EXHIBIT MRB–4T

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of Qwest Corporation to Initiate a Mass-Market Switching and Dedicated Transport Case Pursuant to the Triennial Review Order	**Docket No. UT-033044**

REBUTTAL TESTIMONY

OF

MICHAEL R. BARANOWSKI

ON BEHALF OF

AT&T COMMUNICATIONS OF THE PACIFIC NORTHWEST, INC., AT&T LOCAL SERVICES ON BEHALF OF TCG SEATTLE, AND TCG OREGON
(COLLECTIVELY "AT&T")

BUSINESS CASE

FEBRUARY 20, 2004

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I. INTRODUCTION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Michael R. Baranowski. My business address is 1201 I Street, NW, Suite 400, Washington, D.C. 20005.

Q. ARE YOU THE SAME MICHAEL R. BARANOWSKI WHO PREVIOUSLY FILED DIRECT AND RESPONSE TESTIMONY IN THIS PROCEEDING?

A. Yes. My direct testimony introduced the AT&T Business Case Analysis Tool ("BCAT"). My response testimony addressed the flaws in Qwest's business case analysis referred to as the CLEC Profitability Model ("CPRO").

II. PURPOSE AND SCOPE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my Rebuttal Testimony is to respond to the criticisms of the BCAT raised in the Response Testimony of Qwest witnesses Peter B. Copeland and Richard J. Buckley, Jr.[1] My testimony addresses each of the criticisms raised by Messers. Copeland and Buckley as they relate to the BCAT and demonstrates that each echoes Qwest's distorted view of effortless CLEC entry to serve only the cream of the mass-market crop in Washington and attain lofty profits with no erosion in price. If Messers. Copeland and Buckley's views on CLEC entry were

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[1] See *Response Testimony of Peter B. Copeland on Behalf of Qwest Corporation*, In the Matter of the Petition of Qwest Corporation to Initiate a Mass-Market Switching and Dedicated Transport Case Pursuant to the Triennial Review Order, Before the Washington Utilities and Transportation Commission, Docket No. UT-033044, February 2, 2004 and *Response Testimony of Richard J. Buckley, Jr. on Behalf of Qwest Corporation*, In the Matter of the Petition of Qwest Corporation to Initiate a Mass-Market Switching and Dedicated Transport Case Pursuant to the Triennial Review Order, Before the Washington Utilities and Transportation Commission, Docket No. UT-033044, February 2, 2004.

indeed accurate, facilities based CLECs would be rushing to enter using only UNE-L. This obviously is not the case.

Q. PLEASE SUMMARIZE THE TESTIMONY OF MR. COPELAND AS IT RELATES TO THE BCAT.

A. Mr. Copeland raises three specific issues related to the inputs and documentation of the BCAT. First, he argues that the revenue inputs to the BCAT do not reflect the "prevailing" prices of today and are thus in violation of the FCC's directives. Second, he alleges that certain of the BCAT inputs, particularly those relating to customer churn and customer acquisition costs, are unsupported. Third, he argues that certain of the BCAT inputs are not internally consistent, asserting that costs should be somehow synchronized with revenues.

Q. PLEASE SUMMARIZE THE TESTIMONY OF MR. BUCKLEY AS IT RELATES TO THE BCAT.

A. Mr. Buckley comes at the BCAT from a different angle. First, he criticizes the BCAT results as too pessimistic because, under a sensitivity analysis he has run, the BCAT would show that an efficient CLEC would not be profitable under UNE-P. Mr. Buckley next compares certain of the key inputs and assumptions between the BCAT and the CPRO and asserts that the financial construct of the two models are fundamentally different. Mr. Buckley next identifies a number of minor errors in the DS0 and BCAT analyses and then restates the BCAT result by changing a number of the key inputs to those used by the CPRO.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. In my testimony I explain that the BCAT is consistent with the business case analysis required by the TRO and that the results it produces are in line with those that would be experienced by an efficient CLEC today entering the Washington market as a facilities based competitor to serve mass market customers via UNE-P. I address the issues raised by both Messrs. Copeland and Buckley as they relate to the efficient CLEC that is modeled within the BCAT, the structure of the BCAT analysis, and certain of the inputs and other assumptions within the model and explain why Qwest is wrong. I also address the technical errors raised by Qwest and explain that most of what Qwest identifies as errors are not errors but rather inputs or assumptions that are different than what Qwest believes they should be. Finally I rerun the BCAT to correct three errors identified by Qwest and demonstrate that an efficient CLEC cannot profitably enter the Washington mass market as a facilities based provider using UNE-L.

