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RECEIVED
June 4, 2001

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Errata

Magalie R. Salas
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: Application by SBC Communications et al. for Provision of In-Region
InterLATA Services in Missouri
CC Docket No. 01-88

Dear Ms. Salas:

On May 16, 2001, AT&T Corp. ("AT&T") filed the Reply Declaration of Michael R. Baranowski on Behalf of AT&T Corp. See Reply Comments of AT&T Corp., Att. F. The Declaration contained the following typographical errors that have no effect on Mr. Baranowski's conclusions:

- Paragraph 9, Last Sentence: Insert the word "the" between the words "that" and "denominator."
- Paragraph 11, Third Sentence: Insert the word "that" after the word "assumes."
- Paragraph 12, First sentence after Table 2: Replace the word "below" with "marginally above."
- Paragraph 12, Third Sentence after Table 2: Replace the phrase "switch rates" with "switch costs."

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Magalie R. Salas

June 4, 2001

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Attached hereto is the corrected Reply Declaration of Michael R. Baranowski on Behalf of AT&T Corp. that should be substituted for the original declaration. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Shenk", written in a cursive style.

Christopher T. Shenk

cc: G. Remondino

**Before the
Federal Communications Commission
Washington, DC 20554**

In the Matter of

)	
Application by SBC Communications Inc.,)	
Southwestern Bell Telephone Company,)	CC Docket No. 01-88
And Southwestern Bell Communications)	
Services, Inc. d/b/a/ Southwestern Bell)	
Long Distance For Provision of In-Region,)	
InterLATA Services In Missouri)	
)	

**REPLY DECLARATION OF MICHAEL R. BARANOWSKI
ON BEHALF OF AT&T CORP.**

Based on my personal knowledge and on information learned in the course of my duties, I, Michael R. Baranowski, declare as follows:

1. My name is Michael R. Baranowski. I am Executive Vice President of FTI/Klick, Kent & Allen, Inc., a subsidiary of FTI Consulting, Inc. ("FTI/KKA"). FTI/KKA is an economic and financial consulting firm with offices at 66 Canal Center Plaza, Suite 670, Alexandria VA, 22314. A full description of my qualifications and experience is included in my declaration filed with AT&T's initial comments in this proceeding.

2. In that initial declaration, I demonstrated that SWBT's Missouri UNE rates do not comply with TELRIC principles. In particular, I showed that (1) SWBT's cost studies largely implement an impermissible "reproduction" approach to network design rather than the forward-looking "replacement" approach to network design required by the Commission's TELRIC rules,

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and (2) SWBT's costs studies fail to comply with numerous other basic TELRIC principles. Those TELRIC violations significantly inflate SWBT's Missouri UNE rates.

3. The purpose of my supplemental testimony is three-fold. First, at the time that I prepared my initial testimony in this proceeding, SWBT had not made electronic versions of its cost models available to third parties. Since then, SWBT has provided certain files that it purports to have relied upon in computing its Missouri UNE rates. However, as I explain below, that information is incomplete, overly aggregated, and internally inconsistent. Second, I demonstrate that neither SWBT's common cost factor nor SWBT's conduit sharing rate are remotely TELRIC-compliant. Third, in reviewing my initial testimony, I found minor typographical errors in Table 2 and the description of the table that accompanied it. These minor errors had no effect on my conclusions, but nevertheless should be corrected on the record.

I. SWBT Has Failed To Provide Complete, Dissaggregated And Accurate Data And Cost Models To Allow Interested Parties To Replicate And To Correct SWBT's Cost Studies.

4. SWBT has effectively prevented commenters from calculating the potentially enormous impact of these TELRIC violations on its UNE prices by refusing to produce the relevant electronic versions of its cost studies despite specific requests for them. *See* WorldCom at 4-6. What little data SWBT has disclosed create more questions than answers. Those data and spreadsheets are incomplete and are, in some cases, inconsistent.

5. *First*, the spreadsheets and document files provided by SWBT include no underlying data to show how switching and other non-loop related costs were developed. Consequently, like other parties in this proceeding, I was unable to replicate any of SWBT's non-loop cost studies or to determine the extent to which errors in those cost studies inflate

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SWBT's recurring UNE rates. For instance, SWBT's switching cost studies include investment additives for additional switch hardware that the Missouri Public Service Commission Staff criticized on the grounds that those additives are already included in SWBT's Switch Cost Information System/Model Office or elsewhere in SWBT's cost studies. See Baranowski Decl. ¶ 42. The impact of those plain errors cannot be fully assessed without full access to SWBT's switching cost studies.

6. *Second*, the files that were provided by SWBT are incomplete because they include only summaries and descriptions of its cost studies, and do not contain the underlying detail of data that SWBT used in its cost models. In fact, the spreadsheets and document files provided by SWBT do not include even the sample survey of inputs that SWBT actually used in its LPVST model to compute loop costs. Instead, SWBT provided an entirely different data set, entitled "MO 1997 Inputs.xls," which contains only summaries and averages of the outside plant used by SWBT to compute loop costs. These data are not sufficient to meaningfully replicate SWBT's cost studies or to measure the extent to which errors in SWBT's cost studies inflate UNE-loop rates. For example, as I explained in my initial declaration, SWBT's actual sample survey replicates the inefficiencies of the embedded network by incorrectly assuming that the feeder and distribution cable sizes in place today are reflective of the forward-looking efficient cable sizes. See Baranowski Decl. ¶ 13. The summaries and averages provided by SWBT do not provide sufficient information to reproduce SWBT's cost studies using the correct forward-looking cable sizes to determine the full impact of this error.

