BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
	)	
Application by SBC Communications Inc.,	)	
Southwestern Bell Telephone Company, and	)	
Southwestern Bell Communications Services,	)	CC Docket No. 01-88
Inc. d/b/a Southwestern Bell Long Distance for	)	
Provision of In-Region, Interlata Services in	)	
Missouri	)	

REPLY AFFIDAVIT OF MICHAEL KELLY

1. My name is Michael Kelly. I have over 14 years of industry experience in the information technology audit and assurance industry, the last nine of which have been at Ernst & Young LLP ("E&Y"). I currently hold the position of Partner within our Information Systems Assurance and Advisory Services practice. In that position, my responsibilities include providing technical insight and resources principally to clients within the telecommunications industry throughout the United States and internationally. I supervised and coordinated the attestation examinations and agreed-upon procedures engagements performed for the benefit of the Missouri Public Service Commission. These engagements are described in more detail below.

2. On May 4, 2000, E&Y submitted its "Proposal to Serve the Missouri Public Service Commission" ("Proposal") in response to RFP No. B3Z00117 issued by the Missouri Public Service Commission ("MPSC") on March 23, 2000. E&Y was selected by the Staff of the Missouri Public Service Commission ("Staff") to perform the services noted below. The MPSC issued an order on July 6, 2000 approving the Staff's recommendation and ordering the parties to

enter into an agreement.[1] An "Agreement for Professional Services" ("Agreement") was executed between SWBT, E&Y and the Staff on July 12, 2000. The Proposal and the Agreement provided the underlying basis for the scope of the following three engagements: 1) Attestation examination to test whether SWBT's reported performance measure results complied with the criteria set forth within business rules documented within Case No. TO-99-227 (Application of Southwestern Bell Telephone Company to Provide Notice of Intent to File an Application for Authorization to Provide In-Region InterLATA Services Originating in Missouri Pursuant to Section 271 of the Telecommunications Act of 1996) as filed with the MPSC;[2] 2) Attestation examination to test whether SWBT's controls over its process to calculate and report performance measure results that comply with the business rules documented in Case No. TO-99-227 are effective, as of June 30, 2000 in providing reasonable assurance that SWBT's performance measure results were calculated and reported in compliance with the conditions set forth in the business rules; and 3) Agreed-upon procedures engagement to assist in evaluating SWBT's assertion that SWBT's five-state regional OSS is capable of supporting commercial pre-order and order volumes specific to Missouri as of September 30, 2000. The Staff was intimately involved throughout the process to define the scope and planning for all three E&Y engagements. In fact, the Staff approved E&Y's plan for the attestation examination. Additionally, the Staff participated on weekly status calls with E&Y, and conducted a visit to the client site during the

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[1] Order Directing Southwestern Bell Telephone Company To Hire Consultant, Application of Southwestern Bell Telephone Company to Provide Notice of Intent to File an Application for Authorization to Provide In-region InterLATA Services Originating in Missouri Pursuant to Section 271 of the Telecommunications Act of 1996, Case No. TO-99-227 (MPSC July 6, 2000).

[2] See Sparks Aff. Attach. A at App. 3, attached to SWBT's Motion To Update the Record and for Approval of Missouri 271 Interconnection Agreement, Application of Southwestern Bell Telephone Company to Provide Notice of Intent to File an Application for Authorization to Provide In-Region InterLATA Services originating in Missouri Pursuant to Section 271 of the Telecommunications Act of 1996, Case No. TO-99-227 (MPSC filed June 28, 2000) (included as App. C, Tab 49 to SWBT's initial application).

fieldwork (July 10 through October 5, 2000). The field visit allowed Staff to view first-hand the work being completed by E&Y. Finally, Staff had access to and, in fact, conducted a review of the final detailed E&Y workpapers.

3. This affidavit is intended to respond to comments filed by AT&T with the Federal Communications Commission ("FCC") on April 24, 2001. As AT&T's comments related only to the two attestation examinations referenced above and not the agreed-upon procedures engagement, my comments will be focused on the attestation examination engagements. I would like to first provide background on the nature of an attestation examination in general and the applicable professional standards that are followed when conducting engagements of this nature. Any professional service provided by a certified public accountant resulting in the expression of assurance must be performed under American Institute of Certified Public Accountants ("AICPA") professional standards that provide for the expression of such assurance. The above attestation examinations performed for the benefit of the MPSC were conducted in accordance with the Attestation Standards established by the AICPA. These attestation examinations generally apply to an auditor's expression of assurance on non-financial assertions, that is assertions other than a client's financial statements. An attestation report is the highest level of assurance that can be provided by an independent auditor regarding non-financial assertions. An attestation report is, in this respect, like an audit report on a Company's financial statements.

