyden
Notary Public

BRIDGETTE V. BLYDEN
Notary Public, State of New York
No. 31-4997599
Qualified in New York County
Commission Expires June 9, ~~19~~ 2000

I declare under penalty of perjury that the foregoing is true and correct. Executed on May 24, 1999.

Joseph Stith

Sworn to and subscribed to before me
This 24 day of May, 1999

Notary Public

LISA E. MAYNARD
A Notary Public of New Jersey
My Commission Expires 07/10/2004

ATTACHMENT 1

Texas: Comparison of Special Access Pricing to Dedicated Transport Pricing

		COST 1-MI	COST 2-MI	COST 4-MI	COST 8-MI	COST 10-MI			COST 1-MI	COST 2-MI	COST 4-MI	COST 8-MI	COST 10-MI
DS3 & DS3+ CHANNEL MILEAGE PER ACTIVE DS3 - WITH OUT MULTIPLEXING								DS1 CHANNEL MILEAGE - WITH OUT MULTIPLEXING					
MONTHLY	5.5	168%	171%	177%	188%	193%		MONTHLY	157%	190%	253%	363%	412%
3-YR TPP	5.5	155%	155%	157%	160%	162%		3-YR TPP	129%	155%	203%	287%	324%
5-YR TPP	5.5	140%	141%	143%	146%	148%		5-YR TPP	120%	143%	186%	262%	295%
10-YR TPP	5.5	129%	129%	131%	135%	137%							
		min	129%						min	120%			
		max	193%						max	412%			
		mean	153%						mean	232%			
DS3 & DS3+ CHANNEL MILEAGE PER ACTIVE DS3 - WITH MULTIPLEXING								DS1 CHANNEL MILEAGE - WITH MULTIPLEXING					
MONTHLY	5.5	185%	186%	188%	192%	195%		MONTHLY	199%	210%	232%	273%	293%
3-YR TPP	5.5	164%	164%	163%	164%	156%		3-YR TPP	175%	184%	200%	231%	246%
5-YR TPP	5.5	142%	142%	142%	143%	144%		5-YR TPP	165%	172%	187%	215%	229%
10-YR TPP	5.5	137%	137%	137%	138%	138%							
		min	137%						min	165%			
		max	195%						max	293%			
		mean	158%						mean	214%			

Note DS1 price ratios are an arithmetic average of the price ratio for each of three different geographic zones within a term commitment. Not volume commitments are applicable

Note DS3 price ratios are affect by zone & both volume and term commitments. The ratios reflect the arithmentic average of 4 volume commitments across three geographic zones

New York: Comparison of Special Access Pricing to Dedicated Transport Pricing

	COST 1-MI	COST 2-MI	COST 4-MI	COST 8-MI	COST 10-MI
	DS3 & DS3+ CHANNEL MILEAGE PER ACTIVE DS3 - WITH OUT MULTIPLEXING				
MONTHLY	96%	115%	149%	211%	238%
2-YR TPP	91%	109%	142%	200%	226%
3-YR TPP	87%	103%	134%	190%	214%
4-YR TPP	72%	86%	112%	158%	179%
5-YR TPP	63%	75%	97%	137%	155%
7-YR TPP	58%	69%	90%	126%	143%
	min	58%			
	max	238%			
	mean	131%			
	DS3 & DS3+ CHANNEL MILEAGE PER ACTIVE DS3 - WITH MULTIPLEXING				
MONTHLY	134%	148%	175%	225%	247%
2-YR TPP	127%	141%	167%	213%	235%
3-YR TPP	121%	133%	158%	202%	222%
4-YR TPP	100%	111%	132%	168%	185%
5-YR TPP	87%	96%	114%	146%	161%
7-YR TPP	80%	89%	105%	135%	148%
	min	80%			
	max	247%			
	mean	150%			

