DRAFT

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

In the Matter of	)	
	)	
Application by SBC Communications Inc.,	)	
The Ohio Bell Telephone Company d/b/a	)	
Ameritech Ohio and Southwestern Bell	)	CC Docket No. _____
Communications Services, Inc. d/b/a Ameritech	)	
Long Distance for Provision of In-Region	)	
InterLATA Services in Ohio	)	

AFFIDAVIT OF DR. KENT A. CURRIE
ON BEHALF OF AMERITECH

STATE OF OHIO)
)
COUNTY OF CUYAHOGA)

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TELRIC AND AVOIDED COSTS FOR RESALE AFFIDAVIT

DRAFT

I, Kent A. Currie, being first duly sworn upon oath, do hereby depose and state as follows:

1. My name is Kent A. Currie. I am Associate Director, Cost Analysis and Regulatory at SBC Communications Inc. ("SBC"). My business address is 45 Erieview Plaza, Cleveland, Ohio 44114.

2. As Associate Director, Cost Analysis and Regulatory, I develop cost methods that determine the costs incurred by the Ameritech operating companies, including those of The Ohio Bell Telephone Company, d/b/a/ Ameritech Ohio[1] ("Ameritech Ohio") and other SBC affiliates, for providing telecommunications services. I also supervise the production of cost studies, and analyze cost study results.

PROFESSIONAL EXPERIENCE AND EDUCATIONAL BACKGROUND

3. I earned a Ph.D. in economics from the University of Iowa in 1973. In addition, I earned a Master of Science degree in economics, also from the University of Iowa, and a Bachelor of Science degree in mathematics from Bradley University. I specialize in microeconomic theory and industrial organization, concentrating in public utility economics. After completing my graduate studies, I held full-time teaching and research appointments at two engineering universities.

4. I began my telecommunications career in 1980 at Ameritech Ohio. I have performed, contributed to, and supervised many cost analyses and studies dealing with the complete range of services offered by Ameritech Ohio and, subsequently, all of Ameritech. My responsibilities have included the development and monitoring of cost methods used in service cost studies at

[1] The Ohio Bell Telephone Company is an Ohio corporation and a wholly owned subsidiary of Ameritech Corporation, which owns the former Bell operating companies in the states of Michigan, Illinois, Wisconsin, Indiana, and Ohio. Ameritech Corporation is a wholly owned subsidiary of SBC Communications Inc. The Ohio Bell Telephone Company offers telecommunications services and operates under the names "Ameritech" and "Ameritech Ohio" pursuant to trade name registrations with the state of Ohio.

Ameritech Ohio. Since the divestiture of the Bell System, I have participated in the coordination and development of these responsibilities across Ameritech and now across the SBC operating companies.

5. During the course of my career, I have testified before the Federal Communications Commission ("FCC"), the Illinois Commerce Commission, the Indiana Utilities Regulatory Commission, the Michigan Public Service Commission, the Public Utilities Commission of Ohio ("PUCO"), and the Public Service Commission of Wisconsin.

6. I have also attended numerous classes, seminars, and conferences to broaden my knowledge and help keep abreast of current issues impacting my job responsibilities. In addition, I have made presentations on economic and cost issues at regulatory seminars and conferences.

7. My professional qualifications are further described on Attachment A.

8. I assumed my current responsibilities in the SBC cost organization at the end of January 2000. In this role, I am responsible for cost study methods, primarily for switching services, as well as methods affecting all cost studies within the cost organization. These responsibilities are similar to my previous position at Ameritech, where I was responsible for developing and maintaining the methodological framework for economic cost studies for Ameritech's telecommunications services. These cost methods are used in many studies, such as Long-Run Service Incremental Cost ("LRSIC") studies, Total Service Long-Run Incremental Cost ("TSLRIC") studies, Total Element Long-Run Incremental Cost ("TELRIC") studies, universal service cost studies including Forward-Looking Economic Cost ("FLEC") studies and avoided cost studies. In order to monitor the application of these methods, I direct, supervise, and prepare studies using these methods.