Q. WHAT ARE THE CONCEPTUAL UNDERPINNINGS OF THE BCAT?

A. The efficient CLEC envisioned by the BCAT is a CLEC in existence today that serves the enterprise market via collocation and its own backbone backhaul network to transmit the customer signals from the collocation facilities to its owned switches. The BCAT assumes this CLEC will expand its facilities to reach the mass market customer base within each market. Specifically, to serve mass market customers from its existing collocation facilities, the efficient CLEC will incrementally add equipment as its mass market customer base expands. For those wire centers within the market that are not on the backbone node ring, the BCAT develops the cost for new collocation facilities and equipment, and assumes that transport to transmit the signals back to the node ring will be provisioned via special access leased from the ILEC. Similar assumptions are made regarding transport, where only the incremental costs associated with serving the mass market are included.

The BCAT defines the market to be served in the broadest practical context in order to maximize economies of scale and minimize costs per line. For Washington, the BCAT defines the market as the LATA. Because the efficient CLEC benefits from economies of scale, it does not discriminate in determining the customers it will serve. As such, revenues assumed within the BCAT are based on the average revenues paid by customers today within each market as derived from existing tariffs and data gathered from TNS, less a 10 percent adjustment to reflect the benefits of increased competition. In addition to basic services, revenues include those available from the provision of long distance services and other features. Beyond the base year, revenues are assumed to decline further due to the effects of competition. The rate of decline is based on historic observations from various publicly available sources.

The BCAT includes costs from a variety of sources. Backhaul and customer transition costs are developed in the DS0 tools and fed to the BCAT. Loop costs are based on UNE-L rates in effect today, while customer acquisition costs and certain other operating expenses are derived from publicly available sources, including ARMIS. It is assumed that the efficient CLEC does not own the long haul backbone network but, instead, purchases long haul capacity at wholesale rates.

In addition, the efficient CLEC modeled by the BCAT is assumed to experience customer churn comparable to that experienced by CLEC's serving customers today. Also, the customer acquisition costs used are consistent with the level of revenues that are assumed.

Overall, the BCAT is designed to paint a realistic picture of the experience of an efficient CLEC serving the mass market.

Q. IS THE CLEC MODELED BY THE BCAT CONSISTENT WITH THAT ENVISIONED BY THE FCC IN THE TRO?

A. Yes. The TRO requires an analysis of the most efficient business model for entry.[2] The efficient CLEC analyzed within the DS0 Tools and the BCAT meets that criteria. By assuming that the efficient CLEC will be able to expand the capacity of an already robust and efficient backhaul network built to serve enterprise customers, it can efficiently extend its service to reach the mass market.

Q. ARE THERE PHILOSOPHICAL DIFFERENCES IN THE TYPE OF EFFICIENT CLEC THAT IS MODELED BY THE BCAT AND QWEST'S CPRO?

A. Yes there are. The Qwest CPRO attempts to model a start-up CLEC that will target and obtain only the most profitable customers in small segments of the

[2] *TRO* ¶517 and *TRO* FN 1579

Washington market. As a start-up, the CPRO CLEC is not assumed to have an existing enterprise customer base or to own its own transport backhaul network. Rather the CPRO CLEC will provision backhaul by leasing transport facilities at UNE rates.

COPELAND

Q. MR. COPELAND ASSERTS THAT THE BCAT IS A CURSORY ANALYSIS THAT DOES LITLE MORE THAN IDENTIFY A HANDFUL OF COSTS. DO YOU AGREE?