7. *Third*, the data sets provided by SWBT contain conflicting data, making it impossible to replicate or rely on SWBT's cost studies. For instance, there are unexplained discrepancies between SWBT's "CAPCS MO CASE TO-97-40" and "Missouri 96ACF"

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spreadsheets. SWBT claims that both spreadsheets use the Missouri Staff's inputs, yet the two spreadsheets produce conflicting outputs. For example, the annual depreciation factor for aerial cable computed by the CAPCS MO CASE TO-97-40 spreadsheet is almost 3 percentage points higher than that computed by the Missouri 96ACF spreadsheet. Similar discrepancies exist for each of the individual asset accounts included in the SWBT cost study. And there is no explanation for these discrepancies contained in the documentation provided by SWBT (the "CAPCS DOCUMENTATION.DOC" file).

II. SWBT's Missouri Common Cost Factor and Conduit Fill Factors Are Not TELRIC-Compliant.

8. In my initial testimony, I explained that SWBT's common cost factor of 16.47% is unreasonably high, especially when compared to SWBT's common cost factors in other states (10% in Kansas and 13% in Texas). In fact, SWBT's Missouri common cost factor is based entirely on SWBT's pre-1996 Act monopoly level of common costs and is, therefore, not reflective of the forward-looking common costs that an efficient provider would incur.

9. Moreover, the method used by SWBT to compute its common cost factor for Missouri is flawed. In particular, there is a fundamental mismatch between the way SWBT's 16.47% common cost is developed and the UNE costs to which it is being applied. SWBT calculates the common cost factor as the ratio of common expenses to total expenses (which *do not reflect return on forward-looking investment*).¹ The resulting common cost factor, however, is applied to UNE costs that *do include a calculated return on the forward-looking investment*.

¹ Total expenses generally include common costs. Therefore, common costs are subtracted from total expenses before computing this ratio.

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The result is that the denominator of SWBT's common cost factor is too small (and therefore the factor is too large), relative to the UNEs to which the factor is being applied.

10. This mismatch could have been avoided by developing a common cost factor that accounts for rate of return on forward-looking investment (as do the UNE rates to which the common cost factor is applied). One way to do this is by generating a common cost factor that is the ratio of common costs to *revenues*.² Revenues, unlike expenses, include an implicit return on forward-looking investment and would thus produce a factor that is consistent with the UNE costs to which it is being applied. As I explained in my initial testimony in this proceeding, recent analysis applying these methods show that the common cost factor should not exceed 8%. See Baranowski Decl. ¶ 32.

11. SWBT's assumed conduit fill factor also violates TELRIC. As WorldCom witness Christopher Frentrup demonstrates, SWBT's cost studies assume an unrealistically low percentage of conduit sharing. Specifically, SWBT assumes that a scant 0.09% of its forward-looking conduit investment will be shared with other utilities. SWBT apparently bases this estimate on its historical conduit sharing experience in Missouri, a methodology which is clearly inconsistent with forward-looking principles and TELRIC. A proper forward-looking approach would, at a minimum, account for the fact that a new local telephone entrant in Missouri would seek out opportunities to share both existing and planned underground structure as a means of controlling forward-looking investments. The Commission's Synthesis Model recognizes this fact by assuming that *underground structure sharing will occur in all but the most sparsely populated areas*. In particular, for areas where the lines density is 100 to 200 per square mile, the

² Total revenues generally include common costs. Therefore, common costs should be subtracted from total revenues before computing this ratio.

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Synthesis Model assumes that 15 percent of underground structure investment (which, in Missouri, are generally conduits) is borne by others. In the highest density zones, the Synthesis Model assumes a 45 percent sharing rate for underground structure investment. Indeed, the average underground sharing rate assumed by the Synthesis Model for SWBT Missouri is nearly 40 percent. SWBT's .09 percent conduit sharing assumption is, therefore, completely out of line with that used by the Commission's Synthesis Model.

REPLY DECLARATION OF MICHAEL R. BARANOWSKI**III. Correction to the Declaration of Michael R. Baranowski, Table 2.**

12. In reviewing my initial testimony in this proceeding, I found a typographical error in Table 2 of my testimony and the paragraph that explained it. In particular, the two negative signs in the last column of Table 2 of that testimony were placed before the wrong numbers. My analysis of Table 2, however, was based upon the correct values that should have been reflected in that table. Thus, the typographical errors in Table 2 have no impact on the ultimate conclusions in my initial testimony. Below, is a corrected version of Table 2 and the paragraph that followed.

Table 2. Comparison of SWBT Relative UNE Switch Usage Rates to Relative FCC Synthesis Model Switch Costs

SWBT State	Amount By Which Missouri UNE Rate Exceeds Rates In Other States	Amount By Which Missouri UNE Costs Differ From Those in Other States
Texas	60.8%	20.6%
Kansas	45.9%	-2.6%
Oklahoma	3.0%	5.5%
Arkansas	35.8%	-0.4%

As Table 2 shows, switch costs for Kansas and Arkansas are marginally above those in Missouri (by 2.6% and 0.4% respectively). However, SWBT's Missouri switch rates exceed those in Kansas and Arkansas by 45.9% and 35.8% respectively. And although the Texas switch costs are lower than those in Missouri by 20.6%, that does not account for the 60.8% rate differential between Missouri and Texas.

FCC CC DOCKET NO. 01-88

Reflects Corrections Made By June 4, 2001 Errata

REPLY DECLARATION OF MICHAEL R. BARANOWSKI

I, Michael R. Baranowski, declare under penalty of perjury that the foregoing is true and correct.

A handwritten signature in cursive script, reading "Michael R. Baranowski", is written over a horizontal line.

Michael R. Baranowski

Executed on June 4, 2001.