

ATTACHMENT B

AT&T Communications of the Southwest, L.P.

**Memorandum
Regarding Request for Possible Issues for Second Phase Audit**

Birch Telecom

November 12th, PM 13 Conference Call

**Southwestern Bell Telephone, L.P.
d/b/a
Southwestern Bell Telephone Company**

**Letter dated December 10, 2002
Regarding Project No. 20400**

AT&T Communications of the Southwest, L.P.

Memorandum

Regarding Request for Possible Issues for Second Phase Audit



JACKSON WALKER L.L.P.

MEMORANDUM

TO: Hon. Jennifer Fagan
Hon. Nara Srinivasa

FROM: Patrick Cowlshaw, Jackson Walker L.L.P.
Michelle Bourianoff, AT&T

DATE: December 10, 2002

RE: Request for Possible Issues for Second Phase Audit

In response to your e-mail of December 6, 2002, we offer the following suggestions on behalf of AT&T Communications of the Southwest, L.P. ("AT&T"). While AT&T continues to harbor serious doubt regarding the utility of the audit process relative to the resources it consumes, we have identified at least the following as issues that have arisen or been highlighted during the current audit and which warrant further investigation and resolution by some means:

- 1) **Completeness and accuracy of performance data being captured by SWBT; proper application of exclusions:** the finding of the independent verification test that approximately 10 percent of EDI orders were improperly omitted from SWBT's PM 13 results (and 9 percent from PM 13.1), Final Report at vii, raises the question whether a similar test is warranted for other representative performance measurements to determine the completeness of the data being captured. This was the first real effort to test the accuracy of data as it enters SWBT's PM data collection processes, and the results of this single-measurement review are disturbing. Because several measurements within a category (e.g., UNE provisioning, UNE maintenance) are said to follow a common data collection process, an expanded verification test that covered 10 or so measurements could encompass much of scope of the measurements as a whole. The application of inherently subjective exclusions remains an area of significant uncertainty in SWBT's performance reporting, which an independent verification test might address.
- 2) **Impact of order types that flow through EASE for SWBT retail yet which SWBT still fails to include in PM 13 data.** HP found 13 order types that SWBT does not include in PM 13, despite the fact that some of these flow through EASE for SWBT retail transactions. Final Report 51-52. For example, HP finds that SWBT still is not including CLEC PIC change orders in CLEC PM 13 data, despite the fact that PIC changes apparently do flow through as "C" activity for EASE retail. Final Report 51, Table 4.2. Certainly if a PIC change flows through for SWBT retail customers, there is no excuse for SWBT's continued omission of CLEC PIC change orders from PM 13. These findings limited HP's conclusions on important audit

objectives. HP purported to validate only that the SWBT restated data includes all relevant CLEC orders of the types "that SWBT determined" should be included because they flow through EASE for SWBT retail. Further, HP concluded that SWBT retail data provides an appropriate parity comparison only "to the extent SWBT has correctly determined which order types should be excluded." Final Report 52. For *all* order types that flow through EASE for SWBT retail (but which SWBT continues to exclude from the measurement), HP should review raw data for the excluded transactions and determine how the inclusion of these order types would alter the restatement of SWBT's flow-through performance and the associated damages.

3) Suitability of the SWBT retail data used as the parity standard, for PM 13 and other PMs:

PM reviews to date have focused largely on the CLEC data being collected. The HP audit findings related to the SWBT retail data used for PM 13 confirms that much is unknown regarding the SWBT retail data that sets the performance standard for so many of these measures; the content and suitability of that retail data warrants further scrutiny. Several issues identified during the audit, but not fully investigated or resolved, raise serious questions about whether the parity comparison applied under PM 13 is meaningful:

