

**Report of Management on Compliance With the Merger Conditions
August 31, 2001**

transition window in a February 15, 2000 letter from Mr. Michael Kellogg on behalf of the Company to Ms. Carol Matthey of the FCC. This letter explains that the FCC did not intend to disrupt the ongoing advanced services offering of SBC while transitioning these services from the SBC ILECs to a separate affiliate, and consequently, the SBC ILECs could provide certain functions for the separate advanced services affiliates on an exclusive basis during the six-month transition period. These functions included arranging for collocation space. Subsequent to the six-month transition window, the FCC responded to SBC on October 16, 2000 stating serious concerns with SBC's interpretation.

- e. It is the Company's understanding and position that it has satisfied its obligations that are set forth in Title 47 Parts 51.321(d) and (e) and 51.323(b) of the Code of Federal Regulations. The Company's policy is that, when it denies a collocation request on the grounds of technical infeasibility or impracticality or that the equipment being collocated is not necessary for the purpose of obtaining interconnection or access to unbundled network elements, the Company submits evidence to the relevant state commission proving or demonstrating to the relevant state commission that such denial was appropriate only when the requesting telecommunications carrier contests the denial before the state commission, or the state commission otherwise requests the submission of such evidence.

The FCC Staff issued an email message to E&Y on August 4, 2000 concerning the FCC's Collocation Rules. The FCC Staff apparently now asserts that the August 4, 2000 email states that, where the Company denies a collocation request on the grounds of technical infeasibility or that the equipment that would be collocated is not necessary for the purpose of obtaining interconnection or access to unbundled network elements, the FCC's Collocation Rules require that the Company submit evidence to the relevant state commission proving the denial was appropriate even when the denial is uncontested. The Company has not disputed any of the statements made by the FCC Staff in the August 4, 2000 email; however, the Company's position is that the August 4, 2000 email does not state that the Company is obligated under FCC Collocation Rules to submit evidence to state commissions demonstrating the appropriateness of such denials even when they are uncontested. Furthermore, the Company's position is that its policy of submitting evidence to state commissions proving such denials are appropriate only when the requesting carrier contests the denial, or the state commission otherwise requests such evidence, is consistent with the FCC's Collocation Rules.

12. Most-Favored-Nation Provisions for Out-of-Region and In-Region Arrangements

The Company complied with the requirements of this Condition by making available to telecommunications carriers eligible service arrangements (i.e., interconnection arrangements or UNEs) to which SBC was a party either as the incumbent in its 13-state region or as a telecommunications carrier outside of its 13-state region. SBC

**Report of Management on Compliance With the Merger Conditions
August 31, 2001**

posted approved out-of-region agreements secured by SBC to SBC's Internet web site.

13. Multi-State Interconnection and Resale Agreement

The Company continued to comply with the requirements of this Condition by continuing to make available multi-state interconnection/resale agreements throughout the Evaluation Period. The Company entered into multi-state interconnection and/or resale agreements pursuant to requirements that pricing would be established on a state-by-state basis and that approval of the agreement in one state would not be a precondition for implementation in another state.

14. Carrier-to-Carrier Promotions: Unbundled Loop Discount

The Company complied with the requirements of this condition in the following manner:

- a. The Company continued to offer the unbundled loop discount required by Condition 14 during the Evaluation Period.
- b. Internal processes and procedures ensured the Company's wholesale business units were responsive to telecommunications carriers' requests for the unbundled loop discount. However, during the Evaluation Period discounts related to Condition 14 were not reflected on CLEC bills in one region of the Company. The Company implemented corrective action where needed to provide future discounts correctly, and has or will issue discounts and appropriate interest retroactively.
- c. The reporting thresholds towards the maximum number of unbundled local loops that SBC is required to provide at the promotional discounted price have not yet been met in any state as of the end of the Evaluation Period.

15. Carrier-to-Carrier Promotions: Resale Discount

The Company complied with the requirements of this Condition in the following manner:

- a. SBC continued to offer the promotional resale discount required by this Condition during Evaluation Period.
- b. Internal processes and procedures ensured the Company's wholesale business units were responsive to telecommunications carriers' requests for the promotional resale discount. However, during the Evaluation Period there were certain problems in correctly providing some discounts related to Condition 15. SBC implemented corrective action where needed to provide future discounts correctly and is completing the issuance of discounts and appropriate interest retroactively.

Report of Management on Compliance With the Merger Conditions
August 31, 2001

- c. The reporting thresholds towards the maximum number of resold loops that SBC was required to provide at the promotional discounted price have not yet been met in any state as of the end of the Evaluation Period.

16. Carrier-to-Carrier Promotions: UNE Platform

The Company complied with the requirements of this Condition in the following manner:

- a. SBC continued to offer the UNE platform promotion required by this Condition during the Evaluation Period and provided the UNE platform promotion to requesting telecommunications carriers.
- b. Internal processes and procedures ensured the Company's wholesale business units were responsive to telecommunications carriers' requests for the UNE-Platform Promotion.
- c. The reporting thresholds towards the maximum number of promotional UNE-Platform Promotion that SBC was required to provide were not met in any state during the Evaluation Period.

17. Offering of UNEs

The Company complied with its obligation under this Condition "to make available to telecommunications carriers, in the SBC/Ameritech Service Area within each of the SBC/Ameritech States, such UNEs or combinations of UNEs that were made available in the state under SBC's or Ameritech's local interconnection agreements as in effect on January 24, 1999, under the same terms and conditions that such UNEs or combinations of UNEs were made available on January 24, 1999, until the earlier of (i) the date the FCC issues a final order in its UNE remand proceeding in CC Docket No. 96-98 finding that the UNE or combination of UNEs is not required to be provided by SBC/Ameritech in the relevant geographic area, or (ii) the date of a final, non-appealable judicial decision providing that the UNE or combination of UNEs is not required to be provided by SBC/Ameritech in the relevant geographic area."

18. Alternative Dispute Resolution through Mediation

The requirements of this Condition were implemented in 1999, and Alternative Dispute Resolution through Mediations (ADR) remained available during the Evaluation Period.

19. Shared Transport in Ameritech States

The Company complied with the requirements of this Condition in the following manner:

- a. The Ameritech Operating Companies continued its offer to allow an amendment for inclusion in interconnection agreements to make interim shared transport

**Report of Management on Compliance With the Merger Conditions
August 31, 2001**

available to telecommunications carriers in the Ameritech states until such time shared transport became effective. The interim shared transport offering included a retroactive true-up provision in approved interconnection agreements.

- b. On October 9, 2000 (within 12 months after merger closing), SBC offered availability of shared transport in Ameritech States under terms and conditions, other than rate structure and price, that were substantially similar to the most favorable terms SBC offered to CLECs in Texas as of August 27, 1999.
- c. On October 9, 2000 (within 12 months after merger closing or October 10, 2000), SBC withdrew the interim shared transport offering that was originally made available prior to the Merger Close Date.
- d. Prior to the Merger Close Date, the Ameritech Operating Companies withdrew their proposal to the FCC to establish a separate transit service rate to be charged in conjunction with the shared transport.

20. Access to Cabling in Multi-Unit Properties

The Company complied with the requirements of this Condition in the following manner:

- a. SBC maintained its offer until 12 months after the MCD to conduct trials to identify procedures and associated costs required to provide CLECs with access to cabling within Multi-Dwelling Unit Premises (MDUs) and Multi-Tenant Premises (MTUs).
- b. SBC, when hired to install new cables in a new or retrofitted MDU, sent letters to developers and property owners stating, unless the property owner objected, that SBC would install and provide new cables to a single point of interconnection. This offering was contingent upon the property owner or third party owning and controlling the cabling beyond the single point of interconnection.

Fostering Out-of-Territory Competitive Entry (National-Local Strategy)

21. Out-of-Territory Competitive Entry (National-Local Strategy)

The Company complied with the requirements of this Condition in the following manner:

- a. SBC installed a local switch and provided facilities-based local exchange service to three unaffiliated business and/or non-employee residential customers in Boston, Miami, and Seattle before October 8, 2000 (12 months after the MCD).
- b. On October 12, 2000 SBC filed a notice with the FCC regarding satisfaction of the requirement to install a local switch for new markets or otherwise obtain switching capability in Boston, Miami, and Seattle and satisfaction of the requirement to provide facilities-based local exchange service to three unaffiliated business and/or non-employee residential customers in Boston, Miami, and Seattle.

Improving Residential Phone Service

**Report of Management on Compliance With the Merger Conditions
August 31, 2001**

22. InterLATA Services Pricing

The Company complied with the requirements of this Condition by not charging mandatory, minimum monthly or flat-rate charges for interLATA service to any residential wireline customers in any in-region states where it had authority to offer interLATA services during the Evaluation Period, nor to any out-of-region customers in 2000.

23. Enhanced Lifeline Plans

The Company complied with the requirements of this Condition in the following manner:

- a. During 1999, the Company offered to each state commission in the Company's service area (except Ohio) to file a tariff for an Enhanced Lifeline plan comparable to the Ohio Universal Service Assistance (USA) Lifeline plan in the areas of subscriber eligibility, discounts and eligible services. SBC filed tariffs in the five states that accepted the enhanced Lifeline offer within 60 days of such acceptance. In Ohio, SBC filed a letter with the Ohio Commission offering to extend its existing USA Lifeline plan until January 6, 2003. In the remaining seven states, either the enhanced Lifeline plan was rejected or the offer has sunset.
- b. Discounts of up to \$10.20 per month, as required by the Merger Conditions, were applied where the enhanced Lifeline plan has been implemented.
- c. In states where SBC implemented the USA Lifeline Plan, SBC established toll-free access numbers for voice and fax communication for current and potential customers, and modified voice response units at its service centers to incorporate enhanced Lifeline information for calls in which customers express an interest in obtaining new telephone service where the enhanced Lifeline plan has been implemented.
- d. SBC provided prospective enhanced Lifeline plan customers with a written form that permitted the customer to self verify eligibility through participation in certain qualifying programs. SBC provided quantities of such written forms to state agencies administering the qualifying programs so these agencies, if they choose, could make the forms available to their clients.
- e. SBC held discussions with state agencies administering qualifying programs to negotiate a process to acquire on-line access to the agencies electronic databases for the purpose of accessing the information necessary to verify a customer's participation in an eligible program. Where such on-line access is negotiated, SBC will provide on-line verification of eligibility for a customer claiming to be a current participant in one of the eligible programs.
- f. SBC established enhanced Lifeline annual promotional budgets in each state to make potential customers aware of the enhanced Lifeline plan or other programs that benefit low-income consumers, and actual expenditures were on track to meet required minimum annual promotional budget levels as agreed to in the Merger Conditions.