4. I would next like to address AT&T's characterization of the E&Y attestation examination reports (AT&T's Willard Declaration paragraphs 47 through 49) delivered to the MPSC on November 1, 2000. AT&T states, "the final reports that E&Y issued on its audit are wholly conclusory in nature, and lack the detail and documentation necessary to determine

whether a proper validation was performed." Willard at paragraph 47. The report format utilized by E&Y to communicate the results of the attestation examinations followed the guidance required by the AICPA and follows the format used with the FCC in previous attestation engagements. In addition, E&Y filed a separate detailed scope and approach document that laid out the approach utilized to test and arrive at its conclusions.

5. Further details of the E&Y scope and approach, testing methodologies and sample sizes utilized were discussed in Jefferson City, Missouri on November 8, 2000, and again extensively at the Technical Conference sponsored by the Staff in Jefferson City, Missouri on January 30, 2001. The results of the technical conference were summarized by the Staff in its February 13, 2001 filing at the MPSC, quoted in part as follows:

> **STAFF'S REPORT ON RESULTS OF ERNST & YOUNG TECHNICAL CONFERENCE**
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> On January 11, 2001, the Commission entered an order directing the Staff of the Commission to (1) organize a technical conference with Ernst & Young, LLP and any parties interested in attending such conference for the purpose of evaluating the comments on the reports of Ernst & Young, LLP filed in this above-captioned case and (2) file the results of the conference no later than February 13, 2001.
>
> The Staff organized the technical conference to be held at the Capitol Room of the Capitol Plaza Hotel and Conference Center in Jefferson City, Missouri between the hours of 9:00 a.m. and 5:00 p.m. on January 30, 2001. A copy of the agenda, which was distributed to Ernst & Young, LLP and the parties electronically on January 23, 2001, is attached hereto as Appendix A. The agenda covered all aspects of Ernst & Young's work as contemplated by the RFP. The Staff advised the parties in that same electronic transmission that the conference would not be on-the-record and that, because the workpapers of Ernst & Young, LLP contained information proprietary to Ernst & Young, LLP and/or Southwestern Bell Telephone Company, would not be available for inspection by the parties.
>
> The forum at the technical conference allowed for open discussion of Ernst & Young's over-all methodology, OSS methodology, specific Performance Measurement Testing and other issues raised by those in attendance. In addition to Ernst & Young, LLP, the Staff and Southwestern Bell Telephone Company; the Attorney General of the State of Missouri, Birch Telecom, Gabriel, ASCENT, Mpower, AT&T, MCI WorldCom, McLeod

> USA and Sprint were represented at the conference. Seven employees of Ernst & Young, LLP involved in the work undertaken by Ernst & Young, LLP in preparing the reports of Ernst & Young, LLP filed in this case were present and participated in providing responses to the questions raised by the parties. Those seven individuals were: Dan Dolan, Brian Horst, Mike Kelly, David Herndon, Joe Hurley, Patrick Green and DeAnne Aussem. In response to each of the numerous questions posed to Ernst & Young, LLP, they provided thorough and detailed answers. The conference concluded at approximately 3:00 p.m., two hours earlier than scheduled, when no one present had further questions for Ernst & Young, LLP.
>
> From the Staff's perspective, with the exception of questions that would require divulging proprietary information or that pertained to matters beyond the scope of its engagement, Ernst & Young, LLP provided full and detailed responses to each of the questions posed. Further, when responding to the question would require disclosure of proprietary information or pertained to matter beyond the scope of the engagement, Ernst & Young, LLP so indicated. Few of the questions posed fell into either of these categories. It is the Staff's view that the proceedings at the conference satisfied section 2.2.1.f of the RFP.[3]

6. In response to AT&T's concerns regarding access to the working papers, the role of the independent auditor in this engagement was to conduct an attestation examination and report on SWBT's assertions regarding compliance with the business rules and related controls for the benefit of the MPSC and other interested third parties. The independent auditor's professional standards, experience and judgment are relied upon in lieu of every constituent having access to the company's underlying records. We, as a professional services firm, are required to obtain the consent of our client before we make our working papers available for review by others. In this situation, due to the proprietary nature of information contained in the working papers, SWBT did not consent to the release of our working papers to AT&T. In our judgment, SWBT did not act unreasonably in withholding this consent. However, the Staff did have access to and did review our working papers. As previously noted, the Staff also actively participated in the E&Y