A. Not at all. In fact, the BCAT and the CPRO sponsored by Mr. Copeland evaluate basically the same types of cost and revenue inputs, although the CPRO does so over an unrealistically long time period. The difference, as demonstrated in my Response Testimony, is the level of the inputs. Once correct inputs are placed into the CPRO, it produces results comparable to those generated by the BCAT.

Q. BOTH MESSRS. COPELAND AND BUCKLEY CLAIM THAT THE BCAT IS INVALID BECAUSE IT DOES NOT EMPLOY A TRADITIONAL DISCOUNTED CASH FLOW ANALYSIS. DO YOU AGREE?

A. No. Both Messrs. Copeland and Buckley complain that the BCAT does not meet the criteria of the business case analysis required by the FCC. However, the FCC does not dictate a template or preferred format for the business case. The approach used by the BCAT is to consider all of the revenues and costs that would be incurred by the efficient CLEC over a ten year analysis period and develop an average or levelized profit or loss per line over that period. This approach is generally consistent with the FCC's Synthesis Model which it developed to determine Universal Service Funding requirements.

The CPRO takes a different approach and develops a set of standard financial reporting schedules including an income statement, balance sheet and cash flow analysis. The CPRO then discounts the resultant cash flows to determine their net present value. Although there are some philosophical differences between the two models, including the appropriate timeframe over which to conduct the business case analysis, the models conceptually evaluate a comparable set of inputs.

Q. QWEST'S WITNESSES SUGGEST THAT THE LEVELIZING THAT OCCURS WITHIN THE BCAT IS A DELIBERATE ATTEMPT BY AT&T TO OBSCURE THE YEAR-TO-YEAR BCAT RESULTS. DO YOU AGREE?

A. This contention by Qwest is puzzling to me. The BCAT presents its results as the levelized profit or loss per line over the ten year analysis period while the CPRO displays its results as the cumulative net present value of the cash flows over its 25-year analysis period. Both models include revenue and cost information by year and it is a straightforward exercise to modify slightly the BCAT algorithms to produce results by year. In fact, Qwest is aware of this ability within the BCAT because Mr. Copeland includes (at page 24) a table in his testimony comparing annual revenues per line assumed by each model. Overall, the respective models contain the comparable levels of underlying detail, but display results differently. The real differences relate to the assumptions regarding the structure of the modeled CLEC, the time frame and the inputs.

Q. CAN THE RESULTS BCAT RESULTS BE DISPLAYED ON AN ANNUAL BASIS?

A. Yes. **Exhibit MRB-5** to my testimony summarizes the BCAT results annually both on a per line basis and in aggregate.

Q. DOES MR. COPELAND AGREE WITH THE REVENUE ASSUMPTIONS REFECTED IN THE BCAT?

A. No. Mr. Copeland has three criticisms of the revenues in the BCAT. First, he argues that the starting revenue assumptions for the business case analysis should ignore both historical trends and the impacts of competition and technological improvements and be the same as those in effect today. Second, he believes that the mass-market to be served by the efficient CLEC would only include high margin residential and business customers so that the profile of the average Qwest customer is irrelevant. Third, Mr. Copeland argues that revenues should not reflect any downward trend reflecting the pressures from increased competition going forward.

Q. DO YOU AGREE THAT STARTING REVENUES FOR THE BUSINESS CASE SHOULD BE BASED ON CURRENT PRICES?

A. No. The FCC throughout the TRO explains that the business case analysis should consider the potential revenues available to an efficient entrant. While Mr. Copeland cites a footnote to the TRO characterizing prices and revenues prevailing at the time of the analysis as being reasonable proxies, other statements within the TRO indicate the opposite. For example, TRO ¶518 seeks input regarding universal service payments and implicit support flows *"recognizing that rates are likely to change over time in response to competition."*

Thus, prevailing prices are only relevant in the absence of reasonable observations of the actual effects of competitive entry. The base year revenues in the BCAT reflect a 10 percent reduction from the rates currently in effect in Washington today. This reduction is based on the fact that entrants into the Washington mass market have already reduced prices below the Qwest prevailing rates and that this trend is likely to continue. As discussed in more detail below, Qwest and other CLEC's recognize and have factored into their financial forecasts price declines from competitive pressures.