**Report of Management on Compliance With the Merger Conditions
August 31, 2001**

- g. In those states where the plan has been implemented, appropriate methods and procedures were put in place to implement operational provisions of the enhanced Lifeline plan regarding payment arrangements for past due final bills and no deposits are required in order to establish local service.
- h. In states where the enhanced Lifeline plan was implemented, customers on an existing Lifeline plan were automatically switched to the enhanced Lifeline plan and notified of the change if the enhanced Lifeline plan was more beneficial to the customer.

24. Additional Service Quality Reporting

On August 10, 2001 the FCC granted an extension of time to report on this Condition until November 12, 2001. Compliance with this Condition will be addressed in a separate assertion by the Company and a separate attestation report issued by Ernst & Young.

25. NRIC Participation

The Company complied with the requirements of Condition 25, "NRIC Participation" by its continuing participation in the Network Reliability and Interoperability Council (NRIC) during the Evaluation Period.

Ensuring Compliance with and Enforcement of These Conditions

26. Compliance Program

The Company complied with the requirements of this Condition in the following manner:

- a. A senior corporate officer served as Compliance Officer throughout Evaluation Period.
- b. Notices provided to the FCC pursuant to specific notification requirements of the Merger Conditions were accurate and timely.
- c. As noted in assertion 24 above, on August 10, 2001 the FCC granted an extension of time to report on Additional Service Quality Reporting (Condition 24) until November 12, 2001. The accuracy of the annual compliance report as it relates to Condition 24 will be addressed in a separate assertion by SBC and a separate attestation report by Ernst & Young.
- d. On March 15, 2001, SBC filed its annual compliance report accurate to the best of its knowledge and belief at the time it was filed, which detailed its compliance with the Merger Conditions for the year ended December 31, 2000. With regards to the March 15, 2001 annual compliance report, SBC did not report the exception regarding certain instances in which the Company posted updates to the Internet site after the required 10-day period as noted above in Paragraph 11.c.1. In addition, SBC did not report instances in which the Company over or under billed collocation charges to affiliated and nonaffiliated telecommunications carriers as noted in Paragraph 11.c.3. SBC plans to file a supplemental 2000 Annual

**Report of Management on Compliance With the Merger Conditions
August 31, 2001**

Compliance Report and include the additional information noted above that has come to light subsequent to the filing of that report.

27. Independent Auditor

The Company complied with the requirements of this Condition in the following manner:

- a. SBC engaged an independent auditor Ernst & Young LLP (E&Y), acceptable to the FCC, prior to the MCD, and this engagement extended through the Evaluation Period.
- b. Pursuant to Condition 1 of the Merger Conditions, SBC also engaged E&Y to perform an agreed-upon procedures engagement for the engagement period ended December 31, 2000 regarding compliance with the separate advanced services affiliate requirements of the Merger Conditions. SBC granted the independent auditor access to all books, records, operations, and personnel.
- c. On January 6, 2000 (by 90 days after merger closing), SBC made good faith efforts with the Chief of the Common carrier Bureau and the independent auditor to determine the procedures to be used in the agreed-upon procedures engagement regarding compliance with the separate advanced services affiliate requirements.
- d. On September 1, 2000, SBC filed with the FCC E&Y's Report of Independent Accountants on SBC's Report of Management on Compliance with the Merger Conditions regarding SBC's compliance during the period October 8, 1999 through December 31, 1999. Condition 24 was excluded from this audit report. On August 14, 2000, the FCC granted SBC an extension to file the Condition 24 report, until December 31, 2000. The FCC subsequently approved an additional extension for the audit report for Condition 24 until January 4, 2001. The audit report for Condition 24 for the audit period, October 8, 1999 to December 31, 1999 was filed on January 4, 2001.
- e. A separate auditor's report on Compliance with the FCC's Collocation Rules (Condition 11) for the period October 8, 1999 to June 8, 2000 was filed on August 8, 2000 with the FCC.
- f. On September 1, 2000, SBC filed with the FCC the Auditor's Report of Independent Accountants on Applying Agreed-Upon Procedures for 1999 in accordance with the separate advanced services affiliate requirements of the Merger Conditions.

28. Enforcement

This Condition obligates SBC to extend the effective period of a Condition and/or to make voluntary payments for non-performance required by the Conditions. The following addresses instances whereby SBC has been required to make voluntary payments for non-performance required by the Conditions or a forfeiture order has been issued:

**Report of Management on Compliance With the Merger Conditions
August 31, 2001**

- a. As indicated in the response for Condition 7, SBC remitted voluntary payments based on SBC's understanding of the payment calculation methodology within the required time frame to the U.S. Treasury for performance measurements missed during the months of August 2000 through December 2000.
- b. The FCC's Enforcement Bureau, in its Notice of Apparent Liability for Forfeiture ("NAL"), File No. EB-00-1H-0432 released December 20, 2000, alleged that SBC failed to report certain performance data in accordance with its published Business Rules adopted in the Carrier-to-Carrier Performance Plan. On January 19, 2001, SBC filed an Application for Review, which expressed that the NAL is unwarranted for the reasons stated in such response. The FCC affirmed the forfeiture and SBC paid \$88,000 to the FCC on June 28, 2001.
- c. Subsequent to the Evaluation Period, the FCC's Enforcement Bureau determined *In the Matter of SBC Communications Inc. Apparent Liability for Forfeiture*, File No. EB-00-IH-0326a NAL/Acct. No. 200132080015, *Order of Forfeiture*, DA 01-1273, rel. May 24, 2001, that the Company violated the FCC's Collocation Rules during the period October 8, 1999 to June 8, 2000. The Company filed an Application for Review with the FCC on June 25, 2001. It is SBC's position that its policy relating to posting of exhausted premises was in compliance with the FCC's Collocation Rules.

29. Sunset

During the Evaluation Period certain aspects of the following Merger Conditions met sunset provisions:

- a. Condition 2: "Discounted Surrogate Line Sharing Charges" reached sunset in 2000 when line sharing was implemented on May 29, 2000.
- b. Condition 7: "Carrier-to-Carrier Performance Plan" reached sunset in 2000 with respect to Texas performance measures when the FCC approved the Texas 271 application on June 30, 2000, effective July 10, 2000. Accordingly, SBC provided the final report of Texas performance measures for June 2000 activity on July 20, 2000.
- c. Condition 20: "Access to Cabling in Multi-Unit Properties" reached sunset in 2000 with respect to SBC's obligation to offer to conduct trials with interested CLECs to identify procedures and associated costs for providing CLECs with access to cabling in Multi-Dwelling Unit Premises (MDUs) and Multi-Tenant Premises (MTUs) for 12 months after the MCD.
- d. Condition 23: "Enhanced Lifeline Plans" reached sunset in 2000 with respect to expiration of SBC's offer to the state commissions to implement enhanced Lifeline services in their respective states 12 months after the MCD.

30. Effect of Conditions

This Condition does not impose affirmative obligations on SBC; rather, it states the relationship of the Merger Conditions to state law, and vice versa. SBC followed this guidance in interpreting and applying the Merger Conditions.

**Report of Management on Compliance With the Merger Conditions
August 31, 2001**

SBC Communications Inc.

Date: 8/31/01

By: M. N. Gilliam
Michael N. Gilliam
Vice-President - Compliance

**Report of Management on Compliance With the Merger Conditions
August 31, 2001**

Date: 8/31/01

SBC Communications Inc.

By: _____

Cassandra Carr

Senior Executive Vice-President

External Affairs

SBC Compliance Officer

**Report of Management on
Compliance with the Merger Conditions**

Attachment A

**1999 Performance Measurements (PM) Findings
Impacting the 2000 Evaluation Period:**

In Attachment A to the Report of Management on Compliance With the Merger Conditions (Report of Management) for the 1999 Examination Year ("1999 Report of Management"),¹ the Company reported that certain performance measurements were initially reported in error, but were subsequently corrected either through restatement or prospective changes. Certain of the items reported in the 1999 Report of Management impacted 2000 performance measurement reporting (as well as 1999 reporting) and are therefore being reported again herein. All of these previously reported items were the subject of a FCC Notice of Liability for Forfeiture ("Notice of Liability") dated May 28, 2001. A payment of \$88,000 was made by SBC in satisfaction of the NL on June 27, 2001. These previously reported items are identified below.

Restatements in 2000 Previously Reported in 1999, and Which Were Addressed in the Notice of Liability

- a. **Benchmark Reporting Error** (Southwestern Bell Telephone Company (SWBT) PM 1) - The benchmark for switch ports inadvertently used the state commission benchmarks to report results to the FCC. This affected only a single level of disaggregation and a benchmark of 94% was used instead of 95%. This was corrected and restated on July 20, 2000.
- b. **Benchmark Reporting Error** (SWBT PM 2) - SWBT inadvertently reported benchmarks related to FCC PM 2 under version 1.6 of the business rules rather than under the merger condition rules (version 1.5). This was corrected and restated on April 14, 2000.
- c. **Disaggregation Error** (SWBT PM 3) - Results for this PM had been reported by interface (i.e., LEX, EDI and EASE). This PM was restated by service type and provided to the Federal Communications Commission on June 30, 2000 as an Attachment to a letter to Ms. Carol Matthey, Deputy Chief, Common Carrier Bureau from Ms. Marian Dyer, Vice President, Federal Regulatory.-
- d. **Data Exclusion Error** (SWBT PM 9) - Through December 1999, PM 9 - Average Response Time for Loop Make-up Information was incorrectly excluding the time between the date the LSR was received by SWBT and the date it was sent to the engineer for review. Therefore, the response duration (length of time between receipt of the request from the CLEC and time the

¹This report was dated August 31, 2000.