	COST 1-MI	COST 2-MI	COST 4-MI	COST 8-MI	COST 10-MI
	DS1 CHANNEL MILEAGE - WITH OUT MULTIPLEXING				
MONTHLY	82%	101%	136%	206%	239%
2-YR TPP	74%	90%	123%	185%	215%
3-YR TPP	66%	80%	109%	164%	191%
4-YR TPP	62%	75%	102%	154%	179%
5-YR TPP	58%	70%	95%	144%	167%
7-YR TPP	53%	65%	89%	134%	155%
	min	53%			
	max	239%			
	mean	122%			
	DS1 CHANNEL MILEAGE - WITH MULTIPLEXING				
MONTHLY	54%	58%	65%	80%	87%
2-YR TPP	49%	52%	59%	72%	78%
3-YR TPP	43%	46%	52%	64%	70%
4-YR TPP	40%	43%	49%	60%	65%
5-YR TPP	38%	40%	46%	56%	61%
7-YR TPP	35%	37%	42%	52%	57%
	min	35%			
	max	87%			
	mean	55%			

Note The mux charge for Special Access (for both DS1 & DS3 transport) differs according to three zones The percentage difference with muxing is the arithmetic average of the three zones

Michigan: Comparison of Special Access Pricing to Dedicated Transport Pricing

	COST 1-MI	COST 2-MI	COST 4-MI	COST 8-MI	COST 10-MI
	DS3 & DS3+ CHANNEL MILEAGE PER ACTIVE DS3 - WITHOUT MULTIPLEXING				
MONTHLY	273%	284%	303%	327%	335%
2-YR TPP	234%	244%	258%	277%	283%
3-YR TPP	211%	215%	222%	230%	233%
4-YR TPP	202%	204%	207%	210%	211%
5-YR TPP	192%	189%	186%	181%	179%
	Min	179%			
	Max	335%			
	Mean	236%			
	DS3 & DS3+ CHANNEL MILEAGE PER ACTIVE DS3 - WITH MULTIPLEXING (DS3 TO DS1)				
MONTHLY	221%	228%	242%	264%	273%
2-YR TPP	190%	196%	207%	224%	231%
3-YR TPP	173%	176%	183%	192%	197%
4-YR TPP	167%	169%	173%	179%	182%
5-YR TPP	159%	160%	160%	161%	161%
	Min	159%			
	Max	273%			
	Mean	195%			

	COST 1-MI	COST 2-MI	COST 4-MI	COST 8-MI	COST 10-MI
	DS1 CHANNEL MILEAGE - WITHOUT MULTIPLEXING				
MONTHLY	609%	661%	753%	899%	958%
2-YR TPP	495%	543%	626%	760%	814%
3-YR TPP	331%	366%	428%	527%	567%
4-YR TPP	320%	354%	412%	505%	542%
5-YR TPP	261%	293%	349%	439%	475%
3-YR TCP	391%	432%	505%	622%	669%
5-YR TCP	338%	379%	450%	564%	611%
Min		261%			
Max		958%			
Mean		521%			
	DS1 CHANNEL MILEAGE - WITH MULTIPLEXING (TO VOICE GRADE)				
MONTHLY	163%	169%	181%	205%	217%
2-YR TPP	130%	135%	146%	168%	178%
3-YR TPP	99%	103%	111%	126%	133%
4-YR TPP	95%	99%	106%	121%	128%
5-YR TPP	89%	92%	99%	112%	119%
3-YR TCP	108%	113%	122%	140%	149%
5-YR TCP	100%	104%	113%	130%	138%
Min		89%			
Max		217%			
Mean		130%			

Note Percentage differences reflect the arithmetic average of three pricing zones applicable to both dedicated transport and Special Access
Comparison are made between similar zones then averaged

Georgia: Comparison of Special Access Pricing to Dedicated Transport Pricing

	COST 1-MI	COST 2-MI	COST 4-MI	COST 8-MI	COST 10-MI			COST 1-MI	COST 2-MI	COST 4-MI	COST 8-MI	COST 10-MI
							MONTHLY	149%	178%	236%	348%	402%
							24-48 months	122%	141%	179%	253%	289%
							49-72 months	113%	130%	163%	228%	259%
								min	113%			
								max	402%			
								average	213%			

Note: Percentage differences reflect the arithmetic average of three pricing zones for Special Access. Dedicated Transport UNE has no zone difference

Note: UNE DS3 AND MUX rates are to be determined in a future cost proceeding. There are no rates in the ICA.

Note: MUX rates are to be determined in a future cost proceeding. There are no MUX rates in the ICA.