PURPOSE OF AFFIDAVIT

9. The purpose of my affidavit is to describe how Ameritech Ohio developed forward-looking costs in support of its interconnection, unbundled network element ("UNE"), collocation, and reciprocal compensation offerings in Ohio, and how the cost development fully complies with FCC rules and 47 U.S.C. § 271(c)(2)(B) of the Telecommunications Act of 1996 (the "Act").

10. Specifically, my affidavit demonstrates that Ameritech Ohio's costs for UNEs were developed in accordance with the FCC's pricing rules and the Act. See, *e.g.*, 47 U.S.C., § 251(c)(3)(4)(6) & 252(d)(1). I will describe, in broad terms, the bases for these cost studies and the methodology used to determine the costs for the elements. I also explain why the results reflect the forward-looking costs, approved by the PUCO, of providing those elements – not actual or embedded costs. Finally, I will discuss the cost analysis supporting Ameritech Ohio's approved wholesale discount rates for resale services. To supplement my discussion, attached to my affidavit as Attachment B is an Ameritech document: *Description of Unbundled Network Element Cost Studies*. This document describes in significant detail the methodology that Ameritech Ohio has used when preparing its TELRIC studies to determine the costs of providing UNEs including a description of study methods, models, and input data. A third attachment, Attachment C, lists the forward-looking cost studies for UNEs, interconnection, UNEs, and structure access, generally described in Attachment B, which were submitted to and approved by the PUCO. See the June 19, 1997 Opinion and Order, PUCO Case No. 96-922-TP-UNC (the "TELRIC Case"). It also includes a list of studies that have been submitted to and are awaiting approval by the PUCO.

COST METHODOLOGY FOR NETWORK INTERCONNECTION, UNBUNDLED NETWORK ELEMENTS, LOCAL TRANSPORT AND TERMINATION, AND COLLOCATION

11. 47 U.S.C. § 252(d)(1) requires that prices for interconnection and unbundled network elements be "based upon the cost" of providing these elements, products and services and that such prices "may include a reasonable profit." The FCC's Local Competition Order prescribed a methodology for identifying the costs on which these prices should be based.[2] The FCC has decided that TELRIC is the appropriate methodology, coupled with a reasonable allocation of forward-looking shared and common costs.

12. 47 U.S.C. § 252(d)(2) requires that the charges for local transport and termination recover the "costs" of transporting and terminating "calls that originate on the network facilities of the other carrier." In the Local Competition Order, 11 FCC Rcd at 16024, ¶ 1056, the FCC specified that these costs were to be determined in the same manner as the costs for network interconnection, unbundled network elements and collocation.

13. After passage of the Act, and in anticipation of the FCC's pricing regulations, Ameritech performed cost studies to determine the forward-looking economic costs of providing services to Competitive Local Exchange Carriers ("CLECs"). Following the issuance of the FCC's Local Competition Order and its accompanying regulations on August 8, 1996, Ameritech Ohio submitted initial cost studies to the PUCO in the TELRIC Case on August 12, 1996. These studies were the subject of extensive hearings in which a large number of interested parties and the PUCO staff participated.

14. Ameritech Ohio subsequently revised and re-submitted the studies to the PUCO several times. Following the issuance of the PUCO's June 19, 1997 Opinion and Order and

[2] First Report and Order, Implementation of the Local Competition Provisions in the Telecommunications Act of 1996: Interconnection Between Local Exchange Carriers and Commercial Mobile Radio Service Providers, 11 FCC Rcd 15499 (1996) ("Local Competition Order").

September 18, 1997 Entry on Rehearing in the TELRIC Case, Ameritech Ohio revised its studies to ensure that they conformed with the rules and principles enunciated in the PUCO's Orders and the FCC's First Report and Order. The resultant studies were filed with the PUCO on October 31, 1997. Applications for further rehearing of the PUCO's September 18, 1997 Entry on Rehearing were filed by a number of parties.