Report of Management on Compliance with the Merger Conditions

Attachment A

qualification is made available to the CLEC) excluded the number of days between the date the CLEC DSL service request was received and the date the loop qualification was sent to engineering. This was corrected and restated in January 2000.

However, with the subsequent implementation of a new database (Universal Tracking Database - UTDB) in April 2000, the response duration reverted to the erroneous calculation described above. In October 2000, SWBT submitted a programming change to address this issue. Accordingly, PM 9 was restated with the November 20, 2000, reports (October 2000 data month) back to March 2000.

- e. **Data Exclusion Error** (Pacific Bell Telephone Company (PB), Nevada Bell Telephone Company (NB) PM 9) - For the period January 1, 2000 through April 30, 2000, the Company's calculation for PM 9 excluded the time between the initiation of a service request and the time that request was sent to the Outside Plant Engineer for loop qualification. Because CLECs in Pacific Bell did not utilize the loop qualification to qualify loops prior to sending a service request, the calculation for this interval was taken after the Firm Order Confirmations (FOC) time began. In early 2000, the Company released the LoopQual System, which made loop qualification available to CLECs using the same processes and systems as available to the service representatives in the Local Service Centers. The majority of CLECs began to utilize this system to qualify addresses prior to submitting service requests. The interval for these requests is properly calculated using system timestamps, which mark when the CLEC entered the qualification request and when the qualification information was sent back to the CLEC. A few CLECs continued to send unqualified service requests, which the LSC would then qualify utilizing LoopQual prior to issuing an order. Only the manual loop qualifications that the LSC sent for unqualified service requests and any loop qualification requests the CLECs sent in via fax or email were improperly calculated according to the FCC interpretation of FCC 9 rules. In October 2000 a system upgrade was added to LoopQual that allowed the Performance Measurements Organization to match the calculated intervals with the service requests and capture the time the unqualified service request was sent into the LSC.
- f. **Data Classification Error** (PB PM 14 and 15) - In keeping with all other PMs which are reported only at the state level, these measures were not reported with geographic disaggregations. January through July 2000 data for PM 15 was restated in August of 2000. PM 14 was restated in October 2000.

Report of Management on Compliance with the Merger Conditions

Attachment A

- g. **Data Exclusion Error** (PB and NB PM 19) - For the month of January 2000, CLECs had the ability to notify the Company of system outages only during SBC Help Desk hours. As a result, system outages occurring outside of SBC Help Desk hours may not have been included in the calculation. With the introduction of a new off-hours reporting process on February 1, 2000, this issue has been addressed.
- h. **Data Extraction Error** (NB PM 13a) - During 2000, there was a change to a more accurate reporting system for results on UNES in service for calculating the report rate. Results through July were restated in August 2000.

Prospective Changes in 2000 That Were Previously Reported in 1999, and Which Were Addressed in the Notice of Liability

- a. **Calculation Error** (SWBT PM 1) – Timestamp receipts recorded in the Service Order Retrieval and Distribution System (SORD) did not agree to supporting documentation for PM 1 - % Firm Order Confirmations Received Within “x” Hours. The receipt and transmittal timestamps recorded by Local Service Center (LSC) personnel are used to calculate the time interval between the receipt of an order and the transmission of a FOC. SWBT's policy is that LSC personnel should use the time stamp on the header on the fax received from the CLEC. However, in certain instances, this policy was not followed. Controls have been strengthened and SWBT has reinforced its policy by taking steps to inform its clerks and supervisory personnel of the correct procedure (i.e., using the actual receipt time directly off the fax header). Since this finding resulted in a change in SWBT's process, this measure cannot be recalculated.
- b. **Disaggregation Error** (SWBT PM 2) - This PM requires a disaggregation by Customer Service Record (CSR) segregated into CSRs with 1 to 30 lines and CSRs with greater than 30 lines. For the period January through September 2000, CSR results were reported for CSRs of 1 to 30 lines. Due to constraints within the Datagate system, SWBT was not able to report all the diagnostic disaggregations for CSRs greater than 30 lines. The reporting was subsequently moved to DSS (Decision Support System) and reported on a disaggregated basis for both Datagate and Verigate consistent with the business rules beginning with October 2000 reporting.

This PM further requires a disaggregation for CLEC requests for detailed CSR information. Due to system constraints within Datagate, SWBT only has this level of disaggregation for queries made through Verigate.

Report of Management on Compliance with the Merger Conditions

Attachment A

- c. **Data Exclusion Error** (SWBT PMs 4c and 7c) – The calculations for PM 4c and PM 7c excluded two market offices due to coding errors. PM data for orders originating from market offices EX (CLEC originated order, LSC personnel typed into SWBT's EXACT/SORD systems) and SO (CLEC originated order, CLEC personnel typed directly into SWBT's EXACT/SORD systems) were excluded from the PMs while the Business Rules do not explicitly state that these market offices should be excluded. SWBT updated the programming logic to include market offices EX and SO on June 30, 2000. This issue only occurred for the disaggregation of 5dB loops. The disaggregation of 8dB loops, which constitutes the majority of the loops ordered, was not impacted by this error. Furthermore, during the time period affected (January through May 2000), CLECs did not submit a single "SO" order that would have been reported under this PM. During that same period, CLECs submitted only 36 "EX" orders that would otherwise have been captured. That amounts to less than 0.1 percent of the 37,000 orders and circuits captured by this PM.
- d. **Data Exclusion Issue** (SWBT PM 18) - The calculation of the PM included only resale data. At the time the PM was implemented, resale was the predominant mode of entry, and no provision was made for inclusion of facilities and UNE charges. During the six-month review process in Texas, it was recognized that Billing Data Tape (BDT) was not being captured for facilities and UNE charges. During the review, CLECs requested that SWBT expand the PM to include all electronic billing. SWBT concurred with this request and the business rules have been revised accordingly. This change was implemented with March 2001 reporting (February 2001 data). Since this change required a modification to the code, this measure can not be recalculated.

2000 Performance Measurement Restatements:

The preparation of monthly performance measurement reports involves the collection of thousands of data points that are processed by the performance measure systems. As with any system, which involves collection of data from numerous sources, corrections of a small percentage of the data points within the performance measurement system is a necessary and routine business function. If SBC identifies any material errors in the data, SBC makes the necessary corrections and discloses these restatements to CLECs via the same web page on which monthly performance reports are made available to them. In connection with the Ernst & Young LLP performance measurement attestation

**Report of Management on
Compliance with the Merger Conditions**

Attachment A

engagement, SBC has compiled a list of those items in the January – December 2000 performance measurement reports which were restated.

The items listed below were identified and disclosed by SBC during its normal process of reviewing performance measurement reports. SBC corrected reporting of prior month's results and restated those reports to properly reflect the results. Ernst & Young has verified that SBC restated its results as explained below.

- a. **Z Value Error** (SWBT PMs 1, 4d, 16 and 18) - For February 2000 data, the electronic file submitted to the FCC contained spreadsheet errors for various benchmark PMs (PMs 1, 4d, 16 and 18) which prevented the proper subtraction of the benchmark from the CLEC result to calculate the Z-value. A new data file was provided to the FCC on April 17, 2000.
- b. **Source Data Reporting Error** (SWBT PMs 4a, 6a and 7a) - June through September 2000 data included certain orders that were incorrectly classified as customer caused missed appointment codes relating to provisioning. This was discovered during a CLEC and SWBT data reconciliation. This was corrected and restated in November 2000.
- c. **Data Extraction Error** (SWBT PMs 4b, 5c and 13b) - July 2000 source data necessary for the production of these PMs could not be obtained because of problems with mechanical links. This was corrected and restated in September 2000.
- d. **PM Reporting Error** (SWBT PM 4d) - SWBT failed to report PM 4d in November 2000 because it erroneously believed that the PM had been deleted with version 1.7 of the business rules. Upon further review SWBT realized it was still necessary to report PM 4d and a restatement was made in December 2000.
- e. **Jurisdiction Error** (SWBT PM 5c) - In May 2000, forty one orders for one CLEC were incorrectly reported for Oklahoma rather than Kansas. This was restated in July 2000, retroactive to May 2000.
- f. **Data Inclusion Error** (SWBT PM 6a) - August and September 2000 data inadvertently included file guide orders. This was corrected and restated in November 2000.
- g. **Jurisdiction Error** (SWBT PMs 7c, 10b and 12c) - In August 2000, SWBT made a restatement to PMs 7c, 10b and 12c for the months of March through

Report of Management on Compliance with the Merger Conditions

Attachment A

June 2000 to correct an error that caused Kansas City (Kansas) CLEC data to be erroneously reported with Kansas City (Missouri) results. SWBT's Kansas City LATA includes territory in both Kansas and Missouri. SWBT also prospectively changed its methodology for determining the proper state jurisdiction to utilize the state specific "NXX indicator" rather than the "LATA indicator".