California: Comparison of Special Access Pricing to Dedicated Transport Pricing

	COST 1-MI	COST 2-MI	COST 4-MI	COST 8-MI	COST 10-MI		COST 1-MI	COST 2-MI	COST 4-MI	COST 8-MI	COST 10-MI
	DS3 & DS3+ CHANNEL MILEAGE PER ACTIVE DS3* - WITH OUT MULTIPLEXING						DS1 CHANNEL MILEAGE* - WITH OUT MULTIPLEXING				
MONTHLY	164%	159%	151%	141%	137%	MONTHLY	255%	274%	308%	358%	377%
	DS3 & DS3+ CHANNEL MILEAGE PER ACTIVE DS3* - WITH MULTIPLEXING						DS1 CHANNEL MILEAGE* - WITH MULTIPLEXING				
MONTHLY	133%	136%	142%	154%	160%	ZONE 1	133%	136%	142%	154%	160%

* There are no Term Pricing Plans for Pacific Bell

** Dedicated Transport has four (4) zones (Zone 1 = Metro; Zone 2 = Urban; Zone 3 = Surburban; Zone 4 = Rural)

***Special Access only has three (3) zones

Note: The percentage differences are the arithmetic average of the dedicated transport zones 2 through 4 compared (individually) to the similar Special Access zones 1 through 3

Colorado: Comparison of Special Access Pricing to Dedicated Transport Pricing

	COST 1-MI	COST 2-MI	COST 4-MI	COST 8-MI	COST 10-MI
	DS3 & DS3+ CHANNEL MILEAGE PER ACTIVE DS3 - WITH OUT MULTIPLEXING				
MONTHLY	44%	45%	46%	48%	52%
1-YR TPP	43%	44%	45%	47%	50%
2-YR TPP	40%	40%	42%	44%	48%
3-YR TPP	40%	40%	42%	44%	47%
5-YR TPP	35%	36%	37%	38%	41%
10-YR TPP	35%	36%	37%	38%	41%
	min	35%			
	max	52%			
	average	42%			
	DS3 & DS3+ CHANNEL MILEAGE PER ACTIVE DS3 - WITH MULTIPLEXING				
MONTHLY	66%	65%	64%	62%	64%
1-YR TPP	64%	63%	62%	60%	62%
2-YR TPP	63%	62%	60%	58%	60%
3-YR TPP	60%	59%	58%	56%	58%
5-YR TPP	53%	52%	51%	49%	51%
10-YR TPP	53%	52%	51%	49%	51%
	min	49%			
	max	66%			
	average	58%			

	COST 1-MI	COST 2-MI	COST 4-MI	COST 8-MI	COST 10-MI
	DS1 CHANNEL MILEAGE - WITH OUT MULTIPLEXING				
MONTHLY	100%	100%	100%	100%	99%
3-YR TPP	90%	90%	90%	90%	89%
5-YR TPP	80%	80%	80%	80%	79%
	min	79%			
	max	100%			
	average	90%			
	DS1 CHANNEL MILEAGE - WITH MULTIPLEXING				
MONTHLY	125%	124%	122%	119%	115%
3-YR TPP	114%	113%	111%	108%	105%
5-YR TPP	100%	99%	97%	95%	92%
	min	92%			
	max	125%			
	average	109%			

NOTE DT MUX rates are not in the ICA but reflect the rates in the upcoming final UNE Cost Order (5/99)

ATTACHMENT 2

	Average Annual Change in DS3 Special Access					
	month-to-month			5 year term plan		
	last 36 months	last 24 months	last 12 months	last 36 months	last 24 months	last 12 months
CO		4.22%	9.25%		4.23%	9.42%
MI	0.88%	1.33%	2.68%	-0.15%	-0.23%	-0.46%
CA		-1.08%	0.00%		-1.73%	0.00%
NY	3.32%	5.03%	10.30%	3.32%	5.03%	10.30%
GA	-1.84%	-3.21%	-6.32%	-9.70%	-4.93%	-9.61%
TX	0.00%	0.00%	0.00%	-0.42%	-0.63%	5.98%