- a) EASE orders do not have designated order types, Final Report at 14, raising questions about what SWBT compares to what (*see* conclusion that "a more direct comparison between CLEC-submitted orders and the corresponding retail EASE equivalent would be helpful to CLECs"; Final Report at 21).
- b) SWBT does not make EASE updates simultaneous to its SORD edits, Final Report at 29; however, orders that flow through EASE, but fall out due to SORD edits prior to distribution, are counted as flow-through failures for SWBT retail. This raises the possibility, which AT&T raised during the audit, that the same type of order entry errors which result in a mechanical reject notice for CLECs (and exclusion from PM 13 data) can result in a flow-through failure for SWBT retail, artificially lowering the parity standard.
- c) SWBT retail orders include a large component of more complex, non-POTS orders, but are used for comparison to CLEC orders that are almost exclusively POTS orders. SWBT retail orders included in PM 13 data are only 88% POTS, while CLEC orders are 98% POTS. Final Report at 40. HP cites this difference as a potential explanation for the chronically lower flow-through rates SWBT reports for its retail operations, raising serious doubt about whether the comparison is close enough to apples-to-apples to set a meaningful performance standard. Proper follow-up might include restating PM 13 data for some sample months and CLECs to determine whether SWBT has provided parity flow-through if the measurement is applied to POTS transactions only for both CLECs and SWBT retail.

These findings also raise the question whether the resale and UNE-P provisioning and maintenance measures (PMs 27-44), which have been limited to POTS transactions for CLECs, have used SWBT retail data for parity comparison that includes a substantial fraction of more complex, non-POTS orders.

- 4) **Lack of performance measurement documentation and controls below the level of the business rules:** several HP finding raise questions about the adequacy of SWBT's PM documentation and internal controls, at any level more granular than the business rules themselves, e.g., "inadequate internal controls over CLEC service quality data" and "inadquate quality testing surrounding metrics-impacting system changes," Final Report at vii, the fact that HP had to request an updated "mid-level document" for PM 13, Final Report at 49, the observation that System Requirements documentation supporting the reporting of raw PM 13 data was inconsistent with actual format and layout of data tables, Final Report at 52, and, in the LMOS context, the lack of documentation regarding the process flow of C and D orders before and after WFA/DO implementation, Final Report at 65. Such findings raise the question whether the Commission should provide for submittal and review of a comprehensive, updated "mid-level" document to document SWBT's data collection practices under the business rules as they are revised in accordance with Order No. 45, as well as a possible examination of SWBT's PM methods and procedures and internal controls.
- 5) **Differences in LEX/EDI PM 13 results:** an issue in the current (and the 2001) performance measurement review has been SWBT's proposal to consolidate LEX and EDI data under PM 13. While not a subject of the audit as such, HP's review of flow-through failures by order type show differences in EDI and LEX PM 13 results, even within very narrow order type categories. Compare Figure 3.2 and 3.3 (e.g., Activity C (change), Request Type M (loop with unbundled local switching), 11.6% EDI flow-through failure rate v. 25.88% LEX flow-through failure rate). These results appear at odds with SWBT's repeated explanation that differences in reported flow-through rates under EDI and LEX reflect different mixes of order types being processed by CLECs using EDI compared to those using LEX. Further examination is warranted as to why results differ between EDI and LEX within the narrow order types shown on Figures 3.2 and 3.3.
- 6) **Determination of representative reporting error for LMOS-related PMs and restatement of LMOS PM data.** HP's execution of LMOS Test Plan Four led to its conclusions that, for the participating CLEC, SWBT's February 2001 PM data failed to correctly capture 27 to 28% of the CLECs Texas, Missouri, and Oklahoma trouble reports, and 55% of its Kansas trouble reports. Final Report 100-01. HP then calculates a restated result for that CLEC for each LMOS-related PM, including as UNE-P trouble reports the data that had previously been misclassified. However, while the report shows a restated result for the CLEC, it does not determine how SWBT's reported compliance with the parity standard would have been affected by inclusion of the misclassified trouble reports. To illustrate, the report provides a restated installation trouble report rate for PM 35, *see* Final Report at 103, but does not reapply the modified z-test to determine whether that restated rate would have converted a previous report of compliance to noncompliance, or how any applicable damages payments might have changed. The report goes on to extrapolate the restatement of the participating CLECs' data to CLECs in the aggregate, using both a scenario that assumes (unrealistically, as the report itself acknowledges) that the LMOS errors only affected the participating CLEC and a scenario that assumes that all CLECs were affected in the same direction and degree as the CLEC whose data was examined for this portion of the audit. Again, however, the report simply provides a revised number for the

CLEC performance, and does not determine how the restated data would have affected SWBT's reported compliance with the parity test or the Tier 1 and Tier 2 payments required under the remedy plan. The Commission's Audit Plan called for the auditor to determine a "reasonable representative 'reporting error' percentage for each LMOS-related PM, following which there would be a restatement of data for the period going back at least to May 2000 through May 2001. Audit Plan II.B.4, step (3), page 14. However the Commission may wish ultimately to determine the appropriate level of reporting error for purposes of data restatement, an appropriate step at this time may be to have HP (or SWBT, subject to HP review) recalculate the z-value and damages payments for the LMOS-related PMs, for the participating CLEC and for CLECs in the aggregate, based on the revised PM results included in the Final Report.