- h. **Z Score Omission Error** (SWBT PM 8) - Z scores for October 2000 were omitted in the November 20, 2000 transmittal due to complications in implementing new disaggregations. This measure was expanded to include "with and without line sharing" and "with and without conditioning" and unlike other measures, this PM had mixed comparisons to either parity or benchmarks. This was corrected and restated in November 2000 after the initial submission.
- i. **Data Extraction Error** (SWBT PMs 8 and 9) - Source data necessary for the production of these PMs had been reformatted which caused the data to be extracted in error. This was restated in August 2000 on a retroactive basis to July 2000.
- j. **Data Error** (SWBT PM13b) – January 2000 results were restated for one of the SWBT states on March 20, 2000.
- k. **Data Reconciliation** (SWBT PM 16) - January 2000 data for PM 16 – Percentage of Premature Disconnects (Coordinated Conversions) was revised based upon a data reconciliation with certain CLECs in Texas. This restatement was reported on May 20, 2000.
- l. **Benchmark Reporting Error** (SWBT PM 19) - For July 2000 data, benchmarks were excluded for Consumer EASE Availability and Business EASE Availability. This was corrected and restated in September 2000.
- m. **Data Reporting Error** (SWBT PM 19) - September 2000 results for Verigate and LEX were originally stated incorrectly due to the inclusion of an outage. This was corrected and restated in November.
- n. **Data Extraction Errors** (SWBT Various PMs) - SWBT's FCC 20 reports contained minor errors for certain PMs due to such things as renumbering PM submeasures and reformatting DOJ reports based upon the Texas business rules and numbering scheme. For example, throughout 2000 SWBT converted its state reporting from Version 1.6 of the Texas business rules to Version 1.7. During this conversion process certain PMs required renumbering various submeasures, adding additional disaggregations, and in

Report of Management on Compliance with the Merger Conditions

Attachment A

some cases adding additional columns of information to the DOJ reports. During the evaluation period, SWBT's method for developing its FCC 20 reports extracted data from the DOJ reports which must be converted to conform with FCC reporting requirements. During this process there were some errors made in referencing the correct location of information on the DOJ reports. In all cases, these errors were identified shortly after the reports were filed and were restated with the next reporting period.

The FCC 20 reporting errors described above had no adverse affect on the calculation of Tier 3 remedy payments to the Commission because those are calculated using the underlying raw data (i.e., the DOJ reports) and do not rely on the FCC 20 reports themselves. Finally, as a normal part of its ongoing process improvement, SWBT has developed enhancements to the method for developing the FCC 20 reports and our review indicates much improved reporting quality during 2001.

- o. **Benchmark and Data Exclusion Error** (Ameritech states² (AIT) PM 1) - February results for Illinois under one of the complex business disaggregations showed a benchmark of 94% instead of 95%. This had no impact on the parity comparison since there were insufficient CLEC observations to calculate a Z score, but was nevertheless corrected. Source data containing allowable exclusions were identified after the close of June reports. During the validation of orders for June results, it was determined that May orders contained disconnect orders and had therefore been counted incorrectly, i.e. disconnect orders were not excluded. A programming change was made to capture orders correctly for this measure and May results were restated in August 2000.

- p. **Unit of Measurement and Data Recording Error** (AIT PM 2) - January results for all 5 states reported the numerator and denominator for average response time, preorder CSR queries with more than 30 lines, in seconds rather than hours. There was no effect on the results, and therefore no impact on the parity comparison. Partial data were reported in August and September for two pre-order query disaggregations as the result of a system problem involving TCNET and the web server software. The initial system problem was an outage caused by a problem with the web server software package. As a result, TCNET was unavailable for the 12 hour period between 9:00AM and 9:00 PM on August 24, 2000. When the TCNET interface was restored, the Service Availability and PIC transaction log did not restart. This was discovered when the performance data for August reporting

² Ameritech states refers to Illinois Bell Telephone Company; Indiana Bell Telephone Company, Incorporated; Michigan Bell Telephone Company; The Ohio Bell Telephone Company; Wisconsin Bell, Inc. collectively.

Report of Management on Compliance with the Merger Conditions

Attachment A

was requested. Changes were made to TCNET for logging transactions on August 19, 2000, however, since the information log could not be recovered, no restatement was possible.

- q. **Calculation and Data Exclusion Error (AIT PM 3)** - For July and August 2000, both the numerator and the denominator were overstated by the same percentage. While the actual result remained unchanged, the numerator and denominator were restated for the above months. Incorrect coding allowed certain orders with the same characteristics to be counted multiple times. This was detected once the results were produced and reviewed. The code was corrected and subsequent months have not produced 'extra' counting of orders. Posted results were restated in October 2000. In addition, September results were restated to exclude UNE loop ASR's not eligible for flow through that had been included in error. AIT has modified programming to exclude orders that are not designed to flow through and results were restated in November 2000. November results were restated in January 2001 to properly report UNE loop disaggregations.
- r. **Data Validity Error (AIT PM 4b, 4c, 5b, 5c, 6b, 7b, 7c, 11b, 11c, 12b, 12c, 13b, and 13c)** – Some orders/troubles were not captured in the data due to a product identification problem. Prior to the implementation of the FCC PM reports, Ameritech was not required to report results for the Designed products of ISDN, VGPL, DS1, and DDS as parity comparisons. Initially, several of the Service Codes for these products were mapped incorrectly. This was a start-up problem and the necessary programming changes were made. January and February 2000 results were restated in April 2000.
- s. **Calculation Error (PM 4c)** – For July 2000, Z scores were improperly reported for certain states. The data was restated in March 2001
- t. **Benchmark Error (AIT PM 4d)** - A benchmark was reported incorrectly for Illinois. An incorrect benchmark was loaded and then subsequently detected during verification of the appropriate parity comparisons for Illinois. With a change to the programming code, the benchmark was set correctly per the business rule and May and June results were restated in August 2000.
- u. **Calculation Error (AIT PM 6a)** - The calculation of the interval for orders due the "next day" that complete on the same day was applied incorrectly resulting in a negative value for the interval duration for these orders. The business rules as defined for "Next day" orders were incorrectly interpreted. Program logic was corrected and results were restated effective with March 2000 activity.

**Report of Management on
Compliance with the Merger Conditions**

Attachment A

- v. **Calculation Error** (AIT PM 6a, 6b, & 6c) - The year "1999" was inadvertently entered as the completion date on a number of orders instead of "2000", producing large negative values for the interval duration for those orders. Restated results for January and March were published in April 2000.
- w. **Data Exclusion Issue** (AIT PM 6c) – September, October and November results were restated to exclude only those installations with a customer requested due date beyond the "x" days interval. Restated results were provided to the FCC staff in January, 2001.
- x. **Data Inclusion Error** (AIT PM 9) – October results were restated in November 2000 to include orders for loops that were not pre-qualified as DSL capable,
- y. **Data Exclusion Issue** (AIT PM 12c & 13c) – Published results did not reflect allowable exclusions. The initial programming requirements were not coded to exclude all trouble reports for specials, interconnection trunks and UNE Combos. This was self-detected when the FCC PM results were provided to the Network organization to review. The code was corrected for April 2000 results and January, February, and March results were restated in June.
- z. **Data Exclusion Issue** (AIT PM 15) - Allowable exclusions for May 2000 were identified after the close of reports. Blocked calls were counted in the measure, which were subsequently determined to have occurred as a result of CLEC dependent issues/actions. These calls should have been excluded in the calculation of the result. The measure owner detected this error during a weekly review of blockage conditions. Identifying exclusions is a manual process and is dependent on having complete information for each CLEC relative to each exclusion category. New procedures were put in place to assure that each exclusion category is completed/answered for each CLEC prior to the release of results. May results were restated in July 2000.
- aa. **Data Transposition Error** (AIT PM 16) - The data was transposed at the time of key entry. The "LNP Only" results were entered as "LNP with Loop" and vice versa. February and March reports were restated. The error was detected as a result of analysis efforts directed at understanding inconsistencies in displayed results. This was a clerical input error. The correct data for February and March were reloaded and verified by the analyst and future loads were mechanized. Restated data were provided to the FCC staff in July 2000.
- bb. **Data Input and Recording Error** (AIT PM 17) - October 2000 results were restated because some of the collocation project data was incorrectly

Report of Management on Compliance with the Merger Conditions

Attachment A

reported. An analyst enters the data manually from a Collocation spreadsheet directly into the PRS system. In October, the analyst entered the wrong data from this spreadsheet into PRS. The error was detected by subsequent review of the PM results and restatements were submitted in December 2000. In addition, as part of the audit, seven collocation applications that were reviewed were missing date stamps and on two collocation projects, the project manager mistakenly entered the progress review date rather than the actual completion date. The reason for these errors was that a formal completion notice process was not in place until the second half of 2000. Further, Ameritech migrated to the SBC collocation database at the end of October 2000 and staff were on a learning curve through the fourth quarter

- cc. **Parity comparison error** (AIT DSL measures involving a parity comparison between the CLEC aggregate and the ILEC/ASI) - Whenever there were no state specific ILEC/ASI results, the parity determination was made based on a CLEC versus regional comparison. Per the merger order, where a service has a retail analog, the CLEC results must be compared to the SBC results within the same state. Ameritech revised programming logic and restated results to remove comparisons not required under the business rules in May 2001. Since these parity comparisons were not required, this change will have no adverse impact on the CLECs.
- dd. **Data Error** (AIT PM 19) - November 2000 results were restated in January 2001 because the EBTA disaggregation was originally reported in seconds rather than in hours. Since both numerator and denominator were in seconds, there was no change in performance.
- ee. **Date Function Error** (AIT POTS maintenance PMs) - After February 29, 2000, the date function in RRS (a PM reporting system) began advancing receipt and cleared dates by an additional 24 hours. This had no material impact on results since except for the fraction of trouble reports received before the 29th and cleared after Leap Day, the interval calculations were not affected. Further, while some trouble reports may have been advanced into the subsequent month as a result of this date conversion issue, this applied equally to both retail and wholesale results such that parity comparisons were still accurate. This was identified and corrected in January 2001.
- ff. **Data Error** (PB, NB PM 1) - February through May 2000 Pacific Bell performance measures were restated in June 2000 to report Held and Denied Interconnect Trunks requests in days rather than hours. Additionally, December 2000 Pacific Bell data was restated in March 2001 to populate UNE Platform data elements that were previously omitted. Nevada Bell June,

**Report of Management on
Compliance with the Merger Conditions**

Attachment A

July and August 2000 data were restated in August and October 2000 to adjust the number of firm order confirmations previously reported and to include data from a CLEC previously not reported.