	Average Annual Change in DS1 Special Access					
	month-to-month			5 year term plan		
	last 36 months	last 24 months	last 12 months	last 36 months	last 24 months	last 12 months
CO		-0.34%	0.00%		-0.33%	0.00%
MI	11.03%	6.64%	13.72%	4.36%	0.00%	0.00%
CA		-2.23%	0.33%		-2.40%	0.36%
NY	1.75%	2.64%	5.36%	-0.56%	-0.84%	-1.67%
GA	0.82%	1.65%	0.00%	-4.06%	-4.14%	-4.03%
TX	0.00%	0.00%	0.00%	-1.46%	-2.18%	-4.32%

B

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20544

In the Matter of	)	
	)	
Implementation of the Local Competition Provisions of the Telecommunications Act of 1996	)	**CC Docket No. 96-98**

AFFIDAVIT OF
MICHAEL J. BOYLES
JOHN C. KLICK,
AND BRIAN F. PITKIN
ON BEHALF OF AT&T CORP.

EXHIBIT B

Filed May 26, 1999

I. INTRODUCTION

1. Our names are Michael J. Boyles, John C. Klick, and Brian F. Pitkin. We are employed by Klick, Kent & Allen / FTI Consulting, Inc. ("KK&A"), an economic and financial consulting firm specializing in cost analysis, which is located at 66 Canal Center Plaza, Suite 670, Alexandria, Virginia 22314. The backgrounds and qualifications of Mr. Klick and Mr. Pitkin are included in the Klick/Pitkin affidavit.[1] Mr. Boyles' background and qualifications are included as Attachment 1.

2. During the past several years, KK&A has assisted AT&T and MCIWorldCom in analyzing and presenting cost evidence in various proceedings arising out of the Telecommunications Act of 1996. We have reviewed and critiqued cost studies submitted by Bell Atlantic, GTE and Southwestern Bell in over a dozen jurisdictions, and provided critiques of the Benchmark Cost Proxy Model ("BCPM") in nearly twenty states. We have sponsored HAI Model costs for unbundled network element ("UNE") and universal service fund ("USF") proceedings in numerous states. In addition, we have conducted a series of "cross-model" comparisons to help identify, for several state Commissions, the ways in which various models (*e.g.*, HAI Model, BCPM, RLCAP) develop costs and the input variables to which they are particularly sensitive.

3. KK&A also was involved in developing the Collocation Cost Model for MCIWorldCom and AT&T. We have provided testimony on this Model in several states, including California, Florida and New York.

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[1] Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, Comments of AT&T, Exhibit D, Affidavit of John C. Klick and Brian F. Pitkin (*filed* May 26, 1999) ("*Klick/Pitkin Aff.*").

4. KK&A also has considerable experience with long-run, forward-looking costs in other "network industries," including the trucking, railroad, pipeline, and postal industries.

5. We have been asked to estimate the impact that an increase in dedicated transport costs will have on the ability of a competitive local exchange carrier ("LEC") to offer local services. We conclude that an entrant leasing unbundled loops and deploying its own local switches would have to capture substantially higher market shares in order to offset increased dedicated transport costs. Even a 30% increase in dedicated transport costs could require an entrant to nearly *double* the line penetration it must achieve in order to justify entry using its own switches.

II. METHODOLOGY

6. We have performed our analysis using the Telcomp© Model ("TM") developed by Strategic Policy Research, Inc. ("SPR"), a model that assumes a competitive LEC relies on unbundled local loops, but deploys its own switching. We do not believe, however, that the TM provides an impartial and accurate estimate of the returns that a competitive LEC would realistically be able to achieve from providing basic local exchange service.[2] At the same time, the TM can provide an indication of the *relative* impact on a competitive LEC if the underlying costs are changed.

7. Therefore, we have chosen to measure the potential competitive impact of dedicated transport cost increases by determining the increased market penetration that would be

[2] *See generally Klick/Pitkin* Aff. ¶ 10.

required to offset these cost increases.[3] This methodology allows us to use the existing TM structure without relying on absolute results (*i.e.*, internal rates of return or net present values). In other words, we do not believe that the TM appropriately calculates the absolute return or profitability appropriately, so we instead estimate the *relative* change in line penetration required to achieve the same return that arises under the TM's "base case."