15. On March 19, 1998, the PUCO directed Ameritech Ohio to develop five additional TELRIC studies. March 19, 1998 Entry, TELRIC Case, para. 4. Ameritech Ohio was directed to develop and submit for PUCO consideration TELRIC studies governing compliance inspections, dial tone tests, unbundled dark fiber, manual interfaces and shared interoffice transport as defined by the FCC in its Third Order on Reconsideration in CC Docket 96-98. In addition, Ameritech was directed to develop and submit for PUCO consideration, TELRIC studies governing the network element combinations that Ameritech had voluntarily agreed to provide in prior arbitrations with AT&T and MCI.

16. On April 30, 1998, the PUCO entered an Entry ordering Ameritech Ohio to file its cost study of unbundled dark fiber. April 30, 1998 Entry, TELRIC Case, para. 4. It also issued a stay of its requirement that Ameritech Ohio file a shared interoffice transport and certain other network combination studies. Except for the studies that were subject to the stay, on that same date Ameritech Ohio filed the studies that were required to be filed by the March 19, 1998 Entry. On September 1, 2000, the PUCO established an October 30, 2000 date for parties to file objections to the dial tone testing, compliance inspections and manual service order studies. No party filed any objections. Although no objections were filed, no PUCO decision has been issued concerning these studies.

17. On July 13, 1998, Ameritech Ohio, the staff of the PUCO and various parties to the proceedings entered into a stipulation and recommendation which was presented to the PUCO

for consideration. As a result of the stipulation, the parties identified a number of revisions to the October 31, 1997 studies that the parties agreed should be made in order to bring the studies into compliance with the PUCO's orders.

18. On October 22, 1998, the PUCO entered an Order on Rehearing, which directed Ameritech Ohio to file on or before December 15, 1998, its shared transport TELRIC cost study. October 22, 1998 Order on Rehearing, TELRIC Case, para. 17. Ameritech Ohio filed a study on that date.

19. The PUCO, in a Finding and Order entered on November 24, 1998, approved the July 13th stipulation, resolved the two remaining issues (common cost allocation and Litespan plug-in investment) and directed Ameritech Ohio to recalculate and rerun its TELRIC studies accordingly. November 24, 1998 Finding and Order, TELRIC Case, para. 11. Pursuant to the Finding and Order, the revised studies were to be submitted to the PUCO within 65 days of the entry of the Finding and Order and the revised studies were to be automatically approved on the fifteenth day following their filing. Id. Ameritech Ohio complied with the PUCO's Finding and Order and submitted compliance studies on January 27, 1999.

20. On May 27, 1999, the PUCO Staff filed a letter in the cost docket stating that the TELRIC rates submitted by Ameritech Ohio were in compliance with the PUCO's orders and on June 9, 1999, rates developed from the TELRIC cost studies were filed by Ameritech Ohio with the PUCO. A list of the UNEs and interconnection cost studies that are part of this proceeding are included in Attachment C.

21. On March 15, 2000, the PUCO invited interested parties to file formal objections with respect to Ameritech Ohio's filed shared transport study.

22. On March 22, 2000, Ameritech Ohio submitted to the PUCO Staff the loop conditioning cost study. On April 5, 2000, Ameritech Ohio submitted for PUCO approval rate

information for loop conditioning. On April 26, 2000, Ameritech Ohio filed UNE-P and interim shared transport rate information for PUCO approval. During the second quarter of 2000 Ameritech Ohio submitted for PUCO approval cost studies for xDSL line sharing, loop information, and shared and cageless collocation. On August 15, 2000, Ameritech Ohio provided a cost study for permanent shared transport. Proceedings, including hearings with extensive records, have been held concerning these cost studies and Ameritech Ohio is awaiting a PUCO decision with respect to those studies. Ameritech Ohio also has pending before the PUCO TELRIC cost studies relating to ENSA, CNAM, DS-3 unbundled loops, subloops, and custom routing for use with shared transport.

23. All of these studies, which were developed for Ameritech Ohio's unbundled network elements, are forward-looking, long run incremental cost studies that consider "the total quantity of the facilities" as required by 47 C.F.R. § 51.505(b). See Attachment B.

