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October 6, 2008

VIA ECFS

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92; IP-Enabled Services, WC Docket No. 04-36

EX PARTE

Dear Ms. Dortch:

XO Communications Services, Inc. ("XO"), by its undersigned counsel, submits this letter to address the unitary terminating access rate of $0.0007 per minute-of-use proposed by Verizon, AT&T and others.[1] While XO supports the adoption of a uniform rate for traffic termination that would apply to all traffic within the federal jurisdiction at the end of a set transition period, it opposes the proposed $0.0007 rate.

Similar to the cost data provided by NuVox in its *ex parte* letter filed on October 2, 2008 in the above-referenced dockets, XO also has had a cost study performed by independent expert consultants. The study shows that $0.0007 is very far below XO's actual cost of termination. To this end, XO attaches hereto a Declaration of Michael Starkey of QSI Consulting, Inc. containing data showing that XO's termination costs far exceed the proposed $0.0007 termination rate.

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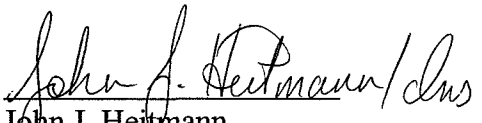
1 *E.g.,* Verizon Proposal for Intercarrier Compensation Reform, attached to Letter from Susanne Guyer, Senior Vice President, Verizon, to Kevin Martin, Chairman, Federal Communications Commission, CC Docket No. 01-92 (filed Sept. 12, 2008) ("Verizon Plan").

Kindly direct any questions regarding this letter to the undersigned at (202) 342-8544.

Respectfully submitted,



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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Developing a Unified Intercarrier Compensation Regime	)	CC Docket No. 01-92
	)	
	)	
IP-Enabled Services	)	WC Docket No. 04-36
	)	

October 6, 2008

DECLARATION OF MICHAEL STARKEY

I, Michael Starkey, on oath, state and depose as follows:

I. INTRODUCTION

1. My name is Michael Starkey. I currently serve as the President of QSI Consulting, Inc. (hereafter "QSI"). I have been asked by XO Communications ("XO") to provide the preliminary results from a cost model QSI constructed on XO's behalf to evaluate costs it incurs in originating and/or terminating switched voice traffic.

2. QSI's analysis indicates that even under the most favorable network conditions, XO cannot originate or terminate switched voice traffic at costs equal to or less than $0.0007 per minute. Indeed, even in its most cost-favorable market XO incurs direct costs equal to at least **[BEGIN PROPRIETARY**

END PROPRIETARY] The table below provides a reasonable estimate of the costs XO incurs on a per-minute-of-use ("MOU") basis to provide switched voice services (including, among others, switched access, local calling and reciprocal local traffic-exchange):**[BEGIN PROPRIETARY**

END PROPRIETARY]

II. BACKGROUND

3. I received a Bachelor of Science degree in Economics from Missouri State University in 1991. I have been a consultant specializing in telecommunications since I co-founded Competitive Strategies Group, Inc. in 1996. I later co-founded QSI Consulting, Inc. ("QSI") in 1999 and have been employed as its President ever since. Prior to 1996, I was employed by the Maryland Public Service Commission as the Director of its Telecommunications Division. My responsibilities included managing the Commission's Telecommunications Staff of engineers, economists, tariff analysts and other specialists tasked as the Commission's primary advisors on

all issues related to telecommunications. I joined the Maryland Commission staff in 1994 from the Illinois Commerce Commission where I served as the Office of Policy and Planning's Senior Telecommunications Analyst. I began my professional career with the Missouri Public Service Commission as a Senior Economist within the Commission's Telecommunications Department, Utility Operations Division. Since 1996 I have assisted more than one hundred individual telecommunications clients including local exchange carriers ("LECs"), interexchange carriers ("IXCs"), ISPs, equipment manufactures, state commissions and public advocates. Attached as Exhibit 1 hereto is my curriculum vitae which provides more detailed information regarding my background.

4. QSI is a consulting firm specializing in the areas of economic analysis and regulated industries. QSI assists clients in numerous areas within the telecommunications industry ranging from Interconnection Agreement ("ICA") negotiations, technical support, complex econometric analysis and public policy. A large portion of QSI's core practice focuses on cost analysis within the communications industry. For example, QSI regularly builds cost studies for its clients and likewise critiques, where necessary, cost studies filed by other carriers. As an example, QSI is often hired by state public utility commissions to evaluate cost studies filed by various carriers.[1] Over the past 17 years I have personally been involved in more than 100 projects

[1] As an example, I am currently assigned as the Project Manager for QSI's involvement in the Public Service Commission of the District of Columbia's Docket No. 1040-T-62 wherein QSI has been tasked with reviewing cost studies filed by Verizon D.C. in support of various E911 rates. QSI has provided this type of, or similar, cost analysis assistance to approximately 10 different state utility commissions in the recent past.

where I was tasked with reviewing costs incurred by various telecommunications companies as they provision telecommunications services. My prior analysis includes reviewing costs incurred by every major incumbent LEC ("ILEC") in the nation, competitive LECs ("CLECs"), wireless carriers, cable television/telephone companies and others.[2].

