

usage costs associated with switching, and Respondents' short-run, marginal cost analysis improperly ignores these costs.¹²

Presumably, this is what Respondents mean when they invoke the claim that costs are non-linear. That is, in a curious application of the concept of "non-linearity," apparently the Respondents believe that non-linearity means that only the minutes constituting "average usage" impose costs, while additional minutes impose no additional costs. As Dr. Aron explains in the Illinois testimony quoted by the Respondents, however, to the extent that costs are non-linear, the non-linearity works in precisely the opposite way. It is the "average" usage on a call that is, in some sense, "included" in the vendor's line price, while the additional usage imposes the costs of early exhaust of capacity. The "non-linear" ULS cost structure that was proposed in Illinois in 1998 (the proceeding from which Respondents quoted Dr. Aron's testimony) had just that structure: some threshold basic usage level was included in the flat line rate, while all *additional* usage was measured. Hence, if the Respondents wanted to reflect the supposed non-linear structure of costs, they should have applied their cost estimate to the 22.5 "additional" minutes of each 26 minute call, not the 3.5 "base" minutes. Doing so would reverse their conclusions; Ameritech would receive negative usage-based profits under this scenario.

In fact, now that the impact of the Internet has become clearer, and the threat of capacity exhaust more immediate, it is more appropriate to view costs as linear. Every minute contributes equally to the exhaust of the network. Hence, every minute of use should bear an appropriate cost.

All functionality on the network that uses capacity contributes to the eventual exhaust of the capacity and therefore hastens the eventual need to augment the capacity. Capacity costing, which is the heart of long-run cost analysis, "spreads" the capital costs of new or existing resources proportionately across all services that use that capacity. It recognizes that *all* traffic contributes proportionately to capacity exhaustion, and that any capacity used for one purpose is not available in the long run for other purposes.

Indeed, Respondents themselves effectively discredit their own analysis by conceding that the notion that there are no incremental usage costs can only be valid from a short-run perspective, and in the long-run incremental costs cannot be zero.¹³

¹² Clearly, the longer the call, the more it contributes to the ultimate exhaust of the capacity of the network. As an analogy, consider children riding a roller coaster at an amusement park. If each child were permitted to stay on the ride for 26 minutes, rather than the (say) 3.5 minute length of one round trip, the waiting time and length of the line to get on the ride would significantly increase. To handle the increased usage, the park would have to add more capacity to the ride (or limit time on the ride, or increase the ticket price to ration demand). The longer each child rides, on average, the more ride capacity the park would need.

¹³ Kelley, Chandler, and Ankum, "Response to Ameritech's Internet Cost Analysis," *ex parte* presentation before the Federal Communications Commission, CC Docket No. 99-68, November 30, 1999, p. 2.

In the Respondents' second adjusted cost model, they replace Ameritech's allegedly erroneous usage cost estimate with usage cost estimates produced by the HAI model. It should be noted, first, that the HAI estimate is a linear estimate. Hence, apparently the authors' own cost model supports a linear assumption for usage costs. Second, even adopting HAI's usage cost estimate, the Respondents' study still results in a profit shortfall for usage in four of Ameritech's five states.

C. *The Respondents' "Corrections" to Ameritech's Switching Costs are Computationally Flawed*

The calculations employed by the Respondents to illustrate that Ameritech's second lines used for Internet access are poorly documented and, in the case of Respondents' Attachment 2, are completely incorrect. Upon checking the Respondents' calculations, we find that only one of the five per-minute usage-based costs they present in their "corrected" cost analysis in Attachment 2 is mathematically accurate!

First, every "network cost per minute" calculation in both Respondent Attachments 1 and 2 (supposedly calculated from their revised inputs) is clearly incorrect, since in each instance it equals the same number as that in Ameritech's study, although the underlying inputs have been changed.¹⁴

We have attached our corrections to the Respondents' "corrected" analyses as Attachment 1 to this ex parte. In addition, we recalculate Respondents' results from their Attachment 1, which arbitrarily reduce Ameritech's end office per-minute switching costs by 20%. We apply their reduced per-minute rate to the full 26 minutes per Internet call instead of the Respondents' 3.5 minutes. Our Attachment 1 illustrates that, when this artificial reduction in MOUs is removed, even the Respondents' arbitrarily reduced end office switching cost per minute results in revenue shortfalls for the usage-based component.