24. Consistent with 47 C.F.R. § 51.505(b)(1), these studies reflect existing wire center locations and the use of efficient technology that currently is available. For example, the switching studies reflect forward-looking, digital switch technology for host and remote switches at existing wire center locations. The local loop cost studies reflect the use of a meld of forward-looking, digital loop carrier and copper technologies; while interoffice transport costs are based on digital technology.

25. Ameritech Ohio's TELRIC studies for unbundled loops and interoffice transport entrance facilities were geographically deaveraged to account for the different costs of building and maintaining networks in different areas with varying population density. Ameritech Ohio's TELRIC studies for these unbundled network elements were geographically deaveraged based on three geographic zones or access areas, thus complying with 47 C.F.R. § 51.507(f). Loop costs vary between the access areas due to differences in loop length, cable mixes and sizes,

among other factors that vary with density. See Attachment B.

26. The starting point for Ameritech Ohio's shared and common cost study submitted in the TELRIC Case was 1997 budget data for the following four organizational units: (1) Ameritech Information Industry Services**,** which provides wholesale services; (2) Network Services; (3) Centralized Procurement Services~~;~~ and (4) Corporate Headquarters. Each of the four budgets was evaluated for costs that are shared either by several UNEs, by both UNEs and other wholesale services, or by both wholesale and retail services. Other costs in the budget data that do not provide shared benefits were excluded. Each cost was then allocated to each UNE using ratios based on direct expenses or TELRIC. The PUCO has approved Ameritech Ohio's shared and common cost study. See, June 19, 1997 Opinion and Order, TELRIC Case, at 49 and November 24, 1998 Finding and Order, TELRIC Case, para. 9.

27. Consistent with 47 C.F.R. § 51.505(d)(1), Ameritech Ohio did not include embedded costs in its costs for UNEs. Ameritech Ohio does look to historical data for current efficient technologies already in use in the network to predict future costs for these same efficient technologies. The resulting costs developed from this data represent forward-looking costs. For example, Ameritech Ohio did not include the cost associated with older technology such as analog end office switches or analog carrier systems.

28. Ameritech Ohio's forward-looking methodology examined current costs solely as a basis for estimating future costs. For instance, Ameritech Ohio looked at the current maintenance expenses for fiber facilities to calculate future fiber maintenance costs. Likewise, Ameritech Ohio considers current maintenance expenses for digital switches as the best projection for future digital switching maintenance expenses. From current expenses, factors were developed representing these current efficient relationships as the best predictor of future

costs for these same efficient technologies. These factors are then used with total forward-looking investment to calculate forward-looking costs. See Attachment B.

29. Consistent with 47 C.F.R. § 51.505(d)(2), Ameritech Ohio's cost studies do not include retail costs, *e.g.*, marketing, billing, and collection costs, associated with providing retail telecommunications services to subscribers who are not telecommunications carriers.

30. Consistent with 47 C.F.R. § 51.505(d)(3), opportunity costs are excluded from the costs of unbundled elements.

31. Consistent with 47 C.F.R. § 51.505(d)(4), revenues to subsidize other services are excluded from the costs of these elements.

32. Ameritech followed 47 C.F.R. § 51.511(a) by apportioning the cost over the total number of units of the element that Ameritech Ohio is likely to provide. Because of the uncertainty involved in determining future demand, Ameritech Ohio took the reasonable approach of relying on data that already reflect total demand for the equipment and facilities used to provide the services or network elements. See Attachment B.

33. Ameritech Ohio's non-recurring TELRIC studies submitted and approved in the TELRIC Case used the same forward-looking methodology that currently is used in its federal access filings. The methodology allows for the recovery of costs associated with the time required to install and disconnect a UNE. However, the TELRIC studies do not include the cost to combine UNEs. The methodology is best characterized as follows: (1) work groups involved in these tasks are identified; (2) the forward looking times, tasks and frequencies of occurrence required to perform each work function are identified, and the labor rate(s) associated with the employee(s) performing the work are determined; (3) the labor rate(s) are multiplied by the labor time(s) and frequencies of occurrence to arrive at the cost for performing the work function(s);

and (4) work functions are then grouped by cost element and totaled to arrive at a forward-looking non-recurring cost per element.