- gg. **Data Error** (NB PM 1, 4d) - June and July 2000 data were restated in October 2000 to correct a clerical error that had incomplete data for one CLEC.

- hh. **Data Classification Error** (NB PMs 1, 4d) - Service orders received through the CLEO (Cleopatra) system, a resale ordering system, are automatically coded to California. CLEO results for Nevada therefore could not be reported separate from the Pacific Bell results from August through December 2000. The volumes for Nevada Bell were extremely low, as CLECs were only beginning to use the CLEO system. These results were restated for August through December on August 20, 2001. The automatic coding to California did not significantly impact California data as the relative percentage of Nevada orders were well less than 1% in each month.

- ii. **Data Error** (PB PM 2) - For Pacific Bell January through August, October and November 2000 performance measures were restated at various points during 2000 and 2001 due to the omission of or improper combining of certain CLECs' data caused by programming inconsistency between Verigate and the report generation system (i.e. improper assignment of Operating Company Numbers (OCNs). Additionally, certain other classifications were corrected in conjunction with these restatements. January through July 2000 data was restated in September 2000 to correctly report Verigate data elements as roundtrips. Revised programming allows for the capture of all requests and reporting them as roundtrip. To accommodate this data, twelve new data points were added. For Pacific Bell August, 2000 data was restated in November 2000 to add CLEC transactions for the combined Verigate-Datagate Mechanized Loop Qualification data element.

- jj. **Data Error** (PB PM2) - January and February 2000 data was restated in April 2000 to adjust the result for the Manual Fax/Request for CSR data element. The previous result had been reported as zero percent on time.

- kk. **Data Error** (NB PM 3, 4c, 5c & 8) - March and April 2000 data was restated in June 2000 to include data on xDSL loops previously omitted.

- ll. **Data Classification Error** (NB PM 3) - March through July 2000 data was restated in December 2000 to reclassify orders previously identified as flow-through eligible to non flow-through eligible. In addition July 2000 data was restated in September 2000 to reclassify a basic loop previously classified as

Report of Management on Compliance with the Merger Conditions

Attachment A

basic loop-coin. This occurred because the incorrect data point ID was manually assigned.

- mm. **Data Calculation Error** (NB PM 4b) - February through May 2000 data was restated in December 2000 for specials data elements with no change to parity results.
- nn. **Data Calculation Error** (PB PM 4c) - January and February 2000 data was restated in April 2000 to adjust the result for two xDSL Loop and one UNE Platform data elements. The January and February UNE Platform data element was again restated in September 2000.
- oo. **Data Calculation Error** (PB and NB PM 4d) - January and February 2000 data was restated in April 2000 due to a formatting discrepancy for the manual interfaces, which used interval as the numerator rather than the number completed within the benchmark interval. Prior results for fully electronic interfaces had been stated in minutes while the benchmark is stated in partial hours (.33 hours). The results for the fully electronic interfaces have been restated to partial hours. January and February 2000 Z-Values were also restated in April 2000 due to programming logic that was changed. Nevada Bell June and July data was also restated to adjust data for one CLEC previously reported. A Decision Document process was implemented in May 2000.
- pp. **Data Error** (PB PM 5c) - July and August 2000 data was restated in February 2001 to adjust elements for one CLEC to conform to the results of mutual data reconciliation.
- qq. **Data Error** (PB PMs 5c, 6c, 8, 11) - January and February 2000 data was restated in September 2000 for ISDN and xDSL data elements that were incorrectly reported due to an incomplete procedure used to identify the IDSL data element.
- rr. **Data Error** (NB PM 5c, 10b, 12c, 13c) - January and February 2000 data was restated in December 2000 due to adjusted programming logic related to 8db loops.
- ss. **Data Error** (NB PM 5c, 10b, 11c, 12d, 13c) - October 2000 data was restated in November 2000 to include two trouble tickets for xDSL Loops previously omitted. Measure 13c was also rerun to restate linecounts for basic, xDSL and DS1 capable loops previously underreported.

**Report of Management on
Compliance with the Merger Conditions**

Attachment A

- tt. **Data Error** (PB PM 6a, 6b, 6c) - January 2000 results for Retail Residence and Business POTS no fieldwork data elements were restated in March 2000. In addition, Resale PBX and wholesale Interconnection Trunks data elements were revised. A Decision Document process was implemented in May 2000.
- uu. **Data Calculation Error** (PB PMs 6a, 6b, 7b, 7c) - October, November and December 2000 data were restated in February 2001 to reflect adjustments in retail standard deviations and data elements.
- vv. **Data Error** (NB PM 6c, 8) - July data was restated in September 2000 to reclassify xDSL orders previously classified as basic loops due to a datapoint ID assignment error.
- ww. **Data Error** (PB PM 8) - March 2000 results were restated in May 2000 to modify Z-values for DSL products.
- xx. **Data Exclusion Error** (PB PM 9) - October 2000 – December 2000 was restated in June 2001 to reflect the October 2000 system upgrade to add the LoopQual and to report the results in alignment with the FCC business rules.
- yy. **Data Omission Error** (NB PM 9) - October 2000 data was restated in April 2001 to add Z-values where they had been inadvertently omitted in the original publication.
- zz. **Data Error** (NB PM 10b) - December 2000 data was restated in January 2001 to correct one CLEC for the UNE Loop 2-wire Digital xDSL capable dispatch data element that was incorrectly reported.
- aaa. **Data Exclusion Error** (PB PMs 10b, 11c, 12c, 13c) - August 2000 data was restated in November 2000 to include trouble reports for ASI line sharing. The Local Operations Center was unable to support ASI volumes via telephone calls so ASI submitted their trouble reports electronically via PBSM (Pacific Bell Service Manager). PBSM did not have the capability to accept a circuit ID on the data service and trouble reports were submitted via telephone number. When ASI used the telephone number, the trouble report became associated with the retail voice line. A programming change was made to PBSM in September 2000 to enable PBSM to accept circuit ID numbers for line sharing data troubles. The August 2000 data was restated in November 2000 to move the trouble reports that had been inadvertently reported as retail to the line sharing data circuit.-

Report of Management on Compliance with the Merger Conditions

Attachment A

bbb. **Data Calculation Error** (PB PMs 10, 11, 12, and 13) - Certain manual errors occurred in the process of accumulating, classifying and reporting performance measure data that required the following restatements:

- PMs 10b, 11c, 12c, and 13c - March, May through August 2000 performance measures were restated due to the improper omission of data recorded on "fictitious tickets." Fictitious tickets are created in order to take a trouble report on a new telephone line that has not been established in LMOS. LMOS is updated in batch mode so there may be a time lag between when new service is installed and when the line record is created in LMOS for maintenance. The "fictitious ticket" allows PB to begin repair service before the LMOS line record on a new UNE loop installation has been established. Additionally, August 2000 data was restated in November 2000 to include trouble reports for line sharing. These were not reported when normal August data was reported.
- PM 11b, 12b and 13b – April 2000 performance measures were restated due to the inadvertent omission of the South region's DS1 loop data from the calculation and a correction in the results for 4-wire Digital UNE Loops. Additionally, May through July 2000 data was restated in September 2000 to adjust retail DS3 data elements that incorrectly included trouble reports for access services.
- PM 12b, 12c – March 2000 data was restated because of an improper classification that caused the omission of unbundled loop data for the Bay, Los Angeles, and Southern California regions. Additionally, special services product restore intervals were reported in hours and minutes rather than hours and fractions of hours causing the interval calculation to be incorrect and certain retail data related to ADSL was also originally reported incorrectly (12c). There was a problem in the retail data for ADSL in March 2000 data, due to an incorrect data pull from ASKME. The pull was redone and the data restated in June 2000. There was also an incorrect time format for special services product restore intervals in March 2000. The data was revised using DSS times and restated in May 2000. Also, May 2000 data (12b and 12c) was restated in July 2000 to correct the improper classification of UNE dedicated transport as a resale service. Additionally, October, November, and December 2000 data (12a, 12b, and 12c) was restated to reflect adjustments in retail numerators, denominators, and standard deviations. A Decision Document process was implemented in May 2000.
- PM 13b, 13c – March 2000 data was restated due to an overstatement in the quantity of DS1 loops in the denominator of the calculation, which resulted in the CLEC trouble report rate for DS1 loops to be understated. Additionally, February through September 2000 data was restated (13b and 13c) in November 2000 to adjust retail line counts that were overstated for

Report of Management on Compliance with the Merger Conditions

Attachment A

special services and September 2000 data was again restated (13c) in December 2000 for the line sharing data elements to correct a doubling of the denominator and some transactions missing from the numerator.