Q. DO YOU AGREE WITH MR. COPELAND THAT THE BCAT REVENUES SHOULD BE BASED ONLY ON THE HIGHEST MARGIN CUSTOMERS AND NOT BE REFLECTIVE OF THE AVERAGE REVENUES AVAILABLE FROM MASS-MARKET CUSTOMERS?

A. No. The FCC is consistent throughout the TRO in explaining that the evaluation of the potential for economic entry should be based on the likely revenues an entrant would obtain, not the highest revenues. In order to benefit from the economies of scale available in serving mass market customers across an entire LATA, the efficient CLEC cannot be selective in determining the customers it will or will not serve. As such, while there should be no dispute that CLECs may target the high end customers, the reality is they will serve all aspects of the mass-market.

Q. MR. COPELAND ARGUES THAT IT IS WRONG TO ASSUME AVERAGE REVENUES WILL DECLINE AS A RESULT OF COMPETITION IN THE FUTURE. DO YOU AGREE?

A. No. It is unrealistic to assume that future prices for local telephone service will not decline in the future as a direct result of competition. One need only to review the published materials of those CLECs currently providing service in Washington to realize that price is the primary marketing vehicle. The BCAT models entry by only one efficient CLEC into the Washington market. As multiple CLECs enter, there will be more pressure to garner additional market share to defray the substantial cost of provisioning backhaul and switching, resulting in even more competitive pricing.

Q. DOES QWEST, IN ITS PUBLIC FILINGS, ACKNOWLEDGE THAT PRICES ARE LIKELY TO DECLINE FROM CURRENT LEVELS AS A DIRECT RESULT OF COMPETITION?

A. Yes. In its 2002 10-K, which was filed by Qwest on January 13, 2004, Qwest admits that it has begun to experience and expect increased competitive pressure from telecommunications providers either emerging from bankruptcy protection or reorganizing their capital structure to more effectively compete. As a result of these pressures, Qwest has been and may continue to be forced to respond with less profitable product offerings and pricing plans to retain and attract customers.[3] In that same report, Qwest explains that in both 2000 and 2001, it was forced to reduce rates to business customers to remain competitive.[4] Such actions are likely

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[3] Qwest Form 10-K, Filed: January 13, 2004 (period: December 31, 2002), page 25.
[4] *Id*. at 28.

to continue as competition increases. A copy of the relevant excerpts from Qwest's 10-K is included as **Exhibit MRB-6**.

Q. DO YOU HAVE INFORMATION FROM THE CLEC'S RELATING TO THEIR PRICING POLICIES?

A. Yes. In its 2002 10-K, Allegiance Telcom, Inc. explains that it competes principally with existing incumbent carriers in its targeted markets, including BellSouth, SBC, Verizon and Qwest, and typically prices its basic local services at a discount to the ILEC's prices for comparable services.[5] Similarly, XO Communications explains that it offers a variety of voice applications and services, generally to businesses at prices significantly lower than for comparable local services from the incumbent carrier.[6] McLeodUSA explains that it competes with local telephone companies including Qwest, SBC, BellSouth and Verizon and that as these firms and others like them enter the markets where McLeod has focused its sales efforts, downward pressures on prices for services may occur, negatively affecting its returns.[7] Copies of the relevant excerpts from the Allegiance, XO and McLeod 10-Ks are included as **Exhibit MRB-9**.

Q. MR. COPELAND ASSERTS THAT EVEN IF SOME PRICES FOR SERVICES DECLINE, REVENUE PER LINE WILL REMAIN UNCHANGED BECAUSE OF THE CREATION OF NEW SERVICES AND REVENUE OPPORTUNITIES. DO YOU AGREE?