This memo, of course, is not intended to capture items that more properly fall into the category of comments on the final report or findings that call for some action other than further investigation or fact finding. AT&T will address such concerns in its comments on the Final Report and any recommendations regarding actions to be taken on the basis of the audit.

To the extent that the Commission determines that the issues listed above, or any others raised by Staff or other parties, warrant further investigation or audit, AT&T recommends that all parties have an opportunity to address the mechanisms that might best be used toward that end, taking account of concerns for effectiveness, independence, and management of cost and personnel resources.

cc: Audit Listserve

Birch Telecom

November 12th, PM 13 Conference Call Input

November 12th, PM 13 Conference Call

During the November 12, 2002 conference call T.J. Sauder representing Birch Telecom and Ellen Blackler, Michael Flickinger, Dana Daniels, and Samantha Denby representing Hewlett Packard (HP) discussed SWBT's responses to a list of Birch questions initially sent to HP on October 18, 2002.

As an initial matter, T.J. asked pointed questions as to whether HP performed tests to validate specific SWBT responses that would independently verify if PM 13 was implemented according to the business rules (using the specific examples from the Birch questions and the SWBT responses). HP's response indicated that the audit would document the way in which SWBT implemented the measurement and verify the reported PM 13 results reflected SWBT's implementation but that HP did not make conclusions as to the appropriateness of the implementation.

For example, the SWBT response to the first Birch question contains SWBT's rationale for including in the retail results, orders that do not flow through because the SWBT intent of the order was flow through. HP did not challenge or consult CLECs on SWBT's rationale; instead HP documented SWBT's response and verified that SWBT implemented PM 13 in the manner in which SWBT documented.

Specific Birch concerns that remain as disputed items of SWBT's implementation of PM 13:

- Birch Question # 1 (EASE flow through failures). It has been documented by HP that all EASE flow through failures are due to SORD edits that are not in EASE. Birch still believes that these orders should not be included in the flow-through measurement simply because SWBT's "intent of the orders through EASE is flow through" *SBC SWBT Response to Birch Question # 1*.

SWBT further states this is a "limited" occurrence. This limited occurrence currently accounts for roughly 15% of SWBT's retail orders (85% reported flow through) - 15% is hardly a limited occurrence. It is Birch's belief that this SWBT assumption should have been discussed and tested more thoroughly by the audit participants in the normal course of the audit (PM 13 Test Plan 1, Section 2.1.2).

- Birch Question # 2 (CLEC Resale EASE results compared to SWBT Retail EASE results). SWBT's response to the Birch question indicates the results are different due to the product mix being ordered by CLEC Resale EASE product mix (according to SWBT largely single line residential) compared to the SWBT Retail EASE product mix. This SWBT response is not consistent with Birch's experience with EASE. Birch has a base of Resale customers in Kansas and Missouri (35K total) and uses Resale EASE to process approximately 1,700 orders monthly. Further, Birch Resale customer base is approximately 55% business. Birch also enjoys a 98% monthly flow through rate over the past 12 months. Birch's experience does not support SWBT's explanation.

SWBT further states that EASE is capable of processing "a broad scope of order types for both retail and resale environments." This response seems to contradict a SWBT response to Information Request 0828-057 stating "since retail EASE will only allow the submission of POTS type services for processing we do not capture class of service."

SWBT's response does not adequately explain the differences between the Resale EASE results and Retail EASE results.

- Birch Question # 3 (CLEC / Retail orders that fail SORD edits). SWBT's response indicates the retail and wholesale processes are different. It is Birch's contention that the processes are not materially different - both units

are ordering telecommunication services and both processes result in the creation of SORD service orders. A SORD error on a retail order is not necessarily different than a SORD error on a CLEC order - other than the retail SORD error will be counted as a flow through failure and the CLEC order error will be excluded from the flow through measurement. Birch also feels that this SWBT assumption should have been discussed and tested more thoroughly by the audit participants in the normal course of the audit.