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[3] Staff's Report on Results of Ernst & Young Technical Conference ¶¶ 1-4, Application of Southwestern Bell Telephone Company to Provide Notice of Intent to File an Application for Authorization to Provide In-region InterLATA Services Originating in Missouri Pursuant to Section 271 of the Telecommunications Act of 1996, Case No. TO-99-227 (MPSC filed Feb. 13, 2001) (included as App. C, Tab 87 to SWBT's initial application).

engagements by selecting specific performance measures to be tested, conducting an on-site visit while E&Y was performing fieldwork and participating in weekly conference calls. At the November 8, 2000 hearing where E&Y presented the results of the engagements to the MPSC and CLECs, the Staff fully supported the work of E&Y. David Winter from the Staff stated:

> We are more than satisfied with the work that Ernst & Young did on this project concerning the validation of the information for the performance measurements. We're satisfied because we were involved in every step of the process from the issuance of the RFP through their work, and also we have done – looked at samples of their work papers and were involved in the process. We're very satisfied.[4]

7. In paragraph 50 of the Willard Declaration, AT&T alleges E&Y's testing of performance data was limited to an extraordinarily small number of transactions, with no assurance that important order types were included in testing at all. The objective of the sampling procedures referenced by AT&T was to verify that performance data (i.e., time and date stamps) was appropriately captured in the various SWBT front-end operational systems and transferred and accumulated in databases utilized to store the performance data until month-end calculations were performed. E&Y performed similar transaction testing on these same systems as part of a previous engagement to test SWBT's compliance with the FCC's SBC/Ameritech merger conditions. Considering the results of testing in our previous engagement, the judgmental sample sizes selected were deemed adequate to test whether SWBT's systems continued to capture and process performance data as designed. Our methodology was designed to ensure all systems utilized by SWBT to capture performance data were tested. Random sampling techniques were utilized to ensure all order types had an equal chance of being selected. While

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[4] See Transcript of Proceedings at 2734, Application of Southwestern Bell Telephone Company to Provide Notice of Intent to File an Application for Authorization to Provide In-region InterLATA Services Originating in Missouri Pursuant to Section 271 of the Telecommunications Act of 1996, Case No. TO-99-227 (Nov. 8, 2000) (included as App. C, Tab 71 to SWBT's initial application).

some order types may be more complicated to provision than others, start and completion dates are captured in the front-end operational systems in the same manner and therefore separate testing of individual order types was not deemed necessary.

8. In paragraph 50 of Willard, AT&T also claims that E&Y utilized a materiality standard so lax that it disregards performance measurement errors that could significantly affect a CLEC's ability to compete. E&Y utilized a 5% variance rate as the materiality threshold for investigating discrepancies in performance measure recalculation results. If E&Y's calculation results varied from SWBT's results by greater than 5% positively or negatively, the discrepancy was considered material and additional follow-up was performed. E&Y also ascertained whether discrepancies, although considered immaterial using the above materiality thresholds, impacted parity or benchmark performance. None of the discrepancies in our calculations that were less than the 5% materiality threshold impacted parity or benchmark performance.

9. In paragraphs 54 through 60 of the Willard Declaration, AT&T attempts to discredit the E&Y attestation examinations by comparing them to certain Telcordia Technologies ("Telcordia") reports filed with the Texas Public Utilities Commission in December 2000. E&Y has reviewed the findings noted in the Telcordia report to determine the impact, if any, on our performance measure attestation examination report and related report on controls. Issues noted in the Telcordia report were not determined to have a material impact on our previously issued attestation examination reports.

10. At paragraph 45 of the Willard Declaration, AT&T cites two specific performance measure issues, impacting four of the total 102 performance measures subject to testing. AT&T alleges that these issues demonstrate the inadequacy of the E&Y attestation examination. The

first concerns an interpretation of the business rule for PM 13 – Order Process Percent Flow Through and essentially implies E&Y's review of programming code related to PM 13 should have detected the fact that certain UNE Combination ("UNE-P") orders were not being included by SWBT in the denominator of this measure. The business rule for PM 13 defines the denominator to include "the total number of MOG-eligible orders and orders that would flow through EASE within the reporting period." See Dysart Aff. Attach. C at 36, attached to SWBT's initial application. EASE is SWBT's proprietary interface that SWBT uses for its own retail operations and also makes available to CLECs for the ordering of resale services. SWBT's interpretation of the PM 13-business rule specifically excluded non-MOG eligible UNE-P orders from the denominator because SWBT did not believe these orders met the definition of the business rule (i.e. a UNE-P order cannot be input via EASE so SWBT included resale orders and MOG eligible UNE-P orders in the denominator). E&Y identified and disclosed this interpretation to the Staff and both parties concluded that SWBT's interpretation of the business rule was reasonable.