A. No. Mr. Copeland's theory fails to consider that before an efficient CLEC can tap into revenues generated by the creation and adoption of new services and revenue

[5] Allegiance Telecom, Inc., Form 10-K For the Fiscal Year Ended December 31, 2002, page 14.
[6] XO Communications, Inc., Form 10-K, For the Fiscal Year Ended December 31, 2002, page 6.
[7] McLeodUSA Annual Report & Form 10-K/A, Year 2002, page 24.

opportunities, investments are required to obtain the equipment and other assets required to provision these new services. Neither the BCAT nor the CPRO provide for this additional investment. It would therefore be inappropriate to count these speculative revenues.

Q. MR. COPELAND FAULTS YOU FOR FAILING TO CHANGE COSTS OR MODIFY MARKET DEMAND TO BE CONSISTENT WITH THE ANTICIPATED FUTURE DECLINE IN REVENUES. IS HE CORRECT?

A. No. Mr. Copeland's statement ignores the fact that the forecasted price declines are a function of increased competition in the local market and are not related to the costs of the efficient CLEC. Costs are based on the actual expenditures as reported in publicly available data including ARMIS. These costs are not likely to be impacted by the competitive forces that will drive revenues down. If anything, costs will likely increase in the future due the effects of inflation, which the BCAT conservatively does not consider.

Q. MR. COPELAND CLAIMS THAT A CLEC SHOULD BE ABLE TO REDUCE ITS CUSTOMER ACQUISITION COSTS WHEN IT IS MERELY MAINTAINING MARKET SHARE. DO YOU AGREE?

A. In the context of total customer acquisition costs, I agree. However, I do not agree with respect to acquisition costs per customer.

The Qwest CPRO model assumes that customer acquisition cost per customer will decrease by 25 percent after year five when the target market share has been achieved. Qwest has not provided any documentation, nor is there any reason to expect the average acquisition cost per customer will decline. The effort required to obtain a new customer will not change simply because the target market share has been achieved. In fact, there is ample reason to expect that as competition increases, customer acquisition costs will increase as incentive plans become more attractive.

Again, it is important to distinguish total customer acquisition costs. Because the volume of new customers acquired annually will drop dramatically once the target market share has been achieved, the BCAT recognizes that overall annual customer acquisition costs will experience a corresponding drop.

Q. ARE THE BCAT CUSTOMER ACQUISITION COSTS SUPPORTED?

A. Yes. Contrary to Mr. Copeland's assertion that the BCAT customer acquisition costs are unsupported, AT&T has produced in discovery the source of those costs. They are developed from a Bank of America Securities report entitled Research Brief – Wireline Telecommunications and an AT&T report entitled A Case for Consumer Services.

BUCKLEY

Q. MR. BUCKLEY CONTENDS THAT THE BCAT SHOWS AN EFFICIENT CLEC WOULD LOSE MONEY PROVISIONING UNE-P AND CONCLUDES THE BCAT FAILS WHAT HE CALLS A SANITY TEST. PLEASE COMMENT.

A. Trying to apply BCAT to UNE-P is irrelevant to this proceeding. BCAT analysis does not replicate UNE-P entry except in "ad hoc" way. Model was designed to produce UNE-L profitability and simply backing out the DS0 Impairment costs, while it may provide a rough proxy for what UNE-P entry case might look like, does not capture all aspects of UNE-P. As such, this sort of "back of the envelope" adjustment to a complex model is not appropriate and a critique of the model on this basis is not relevant.

Qwest's assertion is a distraction meant to divert the Commission from the issue of whether UNE-L is profitable. It cannot be the case that properly priced UNE-P entry is unprofitable in a LATA -- that is UNE-P priced at appropriately measured TELRIC levels -- because if that were the case, even Qwest would not be sustainable as a viable business.

Q. MR. BUCKLEY ARGUES THAT DEPRECIATION IS IMPROPERLY REFLECTED IN THE BCAT. PLEASE COMMENT.

A. The BCAT and CPRO both reflect some measure of depreciation but just because they treat depreciation differently, it does not mean that either presentation is wrong. In building its report of annual cash flows, the CPRO computes earnings before depreciation, interest and taxes ("EBITDA") and then deducts interest and depreciation to determine taxable income. The CPRO then computes annual income tax liability and then net income. Mr. Buckley argues that these steps are needed to recognize that the start-up CLEC modeled by Qwest will not have any income in the early years of operation and will thus have no income tax liability.

