

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

ILLINOIS COMMERCE COMMISSION	)	
On Its Own Motion	)	
	)	ICC Docket No. 00-0700
Illinois Bell Telephone Company	)	
	)	
Investigation into tariff providing unbundled	)	
local switching with shared transport	)	

**JOINT REPLY BRIEF ON EXCEPTIONS OF AT&T  
COMMUNICATIONS OF ILLINOIS, INC. AND WORLDCOM, INC.**

AT&T Communications of Illinois, Inc. (“AT&T”) and WorldCom, Inc.

(“WorldCom”) hereby submit their Joint Reply Brief on Exceptions to the Proposed Order (“Proposed Order”) issued by Administrative Law Judge Donald L. Woods in the above matter on February 8, 2002. Pursuant to the revised schedule agreed to by the parties and adopted by the Administrative Law Judge, reply briefs on exceptions are due on or before March 13, 2002.

**I. The Proposed Order Correctly Rejects Alternative #2 And Correctly Adopts A Flat-Rated ULS Structure**

A review of Ameritech’s Brief on Exceptions can be summed up in one phrase: ULS-ST magic. Why? Because Ameritech’s Brief on Exceptions – in an effort to convince the Administrative Law Judge and the Commission that a usage-based ULS-ST rate structure should be adopted – engages in sleight of argument in an attempt to make things appear to be something they are not.

**A. Alternative #2 Does Not Recover Switch Activation Costs**

For example, while Ameritech concedes that Alternative #1 violates the Commission’s TELRIC Order’s directive that any per minute of use component “should

not recover any costs associated with the initial cost of the switch,” Ameritech asserts that its Alternative #2 “is entirely consistent with this directive.” Ameritech Br. on Exceptions, p. 5. By this statement, Ameritech implies that Alternative #2 complies with the Commission’s TELRIC Order. Things are not as Ameritech makes them appear, however, because while Alternative #2 may be consistent with the above directive of the TELRIC Order, it violates another important directive of the TELRIC Order.

As the Proposed Order expressly points out and as AT&T and WorldCom discussed at length in their Joint Brief on Exceptions, the TELRIC Order expressly provides that the only usage charge Ameritech may seek to recover are “those usage-sensitive costs necessary to operate and maintain the switch.” TELRIC Order, p. 59. Ameritech concedes that to the extent these costs even exist, “[s]witch activation costs are so small and difficult to quantify that attempting to document them would be futile.” Ameritech Br. on Exceptions, p. 6. Rather, Ameritech concedes that the per minute of use charge it attempts to assess in Alternative #2 is not to recover switch activation costs (as the TELRIC Order allows) but is instead designed to recover alleged costs for measurement, billing and SS7. This ends the inquiry. Ameritech had the opportunity to demonstrate switch activation costs but decided they were too minute to pursue. While Alternative #2 does not violate the TELRIC Order’s directive regarding switch investment, it does violate the TELRIC Order’s directive regarding those charges that may be recovered via a minute of use (or, alternatively, as a flat-rated charge, as AT&T and WorldCom pointed out in their Joint Brief on Exceptions.)

## **B. Alternative #2 Is Not “Essentially Flat-Rated”**

Ameritech also attempts to make Alternative #2 appear to be something it is not. On several occasions throughout Ameritech’s Brief on Exceptions, Ameritech attempts to convey the highly erroneous impression that Alternative #2 is an “essentially flat-rated [ULS] structure.” In fact, on page 9 of its Brief on Exceptions, Ameritech refers to Alternative #2 on four occasions as “essentially a flat rate,” an “essentially flat-rated structure,” and “Alternative 2’s flat rate.” Ameritech even has the audacity to contend that “Alternative 2 is essentially identical to the CLECs’ flat-rated proposal – both recover all switch investment costs via a flat rate.” Ameritech Br. on Exceptions, p. 5.

If, in fact, Alternative 2 is really “essentially identical to the CLECs’ flat-rated proposal,” then Ameritech should have absolutely no problems or concerns with the Proposed Order and the Commission adopting the CLECs’ flat-rated proposal, and the Commission should do so immediately. Realistically, however, this docket would never have reached this point and been litigated this thoroughly if, in fact, Alternative #2 was “essentially identical” to the CLECs’ flat-rated proposal. It is not. It is yet another attempt by Ameritech to make something appear to be what it is not because when it is seen for what it really is, it must be rejected.

Contrary to Ameritech’s misstatements, Ameritech’s proposed Alternative #2 for ULS is *not* “essentially flat-rated” as Ameritech contends. Ameritech quite clearly and unequivocally proposes to recover its alleged “measurement and billing expenses” via a per minute of use charge as part of Alternative #2. In fact, Ameritech’s statement that “[t]he Proposed Order’s recommendation appears to be premised on the belief that the Commission’s TELRIC Order required such a [flat-rated] rate structure rather than a

belief that Ameritech Illinois does not incur usage-sensitive costs” completely misses the point. The truth is that the TELRIC Order requires a flat-rated ULS rate structure *because* Ameritech does not incur usage-sensitive switching costs.

**C. Ameritech Does Not Incur Usage-Based ULS Costs Under Its Switch Vendor Contracts.**

Ameritech also resorts to ULS-ST magic in an attempt to distort the facts and mislead the Commission. Ameritech states on page 4 of its Brief on Exceptions that the TELRIC Order should be afforded little weight because it is premised on “now-expired contracts and now-superseded cost models.” Ameritech Br. on Exceptions, p. 4.

Ameritech apparently attempts to imply by this statement that under its new switch vendor contracts currently in effect, Ameritech no longer incurs switching costs on a per line, flat-rated basis. As Mr. Gillan testified, however, the Commission reached its decision in the TELRIC Order at a time when Ameritech’s switch vendor contracts were *predominantly* per-line based. Joint CLEC Ex. 1.0, p. 11. In the time since the Commission reviewed Ameritech’s contracts, the contracts have been revised to become *exclusively* per-line based. *Id.*

In fact, Ameritech witness Mr. Palmer’s testimony makes clear that Ameritech purchases switching capacity on a per-line basis:

By the terms of the [switch vendor] contracts, Ameritech buys switching equipment by paying a one-time price for each line that it demands. The line prices do not vary with the number of lines purchased, nor with the year of purchase, nor with the state in which the equipment is to be installed; the contracts are region-wide.

Ameritech Illinois Ex. 2.0, Sch. WCP-6, p. 1.

There is no dispute that switching capacity costs are line-based and that Ameritech has ordered switches capable of handling expected usage. The entire basis for

Ameritech's assertion that a usage cost should be imposed on its competitors is its claim that it would have paid a higher price to vendors had it ordered switches with more CCS capacity<sup>1</sup> than the switches it is contractually committed to purchasing. There are a number of critical flaws with this argument, however, that render it meaningless.

The first is simply that Ameritech offers *no* evidence (credible or otherwise) that the capacity it has ordered for its switches is insufficient to meet expected usage patterns. It is important to understand that while multiple carriers lease the ULS network element, they each use it to offer services to the *same* group of customers that the switch serves today. While individual customers may choose different ULS-based providers, overall the same customers are served by the same local switch, and average utilization should change little.

Second, even if switch usage patterns did result in Ameritech ordering future switches with more capability, the result would simply be a higher per-line price for that upgraded switching capacity. At the same time, of course, downward pressures would result from: (1) Ameritech and SBC's *collective* purchasing power resulting from the merger, and (2) the declining cost nature of the telecommunications industry. In any event, there still would be no usage component in its vendor contracts, and there would still be no justification to impose a usage price on its competitors. The effect would simply be a *different* per-line price for leasing capacity in these new (more capable) switches. Joint CLEC Ex. 1.0, p. 18.

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<sup>1</sup> CCS capacity is a measure of the peak-load traffic volumes that a switch is configured to handle.

The overwhelming record evidence in this docket – in fact, Ameritech’s very own current switch vendor contracts – confirms the fact that Ameritech’s switch vendor contracts apply charges on a per line basis and a per trunk port basis and that no usage or CCS based charges exist in those switch vendor contracts. Ankum Direct, p. 14.

**D. Ameritech’s Claims That Switch Costs Vary With Usage Are Wholly Unsupported.**

A couple of other Ameritech misstatements warrant mention. At pages 12-13 of its Brief on Exceptions, Ameritech contends that “no party disputes at a fundamental level that the switch does impose usage-sensitive costs” and cites to a portion of Dr. Ankum’s cross examination. While Dr. Ankum testified that the switch itself accommodates many users and is, to some extent, a shared facility, both AT&T/WorldCom witness Dr. Ankum and Joint CLEC witness Mr. Gillan vehemently opposed the notion that the switch imposes usage-sensitive costs. To the contrary, as Dr. Ankum repeatedly testified, Ameritech pays its vendors for switching on a per line and per trunk port basis and does not incur any usage-sensitive costs whatsoever when it purchases switching facilities.

Nevertheless, on page 8 of its Brief on Exceptions, Ameritech lists several “bullet points” that, in its view, support its argument that switching costs are usage-sensitive. First, Ameritech cites to Staff witness Dr. Liu for the proposition that usage-related costs are necessarily incurred in any forward-looking unbundled switching system. The facts, however, prove otherwise. Ameritech’s own switch vendor contracts are devoid of any usage-related costs and none are appropriate here.

Ameritech next contends that a flat-rated ULS structure assigns an equal share of the CCS switch investment costs to every port/user regardless of how much they use the switch and, therefore, contribute to CCS investment costs. The fundamental flaw in Ameritech's argument is that there is no evidence that such CCS investments exist. While it is undisputed that certain components of the switch accommodate usage, *there has been absolutely no demonstration that the costs of these components vary with usage*. That is, under Ameritech's switch vendor contracts, a high volume switch in downtown Chicago costs the same as a low volume switch in downstate Illinois.

This same flaw pervades Ameritech's last three "bullet points" on page 8 of its Brief on Exceptions. Ameritech contends that "[c]ost causation principles would require that cost allocation of CCS investment be based on each port/user's 'contribution' to the total CCS requirement of the switch." Because there is no evidence that these CCS costs (or, for that matter, any other usage-related costs) exist, cost causation principles dictate that ULS be *flat-rated* – not usage-based. Ameritech's final contention that cross subsidies would exist unless the usage patterns for ULS ports and non-ULS ports are identical is similarly flawed. Given the fact that the level of usage does not affect switching costs – as demonstrated by the overwhelming record evidence and Ameritech's own switch vendor contracts – usage patterns are immaterial to switching costs. As stated above, under Ameritech's switch vendor contracts, a high volume switch in downtown Chicago costs the same as a low volume switch in downstate Illinois. Thus, Ameritech's switching costs are independent of usage patterns. Thus, entirely contrary to Ameritech's argument, *for the Proposed Order to differentiate between customers served by high volume switches and those served by low volume switches based on usage when*

*costs do not differ based on usage would guarantee cross subsidies.* Only by adopting a flat-rated ULS rate structure – as the Proposed Order correctly does – will any cross subsidies be eliminated.

**E. Other State Commissions Are Adopting Flat-Rated ULS Structures.**

Finally, while Ameritech concedes that since Initial Briefs were filed in this matter, Wisconsin has orally joined the ranks of state commissions adopting a flat-rated ULS structure, Ameritech states that “the Wisconsin Commission has not yet adopted a final order in that docket (Docket No. 6720-TI-161).” Ameritech Br. on Exceptions, p. 11 n.4. While Ameritech is correct that a final order has not been issued in Wisconsin, nothing has occurred that would or should lead any party or state commission to believe that the final order will not adopt a flat-rated ULS structure consistent with the Commission’s oral ruling. In fact, a final order is expected any day and AT&T and WorldCom agree to supplement the record with that authority as soon as the Wisconsin Commission issues its final order.

The rest of Ameritech’s Brief on Exceptions raises nothing new and nothing that has not already been rejected by the Proposed Order. Even Ameritech recognizes this, indicating that rather than rehash its arguments as to why a per minute of use charge is appropriate in the ULS rate structure, it will simply refer the Commission and the ALJ to its earlier briefs. Ameritech Br. on Exceptions at 8. AT&T and WorldCom will not similarly rehash their arguments as to why the Proposed Order correctly rejects Ameritech’s arguments and correctly adopts a flat-rated ULS structure. As such, AT&T and WorldCom also respectfully refer the Commission and the ALJ to their Initial Brief, their Reply Brief and their Joint Brief on Exceptions, all in addition, of course, to the

overwhelming record evidence demonstrating that a flat-rated ULS rate structure is appropriate and should be maintained.

## **II. Response To Staff's Brief On Exceptions**

The arguments advanced by Staff in its Brief on Exceptions are somewhat perplexing in that it appears that Staff has now abandoned its position that the ULS rate should consist of a port rate and a separate local switch per Minute of Use (“MOU”) rate. On one hand, Staff indicates that the Proposed Order reaches the correct conclusion by rejecting Ameritech’s ULS-ST cost studies. On the other hand, Staff disagrees with and takes exception to the reasoning by which the Proposed Order reaches its conclusion with respect to the ULS-ST cost studies. Staff Brief on Exceptions at 2. However, nowhere in its Brief on Exceptions does Staff recommend, as Staff witness Dr. Liu did in testimony, that the Proposed Order should adopt a two-tiered ULS rate structure consisting of a flat rated port and a separate local switching per MOU rate.

By way of background, Staff witness Dr. Liu started with rates set forth in Ameritech’s ULS Alternative #2, consisting of a basic port rate of \$3.16 and a local switching usage per MOU rate of \$0.000283, and adjusted those rates to arrive at her final recommendation that the basic port should be set at \$2.27 and a separate local switching per MOU charge that should be set at \$0.000261. See Staff Initial Brief, pp. 54, 56. Accordingly, Staff’s recommendation in this proceeding was a two-tiered ULS rate consisting of a basic port rate and a local switching per MOU rate and was specifically based on Ameritech’s ULS Alternative #2.

Staff advanced this position despite the fact that the local switching per MOU rate associated with Ameritech's ULS Alternative #2 was purportedly designed to recover billing inquiry and measurement costs, as opposed to costs necessary to operate and maintain the switch -- which the TELRIC Order invited Ameritech to prove-up. Proposed Order, p. 5. While Dr. Liu's recommendation included this local switching per MOU charge, as adjusted to reflect Staff's recommended shared and common cost mark-up, Dr. Liu acknowledged on cross examination that she did not examine the billing and measurement costs that make up the per MOU charge of Ameritech ULS Alternative #2, nor did she review the cost study underlying the per MOU charge of Ameritech ULS Alternative #2. Tr. at 432-433.

Ameritech, AT&T and WorldCom agree that the Proposed Order unambiguously adopts a flat-rated ULS rate structure. For instance, Ameritech's Exception number 1 states that "Ameritech Illinois respectfully takes exception to the Proposed Order's recommendation to adopt the CLECs' purely flat-rated ULS rate structure." Ameritech Brief on Exceptions at 4. Similarly, AT&T and WorldCom commended the Proposed Order for clearly rejecting Ameritech's ULS Alternative 1 and ULS Alternative 2 pricing proposals because both "inappropriately contain per MOU charges." AT&T/WorldCom Joint Brief on Exceptions at 2; Proposed Order at 5.

Staff's Brief on Exceptions agrees with the Proposed Order's conclusion rejecting Ameritech's ULS-ST recommendations, but disagrees with the reasoning behind the Proposed Order's conclusion. As Staff put it, "while advanced in support of an impeccable conclusion [the Proposed Order's reasoning] is materially flawed and in need of revision." Staff Brief on Exceptions at 2. It is within Staff's Exception number 1 that

it sets forth its argument on why the Proposed Order should be changed to reflect a different rationale for rejecting Ameritech's recommendations. Staff Brief on Exceptions at 2-11. The replacement language proposed by the Staff to correct this perceived problem does not suggest any change to the Proposed Order's findings with respect to the adoption of a purely flat-rated port. That conclusion and the findings regarding the ULS rate structure reside on pages 4 through 6 of the Proposed Order. Staff's proposed replacement language only addresses the Proposed Order's recommendation with respect to the ULS rate found at page 21 of the Proposed Order. There is no exception taken by Staff to the Proposed Order's finding adopting a purely flat-rated port structure.

Based on the arguments contained in the Briefs on Exception, there appears to be no disagreement among the parties that the Proposed Order adopts a purely flat-rated ULS rate structure. It also appears based on Staff's Brief on Exceptions that Staff now supports a purely flat-rated ULS rate structure and has abandoned Dr. Liu's position that a local switching per MOU should be adopted. While Staff's Brief on Exceptions has injected some confusion as to Staff's position on the ULS rate structure, if AT&T and WorldCom accurately understand Staff's Brief on Exceptions, then Staff's change in position on the ULS rate structure is a welcomed development and AT&T and WorldCom fully support it.

Notwithstanding Staff's position on the issue of the ULS rate structure, AT&T and WorldCom do not agree with Staff's position on the appropriate rationale for rejecting Ameritech's recommendations in this proceeding. Staff takes exception to that portion of the Proposed Order's conclusion at page 21 that the primary flaw in Ameritech's ULS study was its failure to account for some 14 million lines. Rather,

according to Staff, Ameritech did account for the 14 million lines in its TELRIC/ULS study, contrary to the proposed Order's conclusion (as well as Dr. Ankum's assertion), by applying the single price equivalent ("SPE") to *all access lines*, including the 14 million existing lines.

Staff is incorrect. First, both Staff and Ameritech recognize<sup>2</sup> that the SPE is calculated based on less than 20 million lines and neglects to reflect the prices paid -- or that would be paid if the network was to be recreated from scratch -- for approximately 14 million lines. But more importantly, Staff appears to misunderstand the ARPSM and the NUCAT cost models. Staff incorrectly contends that the omission of the 14 million lines is compensated for in downstream calculations: "This [accounting for the 14 million access lines] is accomplished by applying the single price equivalent ("SPE") to *all access lines*, including the 14 million existing lines." Staff Brief on Exceptions at 7.

To be sure, in the NUCAT model (which is also referred to as the TELRIC/ULS study) the SPE is *never applied* to all access lines. All the calculations in the NUCAT (TELRIC/ULS) model are performed on a single line investment or single trunk investment basis. The number 20 million is simply not used by Ameritech -- either to calculate port costs or to calculate usage costs. That is, Ameritech never redeems its flawed methodology and elevates it to a TELRIC status by incorporating *all access lines*. Rather, Staff has taken Ameritech's representation on faith, but its faith is misguided. Again, the input into the NUCAT (TELRIC/ULS) model is the SPE. The model then takes the single price investments and divides it by single line and single trunk usage data. This method is not TELRIC -- at best, it is some form of a Short Run Incremental

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<sup>2</sup> As Staff correctly notes in its Brief on Exceptions: "Ameritech, however, did not include the 14 million of existing access lines in the ARPSM when it calculated the SPE." Staff Brief on Exceptions, p. 7.

Cost study. The FCC's TELRIC methodology, however, requires a long run methodology that assumes that in the long run, replacement of all lines in the network is required, as reflected in the FCC's First Report and Order in CC Docket 96-98:

**§ 51.505 Forward-looking economic cost.**

(b) *Total element long-run incremental cost.* The total element long-run incremental cost of an element is the forward-looking cost over the long run of the ***total quantity of the facilities and functions*** that are directly attributable to, or reasonably identifiable as incremental to, such element, calculated taking as a given the incumbent LEC's provision of other elements.

- (1) *Efficient network configuration.* The total element long-run incremental cost of an element should be measured based on the use of the most efficient telecommunications technology currently available and the ***lowest cost network configuration***, given the existing location of the incumbent LEC's wire centers.

Ameritech has simply failed to perform a proper TELRIC analysis.

Staff is also incorrect with respect to its criticism of the Proposed Order's recommendation regarding the relative percentages of replacement versus growth lines. Staff contends that "Dr. Ankum further skews the replacement/growth ratio by using a low projected growth rate over in the years outside the contract. The growth rates for the contract years range from 3.34% to 3.74% while Dr. Ankum chose a 3.24% growth rate for years 7 through 18 of the switches life." Staff Brief on Exceptions at 9.

Dr. Ankum's growth rates, however, are taken from Ameritech and are found in Ameritech's own ARPSM study, as indicated by Dr. Ankum at the bottom of ATT/WorldCom Ex. 1, Schedule AHA-2, attached to Staff's Brief on Exceptions. Moreover, although Ameritech disagrees with Dr. Ankum's overall recommendations, it never questioned or challenged the growth figures Dr. Ankum uses. In any event and as a practical matter, Staff's criticism concerning growth rates has only a negligible impact on

the cost calculations since the growth rates Staff criticizes are for the latter years in the switches' economic lives and any discrepancies -- small in the first place -- become even smaller after the ensuing net present value analysis is accomplished.

In describing its own growth line analysis, Staff states:

Instead of estimating growth lines into the future, Staff observed the ratio of replacement lines to growth lines over the long run. Staff's estimate is not skewed by risky predictions of the future line growth rates, it is instead informed by the reality of the current network.

Staff Brief on Exceptions at 9.

The major flaw in Staff's growth analysis is that it is based on very imprecise data regarding when switches were deployed and how many lines were placed into service at what point in time and at what prices. In a sense, Staff's growth analysis is backward-looking because it does not consider replacement of the *current network* but, rather, an historic evolution of Ameritech's network. Of course, if past growth rates were to correspond exactly with the growth rates Ameritech projects for the future (as found in ARPSM and as used by Dr. Ankum), then Staff's analysis and Dr. Ankum's analysis would generate the same results. Thus, and significantly, to the extent that Staff's results differ from those of Dr. Ankum, that difference is due in significant part to the fact that Staff's empirical analysis is handicapped by the missing data. As such, the Proposed Order correctly adopts Dr. Ankum's results.

### **III. Any Measurement Costs Are Already Included In The Daily Usage Feed**

It is irony at its best for Ameritech to contend that the portion of the Proposed Order referring to "daily usage feed" costs instead of "measurement" costs must be a

mere “oversight.” Ameritech Br. on Exceptions at p. 6 n.2. Indeed, as AT&T and WorldCom point out in their Joint Brief on Exceptions, the only data Ameritech needs to measure in a flat-rated ULS environment is the originating and terminating usage data so that CLECs can use this data – provided to them by Ameritech – to bill their own end users. As WorldCom witness Dr. Ankum pointed out, these costs are already being recovered via the Daily Usage Feed charge the CLECs pay Ameritech. Thus, it is no mere “oversight” that the Proposed Order refers to “daily usage feed” costs rather than measurement costs. In fact, the only measurement costs Ameritech needs to incur and recover are already included in the daily usage feed charges.<sup>3</sup>

Moreover, as AT&T and WorldCom discussed at length in their Joint Brief on Exceptions, to the extent Ameritech is entitled to assess a measurement charge at all, the charge would – even according to Ameritech -- be de minimis and should be recovered on a flat-rated basis.

#### **IV. The Proposed Order Should Reduce The Shared And Common Cost Allocation.**

AT&T and WorldCom wholeheartedly agree with Staff (Staff Brief on Exceptions at 11-15) that Ameritech’s shared and common cost markup is unreasonably high, and that it is clearly in excess of the shared and common cost factor used by the Company in ICC Docket Nos. 97-0601/0602. However, rather than adopting interim 28.86% cap on shared and common costs proposed by Staff, the Commission should adopt the

\*\*\*xxxxx\*\*\* figure proposed by Dr. Ankum, which is almost identical to the shared and

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<sup>3</sup> AT&T and WorldCom are mystified by Ameritech’s statement that the daily usage feed charges are not at issue in this proceeding. In fact, both Ameritech’s and AT&T/WorldCom’s witness addressed the appropriateness of a daily usage feed charge and the level of that charge, and the Proposed Order summarized the testimony presented and addressed the issue.

common cost markup adopted by the sister state commissions of Texas and Michigan. In fact, even Staff acknowledges that “a properly prepared shared and common cost study will produce factors averaging less than \*\*\*XXXXX\*\*\* because Ameritech’s operating expenses have declined since 1988 while the demand for its services has increased. Staff Ex. 6.0 at 9. Moreover, the 28.86% cap recommended by Staff in its Brief on Exceptions – the same cap adopted in ICC Docket Nos. 97-0601/0602 – was based on Ameritech’s shared and common costs *prior to the SBC/Ameritech merger*. Surely the merger has resulted in the merger savings SBC and Ameritech both anticipated and promised. As such, the shared and common cost allocator adopted in Texas and Michigan – Ameritech’s sister states – are appropriate and reflect at least a degree of merger savings.

In light of the above, AT&T and WorldCom recommend that the Commission adopt the ULS-ST structure and rate recommendations of AT&T/WorldCom witness Dr. Ankum incorporating the \*\*\*XXXX\*\*\* shared and common cost markup that is used in Texas and virtually identical to the one approved by the Michigan Public Service Commission.

**V. AT&T and WorldCom Agree With Staff That Ameritech’s AIN Service Logic Costs Should Be Reduced By 10%.**

AT&T and WorldCom agree with Staff that Ameritech’s AIN service logic costs should be reduced by 10% as recommended by Staff, for several reasons. Staff Br. on Exceptions at 15-17. First, Staff aptly notes that Ameritech has every incentive to impose as high costs as possible upon its CLEC competitors. In fact, Ameritech has never before hesitated to do so. Second, never once in all the dockets the parties have litigated and the Commission has resolved since the passage of the federal Telecommunications Act of 1996 has Ameritech underestimated its costs. Thus, it is safe to assume that the service

logic costs are, if anything, overstated. Moreover, as Staff points out, the record evidence suggests that the actual service logic costs were even less than the reduced costs recommended by Staff.

AT&T and WorldCom also disagree with Ameritech that the Proposed Order inappropriately spreads Ameritech's service logic costs across all switches in its network. While Ameritech contends that "[it] is undisputed that CLECs will not request custom routing of OS/DA at all of Ameritech's switches in its 5-state region" (Ameritech Br. on Exceptions at 21), there is no basis in the record for Ameritech to make that statement. In fact, even Ameritech backs off of its own statement by later stating that demand for custom routing of OS/DA via AIN will "likely" exist only at *some* of Ameritech's switches. *Id.* The reality is that as the unbundled network element platform becomes less restricted, more available and increasingly cost effective, the geographic reach of the CLECs' service offerings will increase. As the CLECs' geographic reach expands, so will the demand for custom routing of OS/DA at Ameritech's switches.

As such, the Proposed Order should be revised to adopt Staff's proposal on Ameritech's recovery of service logic costs.

## **VI. ULS-ST For IntraLATA Toll And Combinations To Serve New And Second Lines.**

In their Joint Brief on Exceptions, AT&T and WorldCom respectfully requested that the ALJ and the Commission revise the Proposed Order to make clear that since the record was marked "Heard and Taken" in this docket, the Commission and/or the Illinois General Assembly have already decided that Ameritech is obligated to allow CLECs to use ULS-ST for the transport of intraLATA toll traffic and that Ameritech is obligated to

provide CLECs with network element combinations so that CLECs can provide new and second lines to the CLECs' end users.

As Staff notes in its Brief on Exceptions, the Commission's initiating order in this docket specifically directed an investigation of these issues in this docket. Staff Brief on Exceptions, pp. 17-18. Certainly all of the language Staff proposes at pp. 18-41 is entirely consistent with the record evidence in this docket on these issues as well as Ameritech's obligations under existing Illinois statutes and Commission orders addressing these issues. Thus, to the extent the Commission deems it appropriate and/or necessary to reaffirm its conclusions and Ameritech's obligations in this docket regarding ULS-ST for intraLATA toll and Ameritech's provision of network element combinations to CLECs to serve new and second lines, AT&T and WorldCom agree that the inclusion of Staff's proposed language is appropriate.