11. The second of the two issues discussed at Willard paragraph 45 concerns the adequacy of the LMOS database records and SWBT's reported trouble report rates (PMs 35, 37 and 41). The LMOS database inventories network facilities throughout SWBT's five-state territory, and is used to perform line testing and various maintenance and repair functions for POTS and UNE-P. AT&T claims that certain lines within LMOS are misidentified as belonging to SWBT when they actually belong to a CLEC, that is, the count of the number of lines in service and the count of trouble reports are understated for CLECs in the aggregate and overstated for SWBT retail operations. SWBT has indicated that the issue is confined to certain

UNE-P conversion orders that originally posted to the LMOS system out of sequence (i.e., the "C" order posted prior to the posting of the "D" order).

12. SWBT has calculated the impact of the issue regarding the accuracy of the LMOS database records and has concluded that it does not materially impact the reported performance measure results. We have reviewed SWBT's calculations and agree with this conclusion.

13. This concludes my affidavit.

I hereby swear and affirm that the information contained in the attached affidavit is true and correct to the best of my knowledge and belief.

Michael Kelly

Subscribed and sworn to before me on this 15th day of MAY 2001.

Notary Public

JUDY A JOHNSON
Notary Public - Notary Seal
STATE OF MISSOURI
CLAY COUNTY
MY COMMISSION EXP. NOV. 26,2002

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In the Matter of	)	
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Application by SBC Communications Inc.,	)	
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Provision of In-Region, InterLATA Services in	)	
Missouri	)	

REPLY AFFIDAVIT OF ALAN G. KERN

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS)

CLEC REVIEW OF SWBT's MISSOURI COST STUDIES AND MODELS

I, Alan G. Kern, being of lawful age, and duly sworn upon my oath, hereby do depose and state as follows:

1. My name is Alan G. Kern. I am presently Area Manager-Docket Management for Southwestern Bell Telephone Company (SWBT).

2. I graduated from Southeast Missouri University in 1975, with a bachelors degree in Marketing. I earned a masters degree in Telecommunications Management from Webster University in 1994.

3. I have been employed by SWBT since 1978. I have held various positions -- with responsibility for network engineering, performing cost studies, industry relations, and rates and tariffs. Since 1989, I have been responsible for docket management in the state of Missouri.

4. In September 1996, SWBT made available numerous cost studies and voluminous supporting documentation to representatives of both AT&T and MCI at SWBT's offices at 1616 Guadalupe in Austin, Texas.

5. S.J. Ramirez, an employee of SWBT in Austin, was responsible for arranging review of the documents by AT&T and MCI. In response to my request, Ms. Ramirez provided me with the following list of names of the AT&T and MCI representatives who reviewed the cost materials and the dates they reviewed them:

AT&T:	Daniel Rhinehart, September 30 and October 4 Larry Barnes, September 30 Marshall Adair, September 30
MCI:	Randy Klaus, September 26 and 27 Sarah Goodfriend, September 26

6. On October 7, 1996, I was responsible for arranging for two workrooms at the Capitol Plaza Hotel in Jefferson City, Missouri, for AT&T and MCI representatives to review SWBT cost information. These workrooms (room 802 for AT&T and room 929 for MCI) contained the cost studies and supporting documentation that SWBT was relying on to support its positions in Case No. TO-97-40 (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) and Case No. TO-97-67 (In the Matter of the 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). The hearings for these cases were held in Jefferson City on October 8 -17, 1996, and the cost studies were available to AT&T and MCI throughout the course of the hearings.

7. What follows is a list of the dates and names (if known) of the AT&T and MCI representatives who reviewed the information at the hotel workrooms. On some days, the same representative made more than one visit to the workroom.

AT&T-	Daniel Rhinehart, October 7 Denise Crombie, October 7, 8 and 10 Unidentified Person, October 7 N.M. Norton, October 8 Debbie Hightower, October 9
MCI-	Sarah Goodfriend, October 7 Unidentified Persons, October 8

FURTHER AFFIANT SAYETH NOT.

Alan G. Kern

Subscribed and sworn to before me this 4th day of May, 2001.