The BCAT handles depreciation differently. In a manner that is consistent with the approach taken by the FCC's Synthesis Model, both the BCAT and the DS0 tools use annual cost factors to convert investments to the annual cash flow that would be required to recover the return of investment (i.e., depreciation) and return on investment plus an allowance for taxes and annual operating expenses.

These annual recovery requirements are then compared with anticipated revenues to determine if sufficient revenues are available to cover costs.

Q. MR. BUCKLEY ASSERTS THAT THE TWO SWITCH ASSUMPTION IS SIMPLY A MEANS TO INFLATE COSTS. DO YOU AGREE?

A. No, I do not. The business case assumes that the network is deployed to serve enterprise customers. The demand, therefore, is sized to address the enterprise and the incremental demand of the mass market, not just the mass market. In addition, two switches addresses the single point of failure concern.

Q. MR. BUCKLEY IDENTIFIES FOUR CORRECTIONS HE CLAIMS NEED TO BE MADE TO THE BCAT ALGORITHMS. HAVE YOU REVIEWED THESE AND DO YOU AGREE WITH HIS ASSESSMENT?

A. I have reviewed the four algorithm corrections discussed by Mr. Buckley and agree that two of the corrections he identifies in this section of his testimony have merit.[8] These relate to the calculation of the churn amount that occurs in the handoff between the DS0 Tools and BCAT and the calculation of the land cost attributable to switches. As described below, I have rerun the BCAT correcting these two inadvertent errors. Of the other two, the problem with the application of the maintenance factors was corrected in a discovery response and is discussed in the rebuttal testimony of AT&T witness Doug Denney. Mr. Buckley's last correction is actually a change to the cost of acquiring small business customers and should be rejected.

[8] Mr. Buckley also raises an issue regarding the application of the other tax factor in the DS0 Tools and the BCAT. The application of the other tax factor was also modified in my rerun of the BCAT. The issue is discussed in the testimony of Doug Denney.

Q. PLEASE EXPLAIN WHY MR. BUCKLEY'S PROPOSED CHANGE TO THE ACQUISITION COST OF SMALL BUSINESS CUSTOMERS IS WRONG.

A. The BCAT starts with a customer acquisition cost of $125 per customer as reported in the Bank of America Securities report, and adjusts that number downward based on the average number of lines per residential customer. This yields an average customer acquisition cost of $107.85 per line. That same figure is assumed by the BCAT to be reflective of the average acquisition cost per each business line.

Qwest's basic contention is that because the $125 cost per customer acquisition is divided by the number of residential lines per location in the BCAT to determine the average customer acquisition cost per line, then the same $125 cost should be divided by the average number of lines per business location to generate the equivalent figure for business. The implicit assumption underlying this proposed change is that the cost of customer acquisition is fixed regardless of the number of lines. Under Qwest's theory, the acquisition cost of a single line business customer would be the same as that for a 10 line customer. Such an approach is unrealistic and is indeed contrary to the customer acquisition cost in the CPRO, which applies the same customer acquisition cost per line to both business and residential customers.

Q. PLEASE SUMMARIZE THE OTHER ADJUSTMENTS MADE BY MR. BUCKLEY TO THE BCAT.

A. Mr. Buckley makes a total of eight other changes to the BCAT inputs and assumptions, the effect of which is to superimpose the assumptions of the CPRO on the BCAT. These are:

- Change the minimum number of switches in each market from two to one.
- Change the switch maintenance factor to 3.5% consistent with the CPRO.
- Change the other taxes factor applied to revenues to 0.95%.
- Change the other taxes factor applied to investments to 0.95%.
- Change the churn percentage to 3% consistent with the CPRO.
- Remove the forecasted decline in mass-market revenues consistent with the CPRO.
- Insert the bundled revenue prices used in the CPRO.
- Set the percentage of enterprise customers to zero for all zones, thereby increasing the number of small business lines assumed to be served by the BCAT.