8. If the TM reveals that an increase in dedicated transport costs requires the competitive LEC to achieve a much higher line penetration level in order to achieve the same results originally (and incorrectly) predicted by TM, then we can be reasonably confident that the same dedicated transport cost increase also would require a much higher line penetration level under more realistic cost and revenue assumptions than those in the TM. Further, if the TM demonstrates that a significantly higher line penetration level is necessary to offset a dedicated transport cost increase in Atlanta, Georgia, then we would expect the change required in line penetration levels in less lucrative markets to be even more dramatic.

9. The TM has undergone multiple releases over the past few months, and the most recent release, version 1.3, differed from previous versions in that it did not provide an AT&T scenario. In order to perform our analysis, then, we modified Version 1.3 of the model to reflect the AT&T base case inputs based on BellSouth's February 16, 1999 Written Ex Parte in CC Docket No. 98-141 and CC Docket No. 98-184, which described SPR's inputs for the AT&T

[3] The TM assumes that the competitive LEC will gradually increase line penetration over five years, achieving a 5% total line penetration in year five.

base case.[4] When the TM is run using the AT&T base case, the model's pre-tax "internal rate of return" falls from 153.06% to 20.72%.[5] The changes we made include:

- Modifying the one MCIWorldCom point of presence ("POP") to reflect the five POPs originally included in the TM for AT&T;[6]
- Modifying the MCIWorldCom scenario of "targeting" the top 30% of residential customers to the AT&T base case scenario of "targeting" all residential customers;
- Eliminating the long distance analysis by adjusting the "Does CLEC provide interLATA toll" trigger from "1" to "0."

11. In order to identify the additional line penetration that a competitive LEC would need to achieve in order to offset increases in dedicated transport costs, we needed to increase all unbundled network element ("UNE") cost components that comprise dedicated transport. We identified five inputs into the TM that are related to dedicated transport facilities, three of which are recurring charges and two of which are non-recurring charges. The three recurring costs are (1) the price of a DS1 local channel, (2) the price per mile of a DS1 interoffice channel, and (3) the price of a DS1 interoffice channel termination. The two non-recurring UNEs charges are (1) the non-recurring price of a DS1 local channel and (2) the non-recurring price of interoffice DS1 facility termination.

12. Given our objective -- to ascertain the required line penetration necessary to offset an increase in dedicated transport costs -- we systematically increased all of the costs identified

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[4] Specifically, page 6 of BellSouth's Written Ex Parte states that "AT&T, 10, 10, Local is the base case."

[5] If the TM were modified to correct for a few of its many flaws, this internal rate of return would be much lower and, in fact, negative. *See Klick/Pitkin Aff.* ¶¶ 69-72. Further, we believe that the Commission should not rely on internal rate of return figures in drawing any conclusions regarding the profitability of local entry. *See Klick/Pitkin Aff.* ¶ 57.

above in 10% increments. Then, we created an algorithm that would "solve" for the required line penetration in order to produce the "base line" internal rate of return.[7]

II. RESULTS

13. The competitive LEC line penetration levels necessary to maintain the AT&T base case rate of return increased as the cost of dedicated transport increased. The following graph illustrates the percent increase in competitive LEC line penetration that would be required in order achieve the AT&T base case rate of return, given increased dedicated transport costs.