- ccc. **Data Error** (NB PM 11a) - June 2000 data was restated in July 2000 to include resale residential POTS data for two CLECs previously inadvertently omitted.
- ddd. **Data Error** (NB PM 12c) - August 2000 data was restated in January 2001 to change one CLEC for the UNE Loop 4-wire Digital 1.544 mbpd capable data element that was incorrectly reported. November 2000 data was restated in January 2001 to change data for one CLEC for the UNE Loop 2-wire Digital xDSL capable dispatch data element that was incorrectly reported.
- eee. **Data Error** (NB PM 13a, 13b, 13c) - June 2000 data was restated in September 2000 to change retail access lines. February and March 2000 data (13c) was restated in September 2000 to include access lines for assured loops previously omitted inadvertently and to include access lines for assured loops and ISDN capable loops previously omitted inadvertently. Additionally, July 2000 data was restated in September 2000 to change line sharing access lines in service. The number reported previously, was the change in access lines rather than the total access lines.
- fff. **Data Clerical Error** (PB PMs 13b, 13c) - February through September 2000 data was restated in November 2000 to correct retail line counts that were overstated for special services. The PARIS/FIMS data was using a billing element that appears twice as a special retail line count, thus overstating the volumes. This overstatement was noted when researching new methods to produce retail line counts due to the retirement of the present system. New processes were put into place to pull the retail specials line counts from LMOS. This process was implemented in October 2000.
- ggg. **Data Error** (PB PM 13c) - The line sharing denominator for September 2000 data was inadvertently doubled through a conversion between Microsoft Access to Excel. The numerator was also missing some ASI data. Corrections to data were made and it was determined that there was no effect on the parity results. A system fix was implemented in November and the data was restated in December 2000. November data contained inaccurate line counts for the ACNA TPM, which were inadvertently tripled through a conversion within Access while converting a new OCN list. The line counts were corrected and the data restated in January 2001.

Report of Management on Compliance with the Merger Conditions

Attachment A

- hhh. **Data Error** (PB PM 15) - April and May 2000 data was restated in April 2001 to remove access trunks that were previously reported. June 2000 data was restated in October 2000 to correct some classifications.
- iii. **Data Error** (PB, NB PM 16) - January through March 2000 results were restated for both Pacific and Nevada Bell to correct a situation that caused certain CLECs to be misclassified or omitted from the calculation. Nevada Bell's April 2000 data was restated in August 2000 to correct an overstatement of total coordinated conversions. Pacific Bell's July and August 2000 data was restated in February 2001 to adjust elements for one CLEC to conform to the results of a mutual data reconciliation.
- jjj. **Data Error** (PB, NB PM 17) - January 2000 data for PB was revised to split data for a single CLEC into two CLECs. There was no change to the aggregate numbers. The data was reposted in February 2001. April through June 2000 data was restated in February 2001 to add data for additional collocation arrangements that were inadvertently omitted.
- kkk. **Data Error** (NB PM 19) - June 2000 data was restated in August 2000 to include Pacific Bell Service Manager (PBSM) availability previously inadvertently omitted.
- lll. **Data Exclusion Error** (PB, NB PM 20) - August 2000 data was restated in October 2000 for Pacific Bell to include trunks that were inadvertently excluded. Nevada Bell January and February 2000 results were restated in April and May 2000 to correct inaccurate reporting of trunk blockages.
- mmm. **Data Omission Error** (NB PMs 4c, 5c, 6c, 8, 10b, 11c, 12c and 13c) - January through September 2000 data was restated in December 2000 to include Retail HICAP (High Capacity) data for all measures that report UNE dedicated transport. Retail HICAP is the analog for UNE Dedicated Transport. Orders for UNE Dedicated Transport were received in February, April and September 2000.
- nnn. **Data Calculation Error** (PB multiple measures) - Statistical Test Z-value data was restated in:
- May 2000 for January, February, and March 2000 for data elements in Measures 10b, 11c, 12c, and 16.
 - June 2000 for April 2000 for three data elements in Measures 12c and 13c.

Report of Management on Compliance with the Merger Conditions

Attachment A

- July 2000 for March, April, and May 2000 for data elements for Measures 1, 12b, 12c, and 16.
- September 2000 for January, February, May, June, and July 2000 for data elements for Measures 4c, 10b, 12c, and 13c.

These repostings were associated with a continuing implementation of an improved process for collecting source material for generation of standard deviations and Z-values.

ooo. **Parity Comparison Issue** (Southern New England Telephone Company (SNET) PMs 4c, 5c, 7c, 11c, 12c and 13c) - When the performance measurement reporting was launched in October 2000, CLEC DSL Loops results were compared to DS1 service as required by the business rules. The intent of the business rules, however, was a DSL parity comparison; the DS1 reference was a typographical error in the merger document. SNET implemented the appropriate comparison later that same month and restated the measurements for July and August 2000.

ppp. **Data Inclusion Error** (SNET PM 2) - July 2000 through January 2001 were restated in March 2001 to remove results for CSR detailed queries. The version 1.5 business rules stipulate disaggregations for summary requests. SNET, however, had been reporting results for detailed CSR requests. Results for CSR detailed queries were published beginning with June 2001 results as part of implementing version 1.7 of the business rules.

qqq. **Data Inclusion Error** (SNET PM 6a) - July 2000 through February 2001 results were restated in April 2001 to perform the business rule exclusion for "no field work" service orders with requested due dates greater than one business day from the application date. With that same restatement, two Z-scores that were in error for August 2000 due to incorrect data entered into a computer program were restated by SNET.

2000 Performance Measurement Prospective Changes

SBC is taking the steps noted below on a prospective basis to correct and/or enhance its PM reporting.

- a. **Disaggregation Error** - (SWBT PM 5c) - PM 5c - Percent Installation Reports (Trouble Reports) Within Thirty Days of Installation was incorrectly reported

Report of Management on Compliance with the Merger Conditions

Attachment A

during the evaluation period in the Kansas City, Missouri (KM) market area. Circuits should have been reported in the Kansas City, Kansas market area but were reported in the KM market area. Beginning with the August 2000 data month, SWBT changed the programming for this measure to utilize the "NXX indicator" to ensure trouble reports are reported in the proper reporting period. Since this change resulted in a modification to the code, this measure is not able to be recalculated.

- b. **Business Rule Exclusion Issue-** (SWBT PM 5c) – PM 5c permits an exclusion for those DSL loops > 12Kf with load coils, repeaters, and/or excessive bridged tap for which the CLEC has not authorized conditioning unless coded to the Central Office. Due to technical limitations, SWBT's results are overstated, favoring the CLECs. SWBT is including trouble tickets that it is not required to report; thereby reporting a higher percentage rate than actually occurred.

- c. **LMOS Measurement Errors** (SWBT PMs 5a, 10a, 11a, 12a, and 13a) - Certain POTS provisioning and maintenance PMs rely on LMOS (Loop Maintenance Operations System) in the processing of trouble reports on SWBT retail POTS (i.e., non-special services), CLEC resale and UNE - P accounts. Some service orders for retail and resale conversions to UNE - P were not posting in the proper sequence to the LMOS database. The posting of these records potentially impacted the CLECs' ability to open electronic trouble reports, as well as the accurate reporting of their performance measurement data.

SWBT addressed this issue by implementing system enhancements designed to eliminate out-of-sequence posting of UNE-P service orders to the LMOS database. Also, effective May 11, 2001, SWBT corrected UNE-P records in the LMOS database identified as having sustained a sequencing error, and will continue this process twice a month moving forward. Finally, SWBT has implemented a process designed to improve performance measurement reporting on tickets submitted manually at a time when the LMOS record has not yet updated. With these system enhancements and procedural changes, CLECs can expect to open a higher percentage of their trouble tickets electronically, with a higher degree of accuracy in performance measurement reporting.

- d. **Prospective Change** – (SWBT PM 3) – In early 2001, certain CLECs approached SWBT with a request that SWBT review its interpretation concerning PM 3 – Order Process Percent Flow Through (TPUC PM 13). The CLECs contended that UNE – P orders that are not MOG eligible should

Report of Management on Compliance with the Merger Conditions

Attachment A

have been included in the calculation of this measure under the premise that if these orders had been submitted via resale they would have flowed through the SWBT EASE system. SWBT disagreed and countered that UNE – P orders are a very specific type of order unique to the wholesale environment and would not, in fact, flow through EASE.

The CLECs chose to bring this issue up at the six-month review of the Texas business rules conducted by the Texas Public Utility Commission (TPUC). At those meetings the TPUC was persuaded by the CLECs that UNE – P orders should be included under this measure. The TPUC ruled that SWBT should change the way it implements this PM and to the extent practicable to restate historical information to include UNE – P orders. SWBT has agreed to change the way it calculates this PM to comply with this Order.

- e. **Disaggregation Limitations** (AIT PM2) – During the Evaluation Period, due to system limitations, pre-order transactions that flowed through TC/Net could not be identified by state. These results were reported at a regional level. Also due to system limitations, during 2000, pre-order queries for Service Appointment Scheduling (Due Date) and Dispatch Required were only available through the same query. Performance results for these combined transactions were provided to the FCC staff.
- f. **Data Inclusion Error** (AIT PM 18) – When the billing timeliness measure was implemented, only Resale billing was included in monthly results. Beginning with May activity, this measure incorporated printed UNE billing. System enhancements to capture electronically transmitted bills were implemented with April 2001 results.
- g. **Data Exclusion Error** (AIT PM 6a) – During the Evaluation Period, exclusions for “No Field Work” orders with due dates beyond the next business day were not taken in calculating this PM. This was corrected in 2001 and all months in 2001 have been restated.
- h. **Data Error** (PB PM 1) - During December 2000, the EXACT system (Exchange Access Control and Tracking) replaced CESAR. For six disaggregations, results did not track historical FOC data. Corrections to programming were made immediately so only December results were affected. However, it was not possible to restate these results.
- i. **Data Calculation Error** (NB PM 1) - The calculation of this PM requires the manual input of data to record the time and date of service requests received from CLECs via fax. In certain instances, inaccurate time and date information was inadvertently input which increased the FOC time interval,

**Report of Management on
Compliance with the Merger Conditions**

Attachment A

making Nevada Bell's results look worse. Nevada Bell instituted a process where the Scanner position does the actual inputting into the fax tracking system (StarLSC or CESAR) that provides greater continuity and accountability around accurate data input.