III. XO COST STUDY

5. In March 2008 QSI was engaged by XO to build an economic model capable of estimating costs it incurs in supporting switched voice services. After nearly 7 months of direct interaction with XO's engineers, accountants and financial experts, QSI delivered to XO its Network Usage Cost Assessment ("NUCA") tool. NUCA is a costing tool developed by QSI for purposes of identifying usage-related costs incurred by its telecommunications clients. NUCA adheres to the Total Service Long Run Incremental Cost ("TSLRIC") methodology discussed by the FCC in its *Local Competition Order.*[3] NUCA is not a "proxy" cost model which aggregates broad, industry-wide metrics for purposes of identifying costs. Instead, NUCA is a series of spreadsheet tools used by QSI's experts to gather substantial company-specific data for purposes of developing highly individualized company-specific costs. QSI's

[2] I have personally been involved (and QSI Consulting, Inc. has been involved as a group) in reviewing cost analysis submitted by every major incumbent local exchange carrier in the nation including AT&T and its subsidiaries, Qwest, Verizon, Embarq, Centurytel, etc. I have also been privy to substantial cost information compiled by QSI's clients in the form of formal cost studies and informal cost analysis.

[3] *See Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-98, First Report and Order, 11 FCC Rcd 15499, 15509, ¶¶ 630-740 (1996*) (Local Competition Order*), aff'd in part and vacated in part sub nom., *Competitive Telecommunications Ass'n v. FCC*, 117 F.3d 1068 (8th Cir. 1997) (*CompTel v. FCC*) and *Iowa Utils. Bd. v. FCC*, 120 F.3d 753 (8th Cir. 1997) (*Iowa Utils. Bd. v. FCC*), aff'd in part and remanded, *AT&T v. Iowa Utils. Bd.*, 119 S. Ct. 721 (1999); Order on Reconsideration, 11 FCC Rcd 13042 (1996), Second Order on Reconsideration, 11 FCC Rcd 19738 (1996), Third Order on Reconsideration and Further Notice of Proposed Rulemaking, 12 FCC Rcd 12460 (1997), further recons. pending.

experts work with company engineers, accountants and other company subject matter experts ("SME") over a number of months to gather substantial data related to:

(a) the network architecture employed by the company,

(b) specifics related to its traffic-flow and the manner by which transport and switching capacity are employed to meet customer demands as well as,

(c) the individual resources required to build, maintain, manage and grow its network.

6. The general results of the NUCA model when populated with XO specific data are provided in the table above. While costs do vary by market based upon numerous variables (including demand characteristics, network concentration and other factors), the results above provide a good indication of XO's per-MOU costs, on average, across its region specific to any type of switched voice service (local, intra-state, inter-state, switched access, etc.). After having reviewed XO's costs in detail, I can state with certainty that a rate equal to $0.0007 would fall far short of properly compensating XO for the capital is has deployed and the expenses it incurs in transporting and switching voice-related services.

7. It is worth noting that NUCA captures costs associated with the "soft-switch" platform already substantially deployed by XO. While it also captures circuit-switched investments where those facilities represent the most efficient delivery vehicle, the NUCA results identified above are heavily weighted

toward XO's IP-enabled platform. I mention that only because I believe many regulatory decision makers hold the opinion that as carriers invest more heavily in IP-enabled switching platforms, the costs of carrying voice traffic asymptotically approach $0. Our extensive analysis on the part of XO and numerous other carriers belies that opinion. Indeed, after all costs necessary to support voice traffic on an IP-enabled network are taken into consideration (*i.e.*, session border controllers, signaling and feature servers, monitoring probes, etc.), costs per MOU certainly begin to fall, but not by the orders of magnitude I believe many anticipate. With that in mind, even as XO continues to expand its IP-enabled switching platform, it will not achieve per MOU costs equal to, or less than, $0.0007 any time in the foreseeable future.

IV. EXPERT'S STATEMENT

8. I declare that I created this declaration with the assistance of persons under my direct supervision and that, to the best of my knowledge, the facts represented herein are true and accurate.

Michael Starkey

Michael Starkey