Specific Birch concerns regarding “EASE / OSS Platform Flow Through Comparison” document:

- Scenario 3 (Establishing a new hunt group). This scenario is excluded by SWBT because “EASE treats the scenario as two negotiations.” Birch remains concerned with the fact that HP did not test¹ any of the “scenarios” defined by SWBT as outlined in the PM 13 Test Plan 1, section 2.1.2.² The test results would provide CLEC participants evidence whether this scenario is a valid exclusion or not.
- Scenario 25 (PIC Change). SWBT has claimed in this scenario that an exclusion for CLEC PIC change orders should apply because the process “by which PIC changes are accomplished in the Retail vs. Wholesale environment are dissimilar.” Again, Birch is concerned with the fact that HP did not perform any tests to validate the scenario as valid or invalid.

Birch strongly disagrees with the application of this exclusion by SWBT. EASE does provide SWBT Retail with the ability to change an end user’s PIC on a flow through basis. The only relevant fact for purposes of PM 13 is that

¹ HP only validated that the scenarios were accounted for and actually excluded from the measurement.

² Specifically, section 2.1.2 indicates “For each EASE flow through eligible order, HP will identify and trace a sample of each order type to verify that the list is accurate.”

EASE allows for PIC changes on a flow through basis. This ordering scenario should not apply (and should have never applied) as an exclusion for PM 13.

Southwestern Bell Telephone Company, L.P.

**Letter dated December 10, 2002
Regarding Project No. 20400**

December 10, 2002

Ms. Jennifer Fagan
Public Utility Commission of Texas
1701 N. Congress Ave.
Austin, TX 78701

Re: Project No. 20400

Your Honor:

At the November 14, 2002 open meeting, the Commission requested that the parties submit a list of issues raised by the Hewlett-Packard (HP) audit that may warrant further investigation. To be clear SWBT does not believe that there are any new issues that need to be addressed in the audit. Any extension should be limited to issues not fully addressed in the independent verification phase of the audit. Due to the late start of the independent verification portion of the audit, HP did not complete the analysis on this section, resulting in inconsistent and incomplete findings.

SWBT desires to bring this audit to a close as soon as possible but recognizes the need for complete closure. As such, SWBT recommends that any extension of the HP audit inquire only into the following points related to the independent verification portion of the audit, in order to permit completion of the analysis.

- Determine the reasons that PONs were not included in the DSS data. In its report, HP simply states that over 16,715 PONs were improperly excluded but fails to identify any reason for exclusion.
- Determine whether any PONs were improperly excluded.
- Determine the impact of improper exclusions of PONs, if any, on the reported results.

SWBT is willing to participate in the continuation of the audit to address these issues. However, SWBT is not prepared, nor does it believe there is a need to address new issues that were not originally included within the scope of the audit or that have been addressed by HP in the audit report.

Additionally, as the Commission is aware, SWBT's commitment to pay for the audit is explicitly set out in Section IX.A of the Audit Agreement. In accord with that section of the audit, SWBT has previously notified the Commission that it will not agree to payment of any of the audit costs exceeding the 25% audit cap. Additionally SWBT has proposed to staff, that the current overrun of audit costs

be offset against the Tier II Assessments to the State.¹ SWBT would suggest that should the Commission extend the audit in order to address outstanding issues that the Commission allow the additional audit costs to be offset against these Tier II assessments.

Further in the event that the Commission does extend the audit, SWBT strongly recommends that HP provide a proposal including the costs for completing the audit. Any extension of the audit should be clearly defined with all costs identified up front. While SWBT remains committed to ensuring that the audit proceed to completion it cannot agree to bear continuing costs and cost overrun, particularly where the delays have not been caused by SWBT.

Sincerely,

Kathleen S. Hamilton
Senior Counsel

cc: All Parties of Record

¹ Paragraph 9.0 of Attachment 17 to the T2A sets out Tier-2Assessments to the State. These assessments are payable to the Texas State Treasury and apply to the Tier-2 measures.