- j. **Data Exclusion Error** (PB, NB PMs 4a and 4d) - Pacific Bell and Nevada Bell are not excluding PIC and LPIC orders from PMs 4a and 4d as permitted by the business rules due to the complexity and time involved to implement the code necessary to make these exclusions.
- k. **Data Calculation Error** (NB PM 4d) - The calculation method for average completion notice interval for fully electronic service orders was corrected for the months of January through July 2000. Instead of calculating the average completion interval using system available hours, Nevada Bell utilized business hours. Additionally, service order completion times for manual service orders were inconsistently entered into the performance measure calculation causing inaccurate results (i.e. time was entered as hours and minutes as well as hours and fractions of hours). This issue was addressed by the movement to DSS data for PON system service request as of August 2000. This new process in Nevada assures that intervals are captured and calculated according to standard business rules and not impacted by manual tracking and calculation, except for manually faxed orders for Resale products. Also, for the month of March only, datapoints 1800400 (Average Completion Notice Interval - LEX/EDI LASR - All Other Interfaces) through 1800900 (Average Completion Notice Interval - Manual Fax - All Other Interfaces) were reported as average hours instead of percent within the benchmark as required by the business rules. In August, data for these submeasures were reported correctly to the FCC, but posted incorrectly to the CLEC website.
- l. **Data Error** (NB PM 4d) - As a result of the assigning of an incorrect datapoint ID, in January and February data from the Manual Fax – All Other Interfaces disaggregation was misclassified and reported in the CESAR – All Other Interfaces disaggregation.
- m. **Clerical Error** (NB PM 9) - For datapoint 118202 (Statewide – UNE Loop 2 wire Digital xDSL capable), the numerator and denominator were inadvertently misstated for October 2000. Also, the December 2000 results reflect that datapoint 11820200 (Average Response Time for Loop Make-Up Information - Statewide - UNE Loop 2 wire Digital xDSL capable) was incorrectly reported using minutes instead of fractions of hours.

Report of Management on Compliance with the Merger Conditions

Attachment A

- n. **Data Error** (NB PM 13c) - Interconnection trunk data was inadvertently omitted from the results in February 2000.
- o. **Data Error** (NB PM 17) – One collocation competed in May 2000 was posted in June 2000.
- p. **Data Exclusion Error** (NB PM 20) - Data was inadvertently excluded from Nevada Bell's PM 20 in November 2000.
- q. **Data Extraction Error** (PB, NB Various PMs) - Errors were noted in the generation of the files that are sent to the FCC for various PMs during 2000. These errors stem from the fact that there are two databases that house FCC data. The first database is used to provide information for the use of the CLEC Website and the calculation of remedies. The second database, located in California, is a clone of the first and is used to generate the Excel files that are submitted to the FCC each month.. In several instances, the process of generating these Excel files resulted in the omission of data. Three changes have been issued to prevent this type of error in the future and will be completed during the fourth quarter of 2001.
- r. **Clerical Errors** (SNET PM 1) - Orders that are faxed to SNET are manually entered into Customer Information Window (CIWIN) or Service Order Administration and Reporting (SONAR) by a service representative to create a service order. During the evaluation period, there were 5 instances where clerical errors occurred in date fields and were not detected. Additional instructions were provided to the service representatives to reinforce the need to review and validate critical information.
- s. **Manual Processing Error** (SNET PM 1) - A data processing error which occurred between new files and the CLIPS database for the month of August caused SNET to have "no data" reported on the CLEC web site for one disaggregation (% FOCs Received within 24 hours – Switch Ports – Manual). SNET has taken steps to ensure that this type of manually generated error will not occur in the future, i.e., SNET now mechanically produces files passed into CLIPS instead of entering them by hand. SNET will restate the data in September 2001.
- t. **Data Transmission Issue** (SNET PM 2) - During 2000, there were 8 days when the interface between CIWin and DSS did not operate effectively (5 in July, one in September and 2 in December). CLEC queries were not affected, however some fraction of data was not reported. DSS added cycle

Report of Management on Compliance with the Merger Conditions

Attachment A

dates on input files effective June 2001 to ensure that no files is missed in the future.

- u. **Calculation Errors** (SNET PM 7c) - Two Z-values were determined to be in error (one in July and one in August 2000) as a result of SNET manually entering a 1 for the variance instead of a 0 to avoid a division by zero error in the program. This process has since been mechanized. SNET will restate the data in September 2001.
- v. **Data Inclusion Issue** (SNET PM 8) - All transactions with a "customer requested due date beyond the offered interval" processed through the CRIS billing system were included in the results even though the business rules specifically exclude such transactions. This error favored the CLECs. SNET changed the code effective April 2001 to correct this error.
- w. **Calculation Errors** (SNET PM 10b, 13c) - As a result of improvements in the selection criteria used to drive trouble reports to specific products, data for the missed repair commitments disaggregation for 2-Wire Analog 8DB Loop in month of July 2000 changed after initial posting of results. This also affected 3 disaggregations of the trouble report rate – UNE. These errors all favored the CLEC results. SNET will substitute the correct data for July 2000 in September 2001.
- x. **Manual Processing Errors** (SNET PM 16) - Percent premature disconnects was a manual measure based on a coordinated conversion log established to support reporting of the FCC20. The log for the first month's report, July 2000 was not retained. Procedures are now in place to ensure that all relevant documentation is preserved. In addition, there were 3 tabulation errors in October and November, and a clerical input error in December 2000. Also in December, the LNP with loop disaggregation had a data entry error where a number of orders were shown as misses when in fact they were not, artificially lowering the ILEC results. That manual error has been corrected and an adjustment made to appropriately state where the orders should go. October through December results will be restated in September 2001.
- y. **Publication Error** (SNET PM 13c) - Two disaggregations for Trouble Report Rate – UNE in month of November were omitted from the web site due to a bad data point identification. SNET will republish November 2000 with the correct data in September 2001.
- z. **Manual Processing Errors** (SNET PM 18) - During the evaluation period, billing timeliness was a manual performance measure. August 2000 billing data for the CRIS system was not retrievable for audit transaction testing

**Report of Management on
Compliance with the Merger Conditions**

Attachment A

purposes resulting in December being chosen. SNET was collecting CRIS information manually since there were only 2 CLEC Billing Account Numbers within CRIS. The inability to retrieve this data for August was an isolated incident. In addition, during the audit, two sample account numbers could not be traced from the NDM/TSO file to the PM team calculation file for the months of August and November. There was also an error in billing timeliness in July due to a manual data input error. SNET will restate that result in September 2001. These manual processing issues have been resolved. As part of the conversion to version 1.7 of the business rules, SNET mechanized data collection starting with May 2001 results, eliminating these error sources.

Report of Independent Accountants

To the Management of SBC Communications Inc.

We have examined SBC Communications Inc.'s (the "Company" or "SBC") controls over compliance with the conditions set forth in the Merger Conditions¹ during the Evaluation Period² based on the criteria set forth in the Merger Conditions and management's assertion, included in the accompanying Report of Management on the Effectiveness of Controls over Compliance with the Merger Conditions ("Report of Management"), that SBC maintained effective controls over the Company's compliance with the conditions set forth in the Merger Conditions during the Evaluation Period based on the criteria set forth in the Merger Conditions, except as noted therein. At the direction of the FCC and the Company, the Company's controls over compliance with

¹ Merger Conditions are set forth in the Appendix C of the Federal Communications Commission's ("FCC's") Order Approving the SBC/Ameritech Merger (*Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules*, CC Docket No. 98-141, *Memorandum Opinion and Order*, 14 FCC Rcd 11712 (1999)). Condition 11, "Collocation Compliance," of the Merger Conditions requires the Company to provide collocation consistent with the FCC's Collocation Rules as defined in *Deployment of Wireline Service Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *First Report and Order* (FCC 99-48), 14 FCC Rcd 4761 (1999), as modified by *GTE Service Corporation v. FCC*, 205 F.3d 416 (D.C. Cir. 2000) ("GTE Service Corporation"), and as modified and expanded by *Deployment of Wireline Service Offering Advanced Telecommunications Capability and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket Nos. 98-147 and 96-98, *Order on Reconsideration And Second Further Notice Of Proposed Rulemaking In CC Docket No. 98-147 And Fifth Further Notice of Proposed Rulemaking in CC Docket No. 96-98 (FCC 00-297)*, 15 FCC Rcd 17806 (2000), as modified by the waiver granted to SBC in *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *Memorandum Opinion and Order (DA 00-2528)*, released November 7, 2000 ("Waiver Order"), and collocation rules codified in 47 C.F.R. Sections 51.319 (a)2(iv), 51.321, and 51.323 as modified by GTE Service Corporation and by the waiver granted to SBC in the Waiver Order. Additionally, "Collocation Compliance" as referred to in this report includes compliance with certain collocation-related requirements applicable only to SBC, which were adopted as conditions to the FCC's order modifying the separate affiliate for advanced services requirements of the Merger Conditions. These collocation-related requirements are discussed in paragraphs 5(a), 5(b)(1), 5(b)(2), 5(c), 5(d), and 6 of Appendix A of the *Ameritech Corp., Transferor, and SBC Communications, Inc., Transferee, For Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules*, CC Docket No. 98-141 and ASD File No. 99-49, *Second Memorandum Opinion and Order* (FCC 00-336), rel. September 8, 2000.

² The Evaluation Period is January 1, 2000 through December 31, 2000, with the exception of Condition 11, "Collocation Compliance," which is June 9, 2000 through December 31, 2000.

To the Management of SBC Communications Inc.

Page 2

Conditions 1 and 24 of the Merger Conditions are not addressed in the Report of Management and are not reported upon herein. The Company's management is responsible for maintaining effective controls over compliance with the Merger Conditions. Our responsibility is to express an opinion based on our examination.

Except as discussed in the preceding paragraph, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the Company's controls over compliance with the Merger Conditions, testing and evaluating the design and operating effectiveness of those controls, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of controls over compliance with the Merger Conditions to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our examination disclosed the following related to the Company's controls over compliance with the Merger Conditions during the Evaluation Period:

- a. The processes used to provide certain discounts required by Conditions 3, "Advanced Services Operations Support Systems," 14, "Carrier-to-Carrier Promotions: Unbundled Loop Discount," and 15, "Carrier-to-Carrier Promotions: Resale Discount," did not include certain controls to verify that all eligible and requested discounts by Competitive Local Exchange Carriers ("CLECs") were provided within the established time frames as specified in the Merger Conditions.
- b. The processes used to produce the performance measurements and related voluntary payments to the United States Treasury for Condition 7, "Carrier-to-Carrier Performance Plan," did not include certain controls over some data input functions, some detection processes, and certain system controls. This contributed to the need to restate certain data and modify certain performance measurements on a prospective basis³.

³ The Company designed its controls over compliance with Condition 7 related to the calculation and remittance of voluntary payments to the United States Treasury based on its interpretation of the payment calculation methodology in the Merger Conditions. On December 11, 2000, the FCC Staff issued guidance to the Company on the methodology to be used to calculate the voluntary payments in a letter from Ms.

To the Management of SBC Communications Inc.

Page 3

- c. The processes used to ensure compliance with the FCC's Collocation Rules did not include certain controls to verify that the Company posted updates to the Internet site indicating all premises that are full within the required 10-day period per Title 47 Part 51.321(h) or to verify that the Company notified requesting carriers whether their physical collocation requests could be accommodated within 8 business days (roughly, 11 calendar days) of the Company's receipt of a physical collocation application in accordance with the Waiver Order.
- d. The process used to bill collocation charges did not include certain controls to ensure accurate billing to affiliated and nonaffiliated telecommunications carriers for both recurring and nonrecurring charges.

In our opinion, limited as discussed in paragraph one of this report with respect to Conditions 1 and 24 and except for the effect of the control deficiencies described in paragraph four above, the Company maintained, in all material respects, effective controls over compliance with the Merger Conditions during the Evaluation Period based on the criteria set forth in the Merger Conditions.

This report is intended solely for the information and use of the Company and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Ernst & Young LLP

August 31, 2001

Carol Matthey of the FCC to Ms. Sandra Wagner of SBC. The Company disputed certain aspects of the FCC Staff's guidance in a letter to Ms. Carol Matthey dated January 4, 2001 and has continued to perform the voluntary payment calculations based on the Company's interpretation of the payment calculation methodology in the Merger Conditions instead of the FCC Staff's interpretation.



Report of Management on the Effectiveness of Controls over Compliance With the Merger Conditions

Management of SBC Communications Inc. ("SBC" or the "Company") is responsible for establishing and maintaining effective controls over SBC's compliance with the conditions set forth in the Merger Conditions¹. The controls are designed to provide reasonable assurance to SBC's management and Board of Directors that SBC is in compliance with the Merger Conditions.

¹ Merger Conditions are set forth in the Appendix C of the Federal Communications Commission's ("FCC's") Order Approving the SBC/Ameritech Merger. *Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules*, CC Docket No. 98-141, *Memorandum Opinion and Order*, 14 FCC Rcd 11712 (1999) (SBC/Ameritech Order). Condition 11 "Collocation Compliance" of the Merger Conditions requires the Company to provide collocation consistent with the FCC's Collocation Rules as defined in *Deployment of Wireline Service Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *First Report and Order* (FCC 99-48), 14 FCC Rcd 4761 (1999), as modified by *GTE Service Corporation v. FCC*, 205 F.3d 416 (D.C. Cir. 2000) ("GTE Service Corporation"), and as modified and expanded by *Deployment of Wireline Service Offering Advanced Telecommunications Capability and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket Nos. 98-147 and 96-98, *Order on Reconsideration And Second Further Notice Of Proposed Rulemaking In CC Docket No. 98-147 And Fifth Further Notice of Proposed Rulemaking in CC Docket No. 96-98* (FCC 00-297), 15 FCC Rcd 17806 (2000), as modified by the waiver granted to SBC in *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *Memorandum Opinion and Order* (DA 00-2528), released November 7, 2000 ("Waiver Order"), and collocation rules codified in 47 C.F.R. Sections 51.319 (a)2(iv), 51.321 and 51.323 as modified by GTE Service Corporation and by the waiver granted to SBC in the Waiver Order. Additionally, "Collocation Compliance" as referenced in this management report includes compliance with certain collocation-related requirements applicable only to SBC/Ameritech, which were adopted as conditions to the Commission's order modifying the separate affiliate for advanced services requirements of the Merger Conditions. *Application of Ameritech Corp., Transferor, and SBC Communications, Inc., Transferee, For Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules*, CC Docket No. 98-141 and ASD File No. 99-49, *Second Memorandum Opinion and Order* (FCC 00-336), App. A, paras. 5(a), 5(b)(1), 5(b)(2), 5(c), 5(d) and 6 (rel. Sept. 8, 2000) ("Pronto Order"). As a result of the court's ruling in *ASCENT v. FCC*, 235 F.3d 662 (D.C. Cir. 2001), the separate affiliate for advanced services requirements in the Merger Conditions, including the collocation-related and other requirements adopted in the Pronto Order, automatically sunset no later than January 9, 2002. *SBC/Ameritech Order*, 14 Rcd 11712, App. C, Para. 12c; Pronto Order, FCC 00-336, App. A, para. 9. See also, *Application of GTE Corp. and Bell Atlantic Corp. for Consent to Transfer Control of Domestic and International Section 214 and 310 Authorizations and Applications to Transfer Control of a Submarine Cable Landing License*, CC Docket No. 98-184, Order, DA 01-1717, at para. 1, note 2 (rel. Jul. 19, 2001)(concluding that, under a comparable sunset provision in the Bell Atlantic/GTE merger, "the advanced services affiliate requirement will automatically sunset on January 9, 2002").

**Report of Management on the Effectiveness of Controls over Compliance
With the Merger Conditions – August 31, 2001**

Conditions 1, “Separate Affiliate for Advanced Services” and 24, “Additional Service Quality Reporting” of the Merger Conditions are separately reported on by management and are not included in this report at the direction of the FCC.

There are inherent limitations in any control, including the possibility of human error and the circumvention or overriding of the controls. Accordingly, even effective controls can provide only reasonable assurance with respect to the achievement of the objectives of controls. Further, because of changes in conditions, the effectiveness of controls may vary over time.

SBC has determined that the objectives of the controls with respect to compliance with the Merger Conditions are to provide reasonable, but not absolute, assurance that compliance with the Merger Conditions has been achieved.

SBC has assessed its controls over compliance with the Merger Conditions, exclusive of Conditions 1 and 24, in relation to the criteria set forth in the Merger Conditions. Based upon this assessment, except for the effect of the control deficiencies described below related to Conditions 3, “Advanced Services OSS”, 7, “Carrier-to-Carrier Performance Plan”, 11, “Collocation Compliance”, 14, “Carrier-to-Carrier Promotions: Unbundled Loop Discount”, and 15, “Carrier-to-Carrier Promotions: Resale Discount” SBC maintained, in all material respects, effective controls over compliance with the Merger Conditions during the Evaluation Period² based on the criteria set forth in the Merger Conditions.

The processes used to provide certain discounts required by Conditions 3, 14 and 15 during the Evaluation Period did not include controls sufficient to verify that all eligible and requested discounts by competitive local exchange carriers (“CLECs”) were provided within the established time frames as specified in the Merger Conditions. The Company is completing the retroactive issuance of discounts and appropriate interest. In addition, the Company has established procedures such as monitoring that contract rate changes are properly reflected in the billing system and has allocated additional resources towards ensuring that discounts are applied properly.

The processes used to produce the performance measurements for Condition 7 during the Evaluation Period while highly reliable, did not include perfect control over some data input functions, some detection processes, and certain system controls. This contributed to the need to restate certain data and modify certain performance measurements on a prospective basis during the Evaluation Period. The Company continues to perform and improve its quality control processes³.

² The Evaluation Period is January 1, 2000 through December 31, 2000, with the exception of Condition 11, “Collocation Compliance” which is June 9, 2000 through December 31, 2000 and the exception of Pronto Order Appendix A compliance which is September 8, 2000 through December 31, 2000.

³ The Company designed its controls over compliance with Condition 7 related to the calculation and remittance of voluntary payments to the United States Treasury based on its interpretation of the payment calculation methodology in the Merger Conditions. On December 11, 2000, the FCC Staff issued guidance to the Company on the methodology to be used to calculate the voluntary payments in a letter from Ms.

**Report of Management on the Effectiveness of Controls over Compliance
With the Merger Conditions – August 31, 2001**

The processes used to ensure compliance over Condition 11, the FCC's Collocation Rules, did not include controls sufficient to verify that the Company posted updates to the Internet site indicating all premises that are full within the required 10-day period or to verify that the Company notified requesting carriers whether their physical collocation requests could be accommodated in a timely manner. SBC has assessed its internal controls, and has implemented enhancements to strengthen the processes involved in both the Internet site postings and CLEC notifications. Additional training has also been conducted to ensure future postings and notifications are made on a timely basis. The process used to bill collocation charges did not include certain controls to ensure the complete accuracy of billing to affiliated and nonaffiliated telecommunications carriers. SBC has assessed its internal controls, and has implemented process changes, such as enhancing procedures to facilitate timely and accurate updates of billing tables for changes in applicable rates, improving contract administration procedures for cases in which CLECs order products that are not included in their interconnection agreement, and establishing new billing validation processes.

Carol Matthey of the FCC to Ms. Sandra Wagner of SBC. The Company disputed certain aspects of the FCC's Staff's guidance in a letter to Ms. Carol Matthey dated January 4, 2001 and has continued to perform the voluntary payment calculations based on the Company's interpretation of the payment calculation methodology in the Merger Conditions, and is awaiting the FCC Staff's final determination.

**Report of Management on the Effectiveness of Controls over Compliance
With the Merger Conditions – August 31, 2001**

Date: 8/31/01

SBC Communications Inc.

By: _____

Cassandra Carr

Senior Executive Vice-President

External Affairs

SBC Compliance Officer