34. As required by 47 C.F.R. § 51.511(b), the cost units chosen corresponded to the discrete number of elements for flat-rate UNEs or the unit of measurement of the usage of the element for usage-based UNEs.

35. Ameritech Ohio reflected in its cost studies, a forward-looking view of the Operation Support Systems ("OSS") processes. Ameritech Ohio's approach was to recognize expected efficiencies in processes for which there were known implementations plans at the time of starting the studies. This is consistent with the FCC's intent in development of their First Report and Order, which states in Paragraph 685:

> The benchmark of forward-looking cost and existing network design most closely represents the incremental costs that incumbents actually expect to incur in making network elements available to new entrants. Moreover, this approach encourages facilities-based competition to the extent that new entrants, by designing more efficient network configurations, are able to provide the service at a lower cost than the incumbent LEC.

36. Because Ameritech Ohio's studies built in known efficiencies, the nonrecurring costs derived within the studies conservatively estimated the forward-looking costs that would have been incurred to provide UNEs.

37. The pole attachment and conduit occupancy cost study submitted by Ameritech Ohio and approved by the PUCO in the TELRIC case was performed using the FCC methodology**.** In developing costs of providing conduit and ducts, Ameritech Ohio has relied upon the FCC's First Report and Order in Docket 96-181, where the FCC addressed conduit/duct rate development under Section 224(d) of the Act. Ameritech Ohio's costs are consistent with the FCC's findings on these issues. With respect to pole attachment rates, the Company was guided by the FCC's Order in Docket No. 86-212

38. Ameritech Ohio developed TELRIC studies for caged, cageless, shared and virtual forms of collocation. Studies for shared and cageless collocation have been the subject of extensive proceedings and are awaiting a decision by the PUCO. The remaining collocation studies have been approved by the PUCO. November 24, 1998 Finding and Order, TELRIC Case, para. 11.

39. Based on the foregoing, the costs provided by Ameritech Ohio satisfy both the requirements of the Act and the requirements of the FCC's Local Competition Order, providing a basis for rates as described herein.

WHOLESALE DISCOUNT RATES FOR RESALE SERVICES

40. The Act requires that wholesale rates be determined "on the basis of retail rates charged to subscribers for the telecommunications service requested, excluding the portion thereof attributable to any marketing, billing, collection, and other costs that will be avoided." 47 U.S.C. § 252(d)(3). The resale pricing regulations issued by the FCC on August 8, 1996, interpreted this provision by applying an "avoidable cost" pricing standard. See, *e.g.*, 47 C.F.R. § 51.609. In its December 5, 1996 order in Case No. 96-752-TP-ARB, the PUCO established a two-prong retail discount approach in which one discount applies when the reseller purchases OS and DA, and a second discount when these services are not purchased. If an authorized reseller, that is, a CLEC purchasing at resale, purchases all or part of OS and DA from Ameritech Ohio to serve all or part of the reseller's customer base, the former discount is applicable to all services purchased by the reseller from Ameritech Ohio. In its June 6, 1997 order in Case No. 96-752-TP-ARB, the PUCO determined these discounts based on an avoided cost analysis consistent with the FCC resale pricing rules using a "top down" approach that relies on cost information derived from Ameritech's Uniform System of Accounts.

41. In light of the forgoing, it is clear that the wholesale prices established by Ameritech

Ohio do not exceed – and the discounts on which they are based are not lower than – those required by 47 U.S.C. § 252(d)(3).

CONCLUSION

42. This concludes my affidavit.

DRAFT

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge.

Executed on _____, 2001.

_____
Kent A. Currie
Associate Director – Cost Analysis and Regulatory

STATE OF OHIO
COUNTY OF CUYAHOGA

Subscribed and sworn to before me
this ___ day of _____, 2001.

_____
Notary Public

My commission expires: