

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter, on the Commission's own motion,)
to consider Ameritech Michigan's compliance)
with the competitive checklist in Section 271 of)
the Federal Telecommunications Act of 1996)

Case No. U-12320

REPLY AFFIDAVIT OF
RICHARD J. FLORENCE
ON BEHALF OF
AMERITECH MICHIGAN

DATED: JULY 30, 2001

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I, Richard J. Florence, being first duly sworn upon oath, do hereby depose and state as follows:

INTRODUCTION

1. My name is Richard J. Florence. I am Director – Cost Analysis and Regulatory at SBC Communications, Inc. My business address is 444 Michigan Avenue, Detroit, Michigan 48226. I am the same Richard J. Florence who sponsored an affidavit filed with Ameritech Michigan’s brief in this proceeding on May 15, 2001. I hereby verify, based upon my personal knowledge, the accuracy of each and every fact contained in the Affidavit I am filing today, July 30, 2001, in Michigan Public Service Commission Case No. U-12320. I further verify, based upon my personal knowledge, the accuracy of each and every fact contained in the Affidavit I filed on May 15, 2001 in Case No. U-12320.

PURPOSE OF REPLY AFFIDAVIT

2. The purpose of this reply affidavit is to respond to certain inaccuracies and allegations on cost matters made by other parties in their affidavits or briefs submitted in response to Ameritech’s May 15, 2001 Checklist Informational Filing with the Michigan Public Service Commission (MPSC). I will reply to certain of MCI WorldCom’s remarks on two OS/DA branding rate elements, retail DA service and DA listings service. Also, I will comment on McLeodUSA’s allegation that digital remote switching technology should not be reflected in forward looking TELRIC studies. Additionally, I will respond to arguments made by the Michigan Consumer Federation regarding the costs of Ameritech’s basic local services. Finally, I will present the history related to the cost development of the Centrex System Features – Per Common Block rate element in response to comments on this element brought by CLECA & LDMI.

REPLY TO MCI WORLDCOM

3. Ameritech's overall compliance with the MPSC's order in Case No. U-11831, including its tariff filings, are addressed in the reply affidavits of Robin Gleason and Jan Rogers. I specifically address WorldCom's claims regarding cost support for certain OS/DA rate elements. Both in WorldCom's brief (pages 31-32) and in the affidavit of WorldCom affiant Hurter (pages 6-7), WorldCom questions the addition of two new OS/DA rates to Ameritech's unbundled operator services tariff made in the May 2001 timeframe. World Com alleges that since these rates were not approved in the compliance phase of the Michigan Second Biennial Cost Filing, Case No. U-11831, Ameritech is charging rates "not approved in the TSLRIC costing case for OS". The two rates in question are a per call branding charge of \$.022 and a non-recurring charge per switch of \$2,169.31.

4. Ameritech affiant Jan Rogers explains in her reply affidavit why these two rate elements were appropriately added to the tariff after the compliance phase of Case No. U-11831. I will comment on my review of the cost study that underlies the development of these two rate elements.

5. The TELRICs for these two rate elements were developed in a May 2001 cost study called Service Provider Identification (SPID) Branding. The cost study methodology for SPID based branding followed the basic TELRIC methodology used in the UNE cost studies approved by the MPSC in Case No. U-11831, except that the SPID Branding costs were projected to year 2002, rather than the year 2000. Certain of the investments and annual cost factors used to develop the TELRIC for the branding per call rate element, however, were not modified to conform with the MPSC's orders issued in that proceeding. As a result, these factors and investments were changed to conform with the MPSC orders and the TELRIC for that rate

element was re-calculated.¹ After adding the loadings for shared costs, common costs and revenue related expense, the price changed in the fourth decimal from \$.0224 per call to \$.0220 per call. Since the tariff rate goes out to three decimal places, i.e., \$.022, there is no impact on the existing rate as a result of these changes.

6. In its brief (page 58), WorldCom remarks that Ameritech does not have a TSLRIC study for DA services that has been approved by the MPSC. WorldCom points to a quote from a recent MPSC order in Case No. U-12765 in support of its statement. In that proceeding, Ameritech sought to obtain MPSC approval to declare *retail* DA service competitive pursuant to Sections 207 and 701 of the Michigan Telecommunications Act (MTA). The MPSC declined Ameritech's request, in part, because it did not have an approved *retail* DA service TSLRIC study. Consequently, in order to comply with that aspect of the MPSC's order, Ameritech recently filed a TSLRIC study on July 6, 2001 for *retail* DA service in Case No. 13007 and once again requested that the MPSC declare *retail* DA service competitive as defined by the MTA.

7. WorldCom, however, leaps to the conclusion that the MPSC was actually referring to DA Listings, not DA service when it made the statement WorldCom quoted from the U-12765 order. WorldCom is simply wrong. While WorldCom raised the issue of DA Listings in its comments filed in U-12765, it is evident from a complete reading of the MPSC's order that it was correctly referring to retail DA service, not DA Listings as WorldCom alleges.

8. In order to comply with the MPSC's November 16, 1999 order in U-11831, Ameritech filed a DA Listing cost study titled, Advanced Dialing Parity-DA Listings, in December 1999 and an unbundled OS/DA study in January 2000. After parties were given the opportunity to comment on Ameritech's compliance filing, the MPSC issued its final order on

¹ I understand that the revised cost study supporting the tariff change made in May was filed on a confidential basis with the MPSC.

August 21, 2000. As a result of that order, no further changes were required to be made to the DA Listing cost study and the only change that needed to be made to the unbundled OS/DA cost study was that the DA portion be broken out and put into a separate cost study. No other changes were required.

9. On page 59 of its brief, WorldCom speculates that in its August 31, 2000 order in U-11831, the MPSC expressed concern that Ameritech did not want to provide DA listings and decided to defer the issue to some other proceeding. What the MPSC actually stated in that order on this matter is provided below.

“MCI WorldCom objects to the advanced dialing parity DA listings study. The Staff says that there should be only one study for all DA services. Ameritech Michigan says that DA is not a UNE that it must offer at TSLRIC.

The Commission agrees with Staff that there should be one study for all DA services. It is not permissible to compute different costs depending upon who is purchasing the service. However, this proceeding does not provide the opportunity to resolve Ameritech Michigan’s recent claim that DA services are not UNEs and need not be priced as such. Therefore, Ameritech Michigan shall offer and price DA services as a UNE until the issue is resolved in some other proceeding”.

It’s difficult to understand how WorldCom could interpret this portion of the MPSC’s order to mean that the MPSC “was concerned that Ameritech did not want to provide” DA Listings. (WorldCom brief at page 59)

10. In conclusion, the two new SPID based branding prices are based on TELRIC costs even after the minor corrections made to the original cost study. Also, Ameritech did submit a DA listings cost study in the compliance phase of U-11831 and has recently submitted a retail DA service TSLRIC study in U-13007.

REPLY TO MCLEODUSA

11. In its brief (page 18), McLeodUSA argues that “a remote switch cannot exist in a cost model based on forward looking cost principles” and that “SBC’s applicable cost models do not include remote switches”. As a result, McLeodUSA concludes that requiring it and other CLECs to collocate in remote switch locations in order to have access to unbundled loops served by such remote switches is improper since “SBC is attempting to impose extra charges on McLeodUSA for an embedded cost in violation of TELRIC principles.” Ameritech’s affiant Alexander will address McLeod’s allegations with regard to Ameritech’s collocation policy in his reply affidavit. I will comment on why remote digital switching technology is properly included in a forward looking TELRIC study and is in fact reflected in the cost models used by Ameritech in retail and UNE forward looking cost studies approved by the MPSC in various proceedings, most recently, in Case No. U-11831.

12. Remote digital switching technology is deployed in Ameritech’s network at various locations. Remote switches are connected to their digital host switches by fiber optic facilities and associated equipment commonly called host – remote umbilicals. The umbilicals are used to carry control signals, as well as voice and data, between the host and remote switches and, in those cases where both the called and calling parties are not served by the same remote switch, the umbilicals are also used in the end – to – end connection of the call. Both digital host and digital remote central office switches are truly part of a forward looking network.

13. Whenever an unbundled loop terminates in a remote switch, the cost study reflects only the loop costs from the end user’s premises up to the remote switch. That is because the loop characteristics reflected in the cost study are for the feeder, distribution and drop facilities, including the main distributing frame termination at the remote switch. The cost study does not include additional costs for a digital loop carrier system that may be required, at times, to extend

the loop on an unbundled basis, when necessary, from the remote switch to the host switch.

14. Contrary to McLeodUSA's allegation, remote switches have been and continue to be reflected in the cost models used in conducting TELRIC or TSLRIC studies.

15. In the TELRIC cost studies recently approved by the MPSC in U-11831, remote switches are reflected in the Ameritech Facility Analysis Model (AFAM), Ameritech Regional Partners In Provisioning Switching Model (ARPSM) and the Network Cost Analysis Tool (NCAT) cost models described in Attachment A, affixed to my May 15 affidavit submitted in this proceeding.

16. For example, the AFAM cost model is used to develop loop investments. In those instances where the loop terminates in a remote switch, the model reflects the loop components from the end user's premises up to the remote switch, not some host switch that can be miles away. Also, the ARPSM cost model, which is used to determine central office line terminating and usage related investments, also accounts for both digital host and remote central office switches. In yet another example, the NCAT cost model, used to determine the per call and per minute costs for various types of calls, also identify both digital host and remote switch locations. Accordingly, McLeod's claims are contradicted by the MPSC's adoption of the use of these cost models.

REPLY TO THE MICHIGAN CONSUMER FEDERATION

17. On page 17 of its comments, the Michigan Consumer Federation claims that Ameritech "lowers the cost of its most competitive offerings while maintaining or even raising the very least competitive offering -- basic rates". I can only assume that the Federation meant to allege that Ameritech lowers the "rate", rather than "cost" of its competitive offerings and increases the "rate", rather than "cost" of its basic rates. I will comment further on the costs for basic local services while the Gleason reply affidavit will comment on certain of the pricing

issues raised by the Federation.

18. Ameritech does not arbitrarily increase or decrease the costs of its services, at will, as the Federation's comments might suggest. As explained in my May 15 affidavit in this proceeding, Ameritech had submitted in December 1999, January 2000, and October 2000, TELRIC and TSLRIC cost studies that comply with the MPSC's orders in Case No. U-11831. These cost studies, which include cost studies for basic local services, have been approved after extensive scrutiny by both the MPSC and the CLECs, but not before all parties to that proceeding had the opportunity to express their views on what they believe needed to be modified from the original set of cost studies submitted by Ameritech back in January 1999. Additionally, after going through a similar rigorous filing and approval process, Ameritech had earlier TSLRIC studies for basic local services approved by the MPSC in its compliance filing made in February 1998 in Case No. U-11280. Consequently, the Federation's 'off the cuff' remarks regarding Ameritech's seeming ability to change its costs at will should be disregarded by the MPSC.

RESPONSE TO CLECA & LDMI

19. On pages 39-40 of his affidavit, CLECA & LDMI affiant Finebrock observes that Ameritech has a Centrex System Features – Per Common Block monthly charge of \$354.86 in its unbundled local switching tariff which he believes is inappropriate. This rate was originally approved by the MPSC in U-11280. The cost study supporting that rate was one of the cost studies submitted on February 11, 1998, in the compliance phase of U-11280, the first biennial cost docket. That cost reflected the investment in central equipment required to provide these Centrex system features. At the time those cost studies were performed, Ameritech's cost models reflected Ameritech's switch vendor pricing arrangements or contracts in place at that time. These contracts typically reflected individual prices for each discrete component of central office switching equipment, along with the vendor discounts that applied to each company such as

Ameritech Michigan. However, the contracts that Ameritech had with its switch vendors when the latest cost studies were prepared in Case No. U-11831, are much different than the previous contracts. The newer contracts eliminated much of the discreet component pricing that was reflected in the prior contracts and were offered on a regional, rather than individual state basis. Ameritech's new cost models reflect these changes.

20. As the new vendor contracts did not contain any specific incremental price for these Centrex system features, Ameritech did not include any specific incremental cost for these system features in either its original or compliance cost studies submitted and ultimately approved in U-11831. It was an oversight that the original rate was carried over in the current tariff. This is also discussed in the Alexander reply affidavit.

21. This concludes my affidavit.