Notary Public

MY COMMISSION EXPIRES: Jan. 5, 2004

MARYANN PURCELL
Notary Public - Notary Seal
STATE OF MISSOURI
ST. LOUIS CITY
MY COMMISSION EXP. JAN. 5, 2004

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Inc. d/b/a Southwestern Bell Long Distance for	)	
Provision of In-Region, InterLATA Services in	)	
Missouri	)	

REPLY AFFIDAVIT OF TIM J. MORRISSEY

STATE OF MISSOURI)
)
CITY OF ST. LOUIS)

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I, Tim J. Morrissey, being first duly sworn upon oath, do hereby depose and state as follows:

1. My name is Tim J. Morrissey. I am Associate Director – Exchange Carrier Relations / Settlements at SBC Telecommunications Inc. My business address is One Bell Center, Room 31-J-7, St. Louis, Missouri 63101. In this capacity, I am responsible for settlement agreements with Local Exchange Carriers. I also am responsible for planning and preparing analyses and cost studies for access services and Federal and State Universal Service Funds, among other regulatory issues.

Professional Experience and Background

2. In 1978, I graduated Magna Cum Laude from the University of Missouri at St. Louis with a Bachelor of Science degree in Business Administration/Accounting. I also hold a Certified Public Accountant Certificate from the State of Missouri. From 1978 through 1981, I was employed by Continental Telephone Service Corporation. I held the position of Internal Auditor and later the position of Settlements Analyst. As a Settlements Analyst, I was responsible for the Interstate and Intrastate Annual Toll Cost Studies, toll revenues, and toll settlements for operations in Arkansas and Michigan. In December 1981, I began working for Southwestern Bell Telephone Company ("SWBT") as an Assistant Staff Manager – Cost Studies. In this capacity, I prepared cost studies for pricing special service arrangements and developed methodology for the development of loaded labor rates and other cost factors for use in service cost studies. In 1984, I was promoted to the position of Staff Manager – Separations. In this capacity, I planned and prepared several studies for state and federal dockets in which SWBT was a party. I also chaired a United States Telephone Association task group that developed

proposed rules and quantified impacts for the conformance of the federal access charge rules, with modified separations and accounting rules from the rewrite of the Uniform System of Accounts. In June 1989, I moved to the position of Area Manager – Federal Docket Matters. I was responsible for the coordination and development of SWBT's policies and positions concerning federal access charge issues. In November 1990, I assumed the position of Associate Director – Embedded Cost Studies. In this capacity, I developed and supervised the preparation of embedded cost studies to support SWBT's regulatory efforts. In January 2000, I assumed my current position. I have testified before the state commissions of Arkansas, Kansas, Missouri and Texas.

Purpose of the Affidavit

3. I will respond to the allegations of AT&T declarant Michael Lieberman. Specifically, I will address the portions of Mr. Lieberman's affidavit that rely on data from the FCC Hybrid Cost Proxy Model ("HCPM" or "Synthesis Model") to support false allegations that Missouri's UNE rates are not cost-based. I will also address similar allegations made by Mr. Lieberman which he bases on Loop Costs from NECA that support the Federal Universal Service Fund. I will demonstrate that the comparisons made by Mr. Lieberman are misleading, and the conclusions presented in his declaration are inappropriate.

SWBT's Missouri UNE Rates Comply with TELRIC and AT&T's Allegations are Inappropriate

4. SWBT's UNE rates contained in the Missouri 271 Agreement ("M2A") are TELRIC-based. As discussed in the Reply Affidavit of Barbara Smith, the Missouri Commission has set

prices based on TELRIC cost studies after conducting extensive reviews and proceedings. AT&T, unable to demonstrate clear errors or TELRIC non-compliance by the MPSC, improperly relies on secondary tests, based on the FCC's HCPM model, to argue against the M2A's rates. The FCC's HCPM model, however, only should be relied on in the 271 context when it has been established that a state commission has failed to satisfy its statutory right to set prices. This proxy should only be used for states with limited resources whose commissions cannot, or will not, conduct extensive reviews such as those which have been performed in Missouri,[1] or in states where it has been established that a state commission has made errors in the application of TELRIC principles or in factual matters that resulted in prices falling out of the range the reasonable application of TELRIC would produce.[2] Neither is the case in Missouri.

5. SWBT's limited purpose for presenting costs from the FCC HCPM Model in Arkansas was to show that overall, the costs in Arkansas are higher than Kansas. The FCC has recognized that their model should not be relied on to set rates for UNEs.[3] The model does not identify UNE or wholesale costs. Rather, it focuses on identification of the costs of providing Universal Service that includes retail costs. The model also does not capture study area-specific costs

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[1] The FCC recognized that a state might be "entitled to a presumption of compliance with TELRIC" if it adopted approved rates in whole and could demonstrate that its costs were at or above the costs in that state whose rates it adopted. See Memorandum Opinion and Order, Joint Application by SBC Communications Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance for Provision of In-Region, InterLATA Services in Kansas and Oklahoma, CC Docket No. 00-217, FCC 01-29, ¶ 82 fn. 244 (rel. Jan. 22, 2001) ("Kansas/Oklahoma Order"); see also Memorandum Opinion and Order, Application of Verizon New England Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions) And Verizon Global Networks Inc., For Authorization to Provide In-Region, InterLATA Services in Massachusetts, CC Docket No. 01-9, FCC 01-130, ¶ 22 (rel. Apr. 16, 2001).