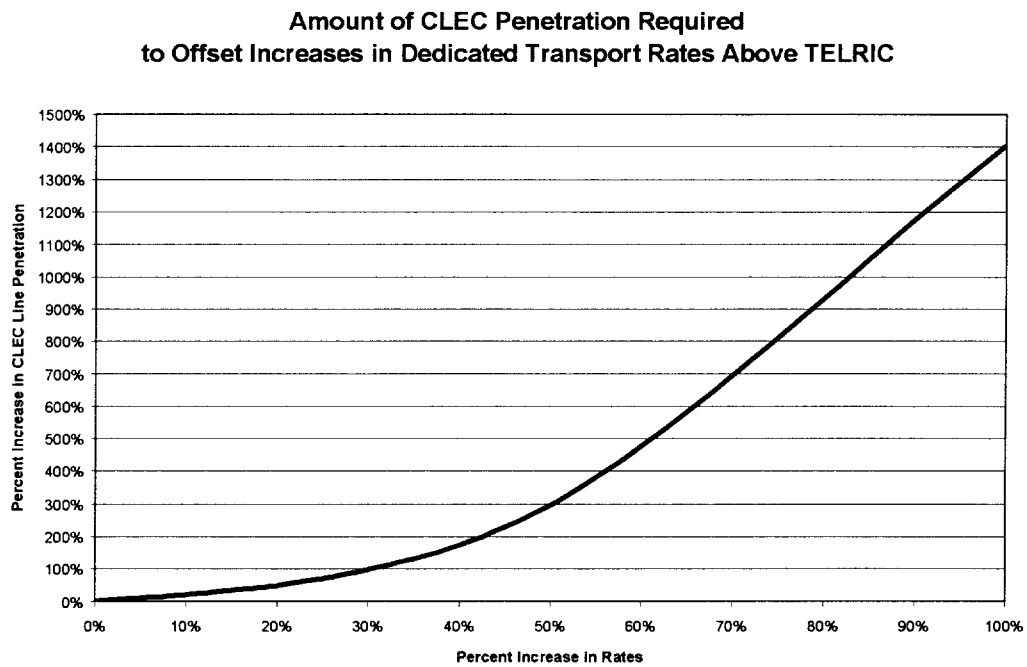

FIGURE 1

(. . . continued)

[6] In order for the TM to recognize this modification to the Mathematica code, we also adjusted the "Initialization Input Value" for the "number of CLEC points of presence" from "1" to "5."

[7] This required the use of an iterative calculation that adjusted the competitive LEC line penetration until the internal rate of return equals the "base line" internal rate of return. This iterative process adjusts the line penetration until the internal rate of return is within 0.01% of the

(continued. . .)

14. Figure 1 illustrates that dedicated transport costs have a significant impact on the necessary level of line penetration. At a 30% increase, a competitive LEC will have to increase its line penetration by nearly 100%. At a 50% increase, line penetration must quadruple. And, at an approximately 80% increase in dedicated transport costs, a competitive LEC would need to capture more than half of the target market – a virtual impossibility.[8] As Table 1 demonstrates, cost increases of less than 30% have a significant competitive impact.

Table 1

Dedicated Transport Cost Increase	Increased Line Penetration Level	Resulting Internal Rate of Return
0%	0%	20.72%
10%	21%	20.71%
20%	48%	20.73%
30%	97%	20.72%
40%	173%	20.71%
50%	296%	20.72%
60%	476%	20.73%
70%	694%	20.72%
80%	930%	20.72%
90%	1,176%	20.72%
100%	1,404%	20.72%

VI. CONCLUSION

15. As we have noted above, and as described in detail in the Klick/Pitkin affidavit, the TM is simply not useable as a vehicle for evaluating the absolute economics of potential

(. . . continued)
original internal rate of return. In addition, we have assumed the same graduated proportion of line penetration per year that the TM currently assumes.

[8] A 900% increase in the necessary line penetration level would require the competitive LEC to attain 50% of the total lines: (50%-5%)/5% = 900%. Therefore, because an 80% increase in dedicated transport costs increases the necessary line penetration level to 930%, which is higher than 900%, the competitive LEC would need to capture more than half the market.

entry. However, using this model (which is sponsored by BellSouth) helps to illustrate our point regarding the relative competitive impact of allowing UNE rates to increase over TELRIC rates.

16. In our opinion, the line penetration level increases stemming from dedicated transport cost increases are significant and would have serious implications for local entry. Even under its vastly unrealistic assumptions, the TM generates a pre-tax internal rate of return in the AT&T base case of 20.72%. Following a 30% increase in dedicated transport costs, the competitive LEC would need to achieve a 9.8% total line penetration to maintain that rate of return – not 5% as the TM assumes by default. Before the cost increase, a competitive LEC needs to obtain 1 line in 20. With a 30% cost increase, it must obtain about 1 line in 10. Such a change will affect an entrant's decision regarding whether or not to enter, and if it does enter, how it will enter, the local market.

17. Finally, we note once again that all of our analysis paints an overly optimistic view of an entrant's prospects when it enters using its own switching because it draws on a wholly unrealistic and fundamentally flawed model. We strongly believe that the line penetration levels generated by our analysis vastly understate the success a competitive LEC would have to have in the Atlanta, Georgia market in order to justify such an entry strategy. We further suspect that the consequences of increased dedicated transport costs in less lucrative telecommunications markets would be even more dire.