**VII. AT&T and WorldCom Agree With Staff That The Commission Should Reaffirm Ameritech's Obligation To Provide Transiting As Part Of Shared Transport.**

AT&T and WorldCom agree with Staff that transiting is not beyond the scope of this docket but, rather, is a vital component of ULS-ST (i.e., shared transport) and a vital component of competition. AT&T and WorldCom also agree with Staff that to the extent the Proposed Order is at all ambiguous regarding Ameritech's obligation to provide transiting, it must be clarified immediately. The Commission's TELRIC Order already requires Ameritech to provide transiting. As such, there is nothing voluntary about Ameritech's transiting offering and reaffirming Ameritech's obligation to provide transiting in this docket will cause no harm or prejudice. Regardless of whether the Commission adopts Staff's proposed language or the proposed language of AT&T and

WorldCom, the Commission must make clear that Ameritech is under a current and continuing obligation to provide transiting as a vital component of shared transport.

### **VIII. The Proposed Order Correctly Declines To Resolve Reciprocal Compensation, Which Is Not A Part of ULS-ST.**

Contrary to Ameritech's contentions, the Proposed Order correctly declines to resolve the issue of reciprocal compensation in this proceeding. As Dr. Ankum pointed out, while Ameritech is presenting as a part of its shared transport rates an element for reciprocal compensation, it is important for the Commission to realize: (1) this proceeding is not about costs and rates for services such as reciprocal compensation or switched access rates; and (2) the cost studies presented in this proceeding do not provide a basis for setting more detailed reciprocal compensation rates. Most importantly, the ARPSM and NUCAT models presented in this proceeding do not identify TELRIC-based call set up and call duration costs. At issue here is the question: "what are costs?" Ameritech never identified "costs" following the cost causation process that is essential to the TELRIC methodology. Instead, Ameritech has used the traditional method – *developed in the old Part 32 and 64 Structural Separations Proceedings* -- of allocating costs based on MOUs.

The Commission should squarely reject this regressive costing effort for reciprocal compensation purposes. The usage based cost allocation methods in separations proceedings have been thoroughly discredited in the economic literature<sup>4</sup> and elsewhere. Indeed, for decades now ILEC economists and other economists have fumed against the irrational and, indeed, arbitrary nature of usage based cost allocation methods,

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<sup>4</sup> See, for example, Baumol, William J., Michael F. Koehn, and Robert D. Willig, "How Arbitrary is Arbitrary? – or, Toward the Deserved Demise of Full Cost Allocation," *Public Utilities Fortnightly*, September 3, 1987.

here used again by Ameritech. Further, the FCC itself, while not abandoning the Structural Separations framework for jurisdictional separations of access related costs, has rejected this type of costing method for purposes of UNE pricing<sup>5</sup> in favor of the TELRIC methodology that rigorously follows cost causation.

For all of these reasons, the Proposed Order properly finds that the reciprocal compensation Shared Transport rate element proposed by Ameritech is not appropriate. By rejecting Ameritech's proposed Shared Transport reciprocal compensation rate element, the Proposed Order leaves intact the four remaining Shared Transport rate elements, namely (1) ULS-ST SS7 Signaling Transport per Message; (2) ULS-ST Blended Transport Usage per MOU; and (3) ULS-ST Common Transport; and (4) ULS-ST Tandem Switching per MOU. Of the four remaining Shared Transport rate elements, Ameritech and AT&T/WorldCom disagreed on the rates applicable to two of those elements -- the ULS-ST Blended Transport per MOU, which AT&T/WorldCom calculated to be \$0.000386 and Ameritech calculated to be \$0.000710, and the ULS-ST Common Transport per MOU, which AT&T/WorldCom calculated to be \$0.000287 and Ameritech calculated to be \$0.000480. See AT&T/WorldCom Ex. 1.1 (Ankum Rebuttal) at 16. Thus, the Shared Transport rates adopted by the Proposed Order are those that appear in Ameritech Illinois Ex. 2.2, Schedule WCP-3S under the column entitled "New ATT/WCOM."

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<sup>5</sup> The FCC's rejection of the traditional cost allocation methods based on usage is found throughout the *Local Competition Order*, First Report and Order, CC Docket 96-98.

**IX. Conclusion**

Wherefore, AT&T and WorldCom respectfully requests that the Proposed Order be revised consistent with AT&T and WorldCom's Joint Brief on Exceptions and the foregoing Joint Reply Brief on Exceptions.

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Dated: March 13, 2002