[2] See Kansas/Oklahoma Order ¶ 59 ("[W]e will not conduct a *de novo* review of a state's pricing determinations and will reject an application only if 'basic TELRIC principles are violated or the state commission makes clear errors in factual findings on matters so substantial that the end result falls outside the range that the reasonable application of TELRIC principles would produce.' States also 'retain the flexibility to consider 'local technological, environmental, regulatory, and economic conditions.'").

[3] Kansas/Oklahoma Order ¶ 84.

because it relies on nationwide averages for its input values. In addition, the model does not identify costs by the zones that have been structured for application of UNE rates. However, AT&T uses the FCC model to allege that SWBT's Missouri recurring UNE Loop rates are too high in comparison with other states, suggesting that the Missouri UNE rates are not cost-based. As discussed above, this analysis is unnecessary to determine whether Missouri's UNE rates comply with TELRIC, since the Missouri Commission has already made such a determination. In addition, as I will discuss below, AT&T has presented a misleading and oversimplified analysis that leads to improper conclusions.

Analysis of FCC HCPM / Synthesis Model Loop Costs and Comparison with UNE Rates

6. Mr. Lieberman compares the recurring UNE loop rates with the costs from the FCC HCPM for the five SWBT states. See AT&T's Lieberman Decl. ¶¶ 21-22 & Table 2. From this comparison, he concludes that the recurring UNE loop rates in Missouri are higher than allegedly relevant cost relationships from the FCC's HCPM model. See id. Mr. Lieberman presents the following comparison in Table 2 of his declaration:

Relative Recurring UNE Loop Rates vs. SYNMOD / HCPM Loop Costs			
State	**Loop Rates**	**% Difference: MO Loop Rate vs. Other States**	**% Difference: MO SYNMOD Cost vs. Other States**
Arkansas	$14.30	20%	-15%
Kansas	$13.76	25%	0%
Oklahoma	$15.87	8%	-7%
Texas	$14.33	20%	14%
Missouri	$17.15	-	-

This comparison is flawed in several respects. As previously stated, the FCC HCPM model was not designed to depict UNE costs.[4] More importantly, Mr. Lieberman's analysis compares average loop rates with average costs. UNE rates, however, are not set on an average basis, but rather are set on a zone-specific basis. Typically, a state has separate rates for rural, suburban, and urban zones. Comparison of specific costs by zone would be more meaningful if one were trying to assess the reasonableness of the underlying UNE rates. To assume, as Mr. Lieberman does, that there must be a close relationship between the TELRIC costs used to set UNE rates and the costs from the FCC HCPM Model is simply inappropriate. It is reasonable to expect variation between the two sets of costs due to differences that exist between the FCC HCPM Model and the state-specific TELRIC studies employed for setting UNE prices.

7. Below is a more appropriate comparison – similar to Mr. Lieberman's – for the SWBT states where relevant comparisons can be made between the UNE loop rates and the FCC HCPM model costs. My analysis compares the Missouri UNE loop rates and FCC HCPM costs with Kansas and Texas. Moreover, I have compiled the FCC HCPM costs by UNE zone, comparing them with the related UNE prices to provide for a more meaningful comparison. I developed these costs from the January 20, 2000 release of the FCC HCPM that is used for the determination of Federal High Cost Support for non-rural carriers.[5] From the HCPM, I extracted costs per line by wire center for the Loop categories. I developed the loop costs by zone by identifying the zone attributable to the wire center, weighting the cost per line for each wire

[4] In addition, the chart implies that the loop rates are set based on state-specific costs, which is not the case for Arkansas and Oklahoma. The Arkansas loop rates reflect Kansas-specific TELRIC costs and the loop rates for the Oklahoma suburban and urban zones reflect Texas-specific TELRIC costs. Thus, comparisons of average UNE loop rates for Arkansas and Oklahoma add nothing because they simply reflect Kansas and Texas TELRIC costs.

[5] See FCC Website, Hybrid Cost Proxy Model, available at www.fcc.gov/ccb/apd/hcpm.

center by the respective number of switched lines, and then summing the loop costs by zone. The costs for all zones were divided by their respective total switched lines (also obtained from the FCC HCPM) to obtain the loop cost by zone. The following table reflects the UNE loop rates, average costs, costs by zones, and the percentage differences from the Missouri UNE loop rates and FCC HCPM costs.

Comparison of UNE Loop Rates and FCC HCPM Costs by Zone				
State/Zone	**UNE Loop Rate**[6]	**FCC HCPM Loop Cost**[6]	**% Difference: MO Loop Rate vs. Other**	**% Difference: MO HCPM Cost vs. Other**
Kansas	$13.76	$21.11	24.6%	0.3%
Rural (Zn 1)	$23.34	$38.96	42.6%	14.2%
Suburban(Zn 2)	$13.64	$20.92	51.8%	11.3%
Urban (Zn 3)	$11.86	$18.24	7.2%	-5.8%
Texas	$14.33	$18.55	19.7%	14.2%
Rural (Zn 1)	$18.98	$27.06	75.4%	64.4%
Suburban(Zn 2)	$13.65	$17.38	51.7%	33.9%
Urban (Zn 3)	$12.14	$15.63	4.7%	10.0%
Missouri	$17.15	$21.18	0%	0%
Rural (Zn 3)	$33.29	$44.50	0%	0%
Suburban(Zn 2)[7]	$20.71	$23.28	0%	0%
Urban (Zn 1)	$12.71	$17.19	0%	0%

As indicated above, the costs calculated by the FCC Model are very different from the costs used to set UNE rates. As shown in the table above, the UNE Loop Rates and the FCC HCPM loop costs differ significantly across all states. The FCC HCPM loop costs in all cases are substantially higher than the UNE loop rates. While there are several potential causes for the

[6] The average loop rates shown are those obtained from the Declaration of Mr. Lieberman. Thus, they rely on the zone weights employed in his analysis. The weights for Missouri shown in Mr. Lieberman's Exhibit 1 are as follows: Zone 1 - 56%; Zone 2 - 29%; Zone 3 - 9%; and Zone 4 - 6%. The comparable weights derived from the FCC Model switched lines that I grouped by zone are: Zone 1- 60%; Zone 2 - 26%; Zone 3 - 8%, and Zone 4 - 6%.

[7] Missouri also has a Zone 4 Rate that is for Springfield. This rate is $21.81 and is not shown in the Table. Zone 2 was utilized as the representation for the Suburban Zone.

FCC HCPM loop costs being higher, the primary reason likely stems from the inclusion of costs associated with retail functions. In addition, the FCC Model includes all of the overhead costs in the loop category. If retail costs were excluded from the HCPM, and overheads adjusted, this would significantly impact the percentage differences obtained as a result of comparing percentages from the FCC Model. However, it is important to note that in Missouri, the average FCC HCPM loop cost exceeds the average Missouri loop rate by approximately 24%. The Missouri FCC HCPM loop costs for the rural, suburban, and urban zones exceed the UNE loop rates by 34%, 12%, and 35%, respectively. Thus, the Missouri loop rates are significantly below the FCC HCPM loop costs, which supports Ms. Smith's analysis that the UNE rates generally comply with TELRIC.

8. For the urban zone, the UNE Loop Rates for Missouri do not substantially differ from Texas and Kansas. The urban loop rates for Missouri fall within 4.7% of the Texas urban rates and 7.2% of the Kansas urban rates. In each case, the Missouri rates for the urban zone are somewhat higher, but not significantly higher. The urban zone HCPM loop costs for Missouri are 10% higher than Texas, which more than accounts for the higher rate in Missouri. On the other hand, the urban costs in Missouri are 5.8% lower than Kansas. What this establishes is that TELRIC costs may vary over a range. Both Texas and Kansas urban UNE loop rates have been determined by the respective state commissions and the FCC to comply with TELRIC. In the case of a comparison of Missouri with Texas, the urban TELRIC loop cost / UNE rate differences between states are more than accounted for by cost differences derived from the FCC HCPM. In the case of a comparison of Missouri with Kansas, the urban TELRIC loop cost / UNE rate differences between states fall somewhat short of being accounted for. Thus, if the

FCC's HCPM solely is relied upon, the Missouri urban loop rate would be considered compliant with TELRIC, if compared with Texas. Conversely, it would not be considered compliant with TELRIC when compared with Kansas. Which one is right and which one is wrong? In short, neither. TELRIC costs will vary across states, and there are several state-specific variations that are accounted for in the UNE rates that are not accounted for by the FCC HCPM. This can include things such as the cost of cable, fill factors, differences in the costs of labor, energy costs, regulatory differences, etc. Testing for compliance with TELRIC relying solely on state cost differences derived from the FCC HCPM Model – absent a state's commission's refusal to set rates or improper setting of rates – is too simple of a test and may fail to account for real variations in costs between states that may exist.

9. As demonstrated in the table above, the Missouri costs for the suburban and rural zones are higher than the comparable costs for Kansas and Texas. Likewise, the table shows that the Missouri UNE loop suburban and rural rates for Missouri are higher than Kansas and Texas. Comparison of Missouri with Texas shows that the suburban and rural UNE loop rates are higher than Texas – 52% higher for suburban and 75% higher for rural. The cost relationships from the FCC HCPM show that the Missouri loop costs are 34% higher for suburban and 64% higher for rural. The FCC HCPM percentage differences justify a substantial portion of the cost differences between Missouri and Texas. The Missouri rural UNE loop rates are higher than in Kansas. The percentage cost differences from the HCPM account for a portion of these cost differences. Again, it is evident that there are differences between the approved Texas and Kansas UNE TELRIC costs that are not accounted for by the FCC HCPM. In short, the Commission should be cautious about using the HCPM as a basis to test TELRIC compliance.

10. It is also interesting to note that there are cases where approved UNE platform TELRIC costs, which include loop, port, local switching, and transport, are significantly higher than the comparable Missouri platform costs. For Missouri, SWBT estimates that the cost of the entire platform for an urban residential customer is approximately $18.38 per line per month. The comparable approved TELRIC-based costs for New York and Massachusetts are $25.20 and $20.52, which are 37 percent and 12 percent higher, respectively, than the TELRIC-based cost of the Missouri UNE platform. Again, this supports the fact that TELRIC costs may vary significantly by state, and that the Missouri TELRIC-based UNE rates are reasonable.

Analysis of NECA Loop Costs

11. Mr. Lieberman also asserts that a comparison of NECA loop costs confirms that SWBT's loop costs for Arkansas, Kansas, Oklahoma, and Texas are all higher than those in Missouri. See AT&T's Lieberman Decl. ¶ 23. It is inappropriate to compare the NECA loop costs with TELRIC-based UNE loop rates. The NECA costs represent embedded / historical costs that are used solely for the determination of Federal Universal Service Support for rural LECs. The assumptions contained in the FCC HCPM depart dramatically from the design and construction of SWBT's embedded network. UNE rates and TELRIC studies were specifically designed to not reflect embedded costs, but rather the forward-looking costs of an efficient competitor. The NECA costs are study area-averaged costs and do not reflect the zone differentiation underlying the UNE rates. Also, the NECA calculation excludes significant general support costs that are applicable in Missouri. The NECA calculation excludes capital costs (depreciation, income taxes, and cost of money) related to support assets. Missouri has a significant amount of capital costs related to support assets that are allocated to the other four SWBT states. This relates to

costs such as support assets for data center operations that serve all of the SWBT states. The costs allocated to states other than Missouri are captured as part of general support expenses that are included in the NECA calculation. The general support expenses (Account 6100) in Missouri are credited with the amounts allocated to other states, including the capital costs. This results in a credit or negative balance in Missouri for that account, while the other states have a significant positive balance. The reduced expenses in Missouri are offset by the increased capital costs that are incurred in Missouri, but these costs are not included in the NECA loop cost calculation. If Missouri's NECA loop costs reflected an equivalent level of expense as that reflected in the other states, its NECA loop costs would be substantially higher. Consequently, the NECA cost comparisons presented by Mr. Lieberman are inappropriate and not a true reflection of SWBT's actual costs. A general allegation, made by Mr. Lieberman, that somehow Missouri TELRIC costs are too high, based on such information, is inappropriate.

Conclusion

12. The prices contained in the Missouri 271 Agreement are TELRIC-based. These prices were set after extensive reviews and proceedings conducted by the Missouri Commission. A simple showing of cost differences between states produced from the FCC HCPM model is not an appropriate test to determine whether SWBT's rates comply with TELRIC. The analysis presented by Mr. Lieberman is oversimplified and results oriented. The Commission should reject this analysis.

This concludes my affidavit.

I hereby swear and affirm that the information contained in the attached affidavit is true and correct to the best of my knowledge and belief.

Tim J. Morrissey

Tim J. Morrissey

Subscribed and sworn to before me on this 14th day of May 2001.

Maryann Purcell

Notary Public

MARYANN PURCELL
Notary Public - Notary Seal
STATE OF MISSOURI
ST. LOUIS CITY
MY COMMISSION EXP. JAN. 5,2004