In Attachment 2 to their ex parte, Respondents purport to calculate Ameritech's usage-based costs, using cost outputs from the HAI Model for per-minute end office switching and per-minute tandem switching. The HAI Model's inputs for end office switching in the Ameritech states are typically between one-third and one-half of the Ameritech values. In contrast, HAI's tandem switching values bear little relationship to Ameritech's values, ranging from slightly lower than Ameritech's costs to approximately five times higher. As before, each network cost-per-minute calculation was incorrectly set equal to the network cost-per-minute using Ameritech's inputs.

In contrast to the Respondents' Attachment 1, however, Respondents' Attachment 2's final Usage Cost numbers are often just plain wrong. For every Ameritech state but

¹⁴ The true numbers underlying the Respondents' Attachment 1 analysis are also poorly documented. It appears that the final "Monthly Usage Cost Per End User for LEC Serving End User" calculation is based on a network cost per minute that assumes that end office switching incurs only 3.5 MOUs, while transport and tandem switching costs are spread over an entire 26-minute Internet call.

Michigan,¹⁵ the Respondents' calculation appears to use the HAI number for end office switching but substitutes the Ameritech number for Tandem Switching (although the attachment lists the HAI number).

As illustrated in Attachment 1 to our ex parte, which corrects Respondents' spreadsheet errors, even the HAI Model's end office and tandem switching inputs result in Ameritech's usage-based costs exceeding its usage-based revenues for typical Internet calls in all states but Illinois.

D. Respondents Incorrectly Assert that Ameritech Has Ignored Certain "Benefits" of Interconnection

The Respondents comment in their conclusions that Ameritech's study ignores "the fact that the ILECs are actually relieved of some costs when CLECs terminate ISP-bound traffic" (p. 8). The Respondents' comments serve to point out the obvious: since Ameritech does not deliver the traffic to a CLEC-served ISP, it clearly does not incur the costs for the functions provided by the CLEC once the CLEC picks up the traffic at its switch. For this reason, Ameritech properly did not include these costs in its analysis. Ameritech's analysis includes only the costs incurred by Ameritech for the functions that it provides when it originates a call and delivers it to a CLEC. Hence, there is no overcounting of costs or any omitted "benefits."

In any event, Respondents ignore the fact that Ameritech also experiences certain cost increases when a CLEC serves an ISP. When Ameritech delivers a call to a CLEC, it must be routed over interoffice facilities, often involving tandem switching; in contrast, some share of calls that Ameritech delivers to its own customers are intra-switch calls and therefore require no end office outgoing trunking, interoffice facilities, or tandem switching.

Finally, Ameritech's analysis is conservative, in that it does not attempt to quantify the costs associated with calls to ISPs originating on a customer's primary line. Calls to the Internet from a primary residential telephone line do not generate additional per-line revenues¹⁶ as do second lines purchased for Internet usage, but cause Ameritech to incur the same usage-based costs. Including these costs in Ameritech's analysis likely would cause the magnitude of Ameritech's profit shortfalls on calls to ISPs to increase.

IV. CONCLUSIONS

The analysis filed by Ameritech on April 12, 1999 is simple, straightforward and conservative. It relies on tariffed rates and the most current estimates of TELRIC costs

¹⁵ In the case of Michigan, the HAI-generated and Ameritech numbers for Tandem Switching are so close as to produce no discernible error in the Respondents' calculation.

¹⁶ This is not strictly true in Illinois, where some residential calls are measured. However, it is still largely true even in Illinois, because Band A local calls are measured on a per-message basis rather than a per-minute basis.

determined in state proceedings. In each state that was analyzed, it shows that when customers purchase a second line for Internet access, the revenues Ameritech receives are less than the costs incurred. The Respondents' criticisms and "adjustments" to Ameritech's cost study in its April 12 ex parte are ill-founded, contrived, and inappropriate. The Respondents have adopted a short-run philosophy in contravention to the methodology advocated by the FCC, the state Commissions, and their own previous advocacy. Their ad hoc assumptions and revisions to Ameritech's cost study are without merit and should be rejected.

**Usage-Related Costs vs. Revenues for Ameritech Illinois Providing Service
to an End User of an ISP Served by Another LEC
Based on Respondents' Attachment 1: Adjusted Ameritech Switch Costs**

	Ameritech Illinois	Respondents' "Corrected" Analysis	Corrected Respondent Analysis	Corrected Respondent Analysis Using Actual ISP Holding Times for Switching
End Office Switching Cost per MOU	\$0.003746	\$0.002997	\$0.002997	\$0.002997
Tandem Switching Cost per MOU	\$0.001072	\$0.001072	\$0.001072	\$0.001072
Transport Termination Cost per MOU	\$0.000201	\$0.000201	\$0.000201	\$0.000201
Transport Minute/Mile Cost per MOU	\$0.000013	\$0.000013	\$0.000013	\$0.000013
Percent Calls Tandem Routed	50%	50%	50%	50%
Average Transport Miles per Call	20	20	20	20
Network Cost per Minute for LEC Serving End User	\$0.004844	\$0.004844	\$0.004094	\$0.004094
Wholesale Discount	19.40%	19.40%	19.40%	19.40%
Average Minutes per ISP Call	26	3.5	3.5	26
Online Hours per Month for End User	39	5.25	5.25	39
(computed) Calls per Month for End User	90	90	90	90
Monthly Usage Revenues per End User for LEC Serving End User	\$9.76	\$9.76	\$9.76	\$9.76
Monthly Usage Cost Per End User for LEC Serving End User	\$14.06	\$4.36	\$4.36	\$11.89
Revenue Surplus (Shortfall)	(\$4.30)	\$5.40	\$5.40	(\$2.13)

**Usage-Related Costs vs. Revenues for Ameritech Indiana Providing Service
to an End User of an ISP Served by Another LEC**

Based on Respondents' Attachment 1: Adjusted Ameritech Switch Costs

	Ameritech Indiana	Respondents' "Corrected" Analysis	Corrected Respondent Analysis	Corrected Respondent Analysis Using Actual ISP Holding Times for Switching
End Office Switching Cost per MOU	\$0.004097	\$0.003278	\$0.003278	\$0.003278
Tandem Switching Cost per MOU	\$0.000307	\$0.000307	\$0.000307	\$0.000307
Transport Termination Cost per MOU	\$0.000102	\$0.000102	\$0.000102	\$0.000102
Transport Minute/Mile Cost per MOU	\$0.000005	\$0.000005	\$0.000005	\$0.000005
Percent Calls Tandem Routed	50%	50%	50%	50%
Average Transport Miles per Call	20	20	20	20
Network Cost per Minute for LEC Serving End User	\$0.004504	\$0.004504	\$0.003684	\$0.003684
Wholesale Discount	21.46%	21.46%	21.46%	21.46%
Average Minutes per ISP Call	26	3.5	3.5	26
Online Hours per Month for End User	39	5.25	5.25	39
(computed) Calls per Month for End User	90	90	90	90
Monthly Usage Revenues per End User for LEC Serving End User	\$0.00	\$0.00	\$0.00	\$0.00
Monthly Usage Cost Per End User for LEC Serving End User	\$13.42	\$2.53	\$2.53	\$10.98
Revenue Surplus (Shortfall)	(\$13.42)	(\$2.53)	(\$2.53)	(\$10.98)

**Usage-Related Costs vs. Revenues for Ameritech Michigan Providing Service
to an End User of an ISP Served by Another LEC**
Based on Respondents' Attachment 1: Adjusted Ameritech Switch Costs

	Ameritech Michigan	Respondents' "Corrected" Analysis	Corrected Respondent Analysis	Corrected Respondent Analysis Using Actual ISP Holding Times for Switching
End Office Switching Cost per MOU	-\$0.004053	\$0.003242	\$0.003242	\$0.003242
Tandem Switching Cost per MOU	\$0.000698	\$0.000698	\$0.000698	\$0.000698
Transport Termination Cost per MOU	\$0.000260	\$0.000260	\$0.000260	\$0.000260
Transport Minute/Mile Cost per MOU	\$0.000006	\$0.000006	\$0.000006	\$0.000006
Percent Calls Tandem Routed	50%	50%	50%	50%
Average Transport Miles per Call	20	20	20	20
Network Cost per Minute for LEC Serving End User	\$0.004912	\$0.004912	\$0.004101	\$0.004101
Wholesale Discount	19.96%	19.96%	19.96%	19.96%
Average Minutes per ISP Call	26	3.5	3.5	26
Online Hours per Month for End User	39	5.25	5.25	39
(computed) Calls per Month for End User	90	90	90	90
Monthly Usage Revenues per End User for LEC Serving End User	\$1.38	\$1.38	\$1.38	\$1.38
Monthly Usage Cost Per End User for LEC Serving End User	\$14.36	\$3.79	\$3.79	\$11.99
Revenue Surplus (Shortfall)	(\$12.98)	(\$2.41)	(\$2.41)	(\$10.61)

**Usage-Related Costs vs. Revenues for Ameritech Ohio Providing Service
to an End User of an ISP Served by Another LEC
Based on Respondents' Attachment 1: Adjusted Ameritech Switch Costs**

	Ameritech Ohio	Respondents' "Corrected" Analysis	Corrected Respondent Analysis	Corrected Respondent Analysis Using Actual ISP Holding Times for Switching
End Office Switching Cost per MOU	\$0.003815	\$0.003052	\$0.003052	\$0.003052
Tandem Switching Cost per MOU	\$0.000660	\$0.000660	\$0.000660	\$0.000660
Transport Termination Cost per MOU	\$0.000155	\$0.000155	\$0.000155	\$0.000155
Transport Minute/Mile Cost per MOU	\$0.000006	\$0.000006	\$0.000006	\$0.000006
Percent Calls Tandem Routed	50%	50%	50%	50%
Average Transport Miles per Call	20	20	20	20
Network Cost per Minute for LEC Serving End User	\$0.004498	\$0.004498	\$0.003735	\$0.003735
Wholesale Discount	20.29%	20.29%	20.29%	20.29%
Average Minutes per ISP Call	26	3.5	3.5	26
Online Hours per Month for End User	39	5.25	5.25	39
(computed) Calls per Month for End User	90	90	90	90
Monthly Usage Revenues per End User for LEC Serving End User	\$1.35	\$1.35	\$1.35	\$1.35
Monthly Usage Cost Per End User for LEC Serving End User	\$13.20	\$3.21	\$3.21	\$10.96
Revenue Surplus (Shortfall)	(\$11.85)	(\$1.86)	(\$1.86)	(\$9.61)

**Usage-Related Costs vs. Revenues for Ameritech Wisconsin Providing Service
to an End User of an ISP Served by Another LEC
Based on Respondents' Attachment 1: Adjusted Ameritech Switch Costs**

	Ameritech Wisconsin	Respondents' "Corrected" Analysis	Corrected Respondent Analysis	Corrected Respondent Analysis Using Actual ISP Holding Times for Switching
End Office Switching Cost per MOU	\$0.004241	\$0.003393	\$0.003393	\$0.003393
Tandem Switching Cost per MOU	\$0.000704	\$0.000704	\$0.000704	\$0.000704
Transport Termination Cost per MOU	\$0.000188	\$0.000188	\$0.000188	\$0.000188
Transport Minute/Mile Cost per MOU	\$0.000014	\$0.000014	\$0.000014	\$0.000014
Percent Calls Tandem Routed	50%	50%	50%	50%
Average Transport Miles per Call	20	20	20	20
Network Cost per Minute for LEC Serving End User	\$0.005155	\$0.005155	\$0.004307	\$0.004307
Wholesale Discount	19.40%	19.40%	19.40%	19.40%
Average Minutes per ISP Call	26	3.5	3.5	26
Online Hours per Month for End User	39	5.25	5.25	39
(computed) Calls per Month for End User	90	90	90	90
Monthly Usage Revenues per End User for LEC Serving End User	\$5.31	\$5.31	\$5.31	\$5.31
Monthly Usage Cost Per End User for LEC Serving End User	\$14.97	\$3.98	\$3.98	\$12.50
Revenue Surplus (Shortfall)	(\$9.66)	\$1.33	\$1.33	(\$7.19)

Usage-Related Costs vs. Revenues for Ameritech Illinois Providing Service to an End User of an ISP Served by Another LEC

Based on Respondents' Attachment 2: Based on HAI Switching Inputs

	Ameritech Illinois	Respondents' "Corrected" Analysis	Corrected Respondent Analysis
End Office Switching Cost per MOU	\$0.003746	\$0.001450	\$0.001450
Tandem Switching Cost per MOU	\$0.001072	\$0.000860	\$0.000860
Transport Termination Cost per MOU	\$0.000201	\$0.000201	\$0.000201
Transport Minute/Mile Cost per MOU	\$0.000013	\$0.000013	\$0.000013
Percent Calls Tandem Routed	50%	50%	50%
Average Transport Miles per Call	20	20	20
Network Cost per Minute for LEC Serving End User	\$0.004844	\$0.004844	\$0.002442
Wholesale Discount	19.40%	19.40%	19.40%
Average Minutes per ISP Call	26	26	26
Online Hours per Month for End User	39	39	39
(computed) Calls per Month for End User	90	90	90
Monthly Usage Revenues per End User for LEC Serving End User	\$9.76	\$9.76	\$9.76
Monthly Usage Cost Per End User for LEC Serving End User	\$14.06	\$7.40	\$7.09
Revenue Surplus (Shortfall)	(\$4.30)	\$2.36	\$2.67

**Usage-Related Costs vs. Revenues for Ameritech Indiana Providing Service
to an End User of an ISP Served by Another LEC**

Based on Respondents' Attachment 2: Based on HAI Switching Inputs

	Ameritech Indiana	Respondents' "Corrected" Analysis	Corrected Respondent Analysis
End Office Switching Cost per MOU	\$0.004097	\$0.001330	\$0.001330
Tandem Switching Cost per MOU	\$0.000307	\$0.001550	\$0.001550
Transport Termination Cost per MOU	\$0.000102	\$0.000102	\$0.000102
Transport Minute/Mile Cost per MOU	\$0.000005	\$0.000005	\$0.000005
Percent Calls Tandem Routed	50%	50%	50%
Average Transport Miles per Call	20	20	20
Network Cost per Minute for LEC Serving End User	\$0.004504	\$0.004504	\$0.002358
Wholesale Discount	21.46%	21.46%	21.46%
Average Minutes per ISP Call	26	26	26
Online Hours per Month for End User	39	39	39
(computed) Calls per Month for End User	90	90	90
Monthly Usage Revenues per End User for LEC Serving End User	\$0.00	\$0.00	\$0.00
Monthly Usage Cost Per End User for LEC Serving End User	\$13.42	\$5.17	\$7.03
Revenue Surplus (Shortfall)	(\$13.42)	(\$5.17)	(\$7.03)

**Usage-Related Costs vs. Revenues for Ameritech Michigan Providing Service
to an End User of an ISP Served by Another LEC
Based on Respondents' Attachment 2: Based on HAI Switching Inputs**

	Ameritech Michigan	Respondents' "Corrected" Analysis	Corrected Respondent Analysis
End Office Switching Cost per MOU	\$0.004053	\$0.001390	\$0.001390
Tandem Switching Cost per MOU	\$0.000698	\$0.000700	\$0.000700
Transport Termination Cost per MOU	\$0.000260	\$0.000260	\$0.000260
Transport Minute/Mile Cost per MOU	\$0.000006	\$0.000006	\$0.000006
Percent Calls Tandem Routed	50%	50%	50%
Average Transport Miles per Call	20	20	20
Network Cost per Minute for LEC Serving End User	\$0.004912	\$0.004912	\$0.002250
Wholesale Discount	19.96%	19.96%	19.96%
Average Minutes per ISP Call	26	26	26
Online Hours per Month for End User	39	39	39
(computed) Calls per Month for End User	90	90	90
Monthly Usage Revenues per End User for LEC Serving End User	\$1.38	\$1.38	\$1.38
Monthly Usage Cost Per End User for LEC Serving End User	\$14.36	\$6.58	\$6.58
Revenue Surplus (Shortfall)	(\$12.98)	(\$5.20)	(\$5.20)

**Usage-Related Costs vs. Revenues for Ameritech Ohio Providing Service
to an End User of an ISP Served by Another LEC**
Based on Respondents' Attachment 2: Based on HAI Switching Inputs

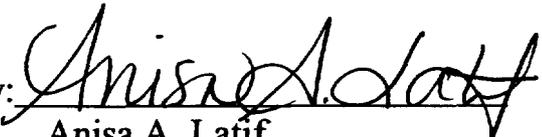
	Ameritech Ohio	Respondents' "Corrected" Analysis	Corrected Respondent Analysis
End Office Switching Cost per MOU	\$0.003815	\$0.001270	\$0.001270
Tandem Switching Cost per MOU	\$0.000660	\$0.001000	\$0.001000
Transport Termination Cost per MOU	\$0.000155	\$0.000155	\$0.000155
Transport Minute/Mile Cost per MOU	\$0.000006	\$0.000006	\$0.000006
Percent Calls Tandem Routed	50%	50%	50%
Average Transport Miles per Call	20	20	20
Network Cost per Minute for LEC Serving End User	\$0.004498	\$0.004498	\$0.002123
Wholesale Discount	20.29%	20.29%	20.29%
Average Minutes per ISP Call	26	26	26
Online Hours per Month for End User	39	39	39
(computed) Calls per Month for End User	90	90	90
Monthly Usage Revenues per End User for LEC Serving End User	\$1.35	\$1.35	\$1.35
Monthly Usage Cost Per End User for LEC Serving End User	\$13.20	\$5.73	\$6.23
Revenue Surplus (Shortfall)	(\$11.85)	(\$4.38)	(\$4.88)

**Usage-Related Costs vs. Revenues for Ameritech Wisconsin Providing Service
to an End User of an ISP Served by Another LEC
Based on Respondents' Attachment 2: Based on HAI Switching Inputs**

	Ameritech Wisconsin	Respondents' "Corrected" Analysis	Corrected Respondent Analysis
End Office Switching Cost per MOU	\$0.004241	\$0.001410	\$0.001410
Tandem Switching Cost per MOU	\$0.000704	\$0.001010	\$0.001010
Transport Termination Cost per MOU	\$0.000188	\$0.000188	\$0.000188
Transport Minute/Mile Cost per MOU	\$0.000014	\$0.000014	\$0.000014
Percent Calls Tandem Routed	50%	50%	50%
Average Transport Miles per Call	20	20	20
Network Cost per Minute for LEC Serving End User	\$0.005155	\$0.005155	\$0.002477
Wholesale Discount	19.40%	19.40%	19.40%
Average Minutes per ISP Call	26	26	26
Online Hours per Month for End User	39	39	39
(computed) Calls per Month for End User	90	90	90
Monthly Usage Revenues per End User for LEC Serving End User	\$5.31	\$5.31	\$5.31
Monthly Usage Cost Per End User for LEC Serving End User	\$14.97	\$6.75	\$7.19
Revenue Surplus (Shortfall)	(\$9.66)	(\$1.44)	(\$1.88)

CERTIFICATE OF SERVICE

I, Anisa A. Latif, do hereby certify that a copy of **SBC's Reply Comments** has been served on the parties attached via postage-prepaid on this 4th day of August 2000.

By: 
Anisa A. Latif

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