Q. ARE ANY OF THE CHANGES PROPOSED BY MR. BUCKLEY LEGITIMATE?

A. No. Mr. Buckley is simply attempting to force the CPRO inputs onto the BCAT, producing results that are inconsistent with the FCC's stated business case requirements. The majority of these categories of proposed changes were addressed in the response testimony and will not be repeated here. Mr. Buckley's proposed change to the other tax factor is addressed in the Rebuttal testimony of

Doug Denney, which leaves only Mr. Buckley's proposed change to the switch maintenance factor.

Q. DO YOU AGREE WITH MR. BUCKLEY'S CHANGE TO THE SWITCH MAINTENANCE FACTOR?

A. No. The switch maintenance factor used in the BCAT is derived from the FCC's Synthesis Model and is fully consistent with the switching investment inputs used in that model. Mr. Buckley's has not demonstrated that his proposed lower switch maintenance factor is at all representative of the maintenance expense that would be incurred by an efficient CLEC entrant.

Q. HAVE YOU RERUN THE BCAT ADDRESSING THE VALID ISSUES RAISED BY QWEST?

A. Yes. As I explained in the summary above, I have made minor corrections to the BCAT to correct three of the errors identified by QWEST. Specifically, the application of the other tax factor was eliminated from the DS0 tools and the factor itself reduced to eliminate the potential for any double counts. I corrected the handoff from the DS0 tool to the BCAT to use the sum of the annual gross adds in years one through five and I corrected the slight overstatement in land investment identified by Mr. Buckley. After these corrections, the BCAT shows that an efficient CLEC serving the mass market in Washington will lose between $155.01 and $259.17 per line annually. A summary of my restated results is set forth in the table below. In addition, the BCAT Results and the BCAT Inputs document are **Exhibits MRB–7 and MRB–8**, respectively.

Table 1
Summary of Restated BCAT Results

Results Including Long Distance

	LATA-672c	LATA-674	LATA-676
Revenues			
Basic	$ 279.62	$ 281.21	$ 281.18
Access	$ 9.22	$ 9.31	$ 9.31
Long Distance	$ 61.01	$ 61.72	$ 61.70
Ancillary	$ 4.85	$ 4.98	$ 4.98
Subtotal Revenues	$ 354.70	$ 357.22	$ 357.17
Costs			
Access Payments	$ 7.72	$ 7.79	$ 7.79
Settlement Payments	$ 6.64	$ 6.56	$ 6.56
Back-haul and Hot-cut	$ 103.47	$ 117.05	$ 163.83
Switching & Other Network Operating	$ 64.74	$ 34.10	$ 51.36
POP-to-POP	$ 4.46	$ 4.49	$ 4.49
UNE-L Loop	$ 207.86	$ 166.35	$ 206.43
Customer Billing, Sales & Marketing and Care	$ 175.96	$ 175.88	$ 175.88
Subtotal Costs	$ 570.84	$ 512.23	$ 616.35
Operating Margin	**$ (216.15)**	**$ (155.01)**	**$ (259.17)**

Results Excluding Long Distance

	LATA-672c	LATA-674	LATA-676
Revenues			
Basic	$ 279.62	$ 281.21	$ 281.18
Access	$ 17.24	$ 17.41	$ 17.41
Long Distance	$ -	$ -	$ -
Ancillary	$ 4.85	$ 4.98	$ 4.98
Subtotal Revenues	$ 301.71	$ 303.60	$ 303.57
Costs			
Access Payments	$ -	$ -	$ -
Settlement Payments	$ -	$ -	$ -
Back-haul and Hot-cut	$ 103.47	$ 117.05	$ 163.83
Switching & Other Network Operating	$ 64.74	$ 34.10	$ 51.36
POP-to-POP	$ -	$ -	$ -
UNE-L Loop	$ 207.86	$ 166.35	$ 206.43
Customer Billing, Sales & Marketing and Care	$ 170.01	$ 169.88	$ 169.88
Subtotal Costs	$ 546.08	$ 487.38	$ 591.50
Operating Margin	**$ (244.37)**	**$ (183.78)**	**$ (287.93)**

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.