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Before the  
Federal Communications Commission  
Washington, D.C. 20554

\_\_\_\_\_) )  
In the Matter of ) )  
2004 Annual Access Tariff Filings ) WCB/Pricing 04-18  
\_\_\_\_\_)

To: Pricing Policy Division

**REPLY OF SUREWEST TELEPHONE  
TO PETITION OF AT&T CORP.**

SureWest Telephone ("SureWest"), by its attorneys and pursuant to Section 1.773 of the Commission's Rules, hereby replies to the Petition filed by AT&T Corp. ("AT&T") on June 28, 2004 seeking suspension and investigation of numerous tariff filings, including that of SureWest (hereinafter the "Petition").

**I. Introduction**

In Transmittal No. 9, filed on June 24, 2004, with an effective date of July 1, 2004, SureWest revised its traffic sensitive switched and special access rates to make a significant amount of rate reductions. No rates were raised in this filing. The filing contained cost-support information complying fully with the relevant Commission Rules and Orders.<sup>1</sup>

In its Petition, AT&T provides numerous approaches under which it requests the Commission to suspend and investigate the SureWest filing. However, AT&T's

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<sup>1</sup> Order, In the Matter of July 1, 2004 Annual Access Charge Tariff Filings (DA 04-1049, released April 19, 2004).

Petition has failed 1) to demonstrate that the SureWest filing is *prima facie* unlawful, or 2) to even raise significant questions regarding the lawfulness of the filing. The Petition thus provides no basis for suspending and investigating the SureWest filing. Cf. ITT World Communications Inc., 73 FCC 2d 709,718 (1979).

**II. AT&T's Statistical Analysis Does Not Provide a Sufficient Basis for Suspension of the SureWest Filing, and Such a Suspension is Not the Appropriate Way to Address AT&T's Concerns Regarding Alleged Systematic Overearnings by ILECs.**

In Section II of its Petition, AT&T urges the Commission to suspend and investigate the individual tariffs of carriers with an alleged “long history of earnings that exceed the authorized rate-of-return.” AT&T suggests that certain methods of statistical analysis, used in the Commission’s 1997 Annual Access Tariff MO&O,<sup>2</sup> demonstrate that the demand projections underlying SureWest’s special access rates contain systematic errors that will result in those rates earning more than the Commission-prescribed return of 11.25%. Petition at page 5. However, the Petition makes it clear that AT&T seeks to use suspension of recently-filed individual ILEC tariffs to address its broader concerns regarding alleged long term “systematic overearnings” by ILECs. *Id.* at page 6. AT&T’s reliance on this approach to address its concerns is inappropriate.

First, there are significant distinctions between the circumstances in the 1997 proceeding and those in the present case. In the 1997 proceeding, the Commission had expressed a specific concern regarding the accuracy of common line cost forecasts in its 1997 Tariff Review Plan Order, and accordingly had specifically requested in that Order that carriers provide substantial and specific information regarding the basis for

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<sup>2</sup> 13 FCC Rcd 3815 (1997).

the forecast demand factors underlying the carriers' CCL and SLC rates. 1997 Annual Access Tariff Suspension Order, 13 FCC Rcd 5677 (1997) at para. 6. Unfortunately, according to the Commission, most carriers did not comply with that request (*Id.* at para. 7), and as a result of that failure to provide information specifically requested in the TRP Order, the Commission suspended the filings of most carriers. That is not the case in the present proceeding: the Commission had not expressed specific concerns regarding the accuracy of demand forecasts in its TRP Order this year, and it did not request carriers to provide any specific information regarding the basis of its demand forecasts, other than that which is generally required.

Thus, unlike the circumstances in 1997, SureWest has not failed to provide the Commission with demand forecast information specifically requested. Of course, SureWest, like all carriers, has a general obligation to justify its rates in the "Description & Justification" and cost support portions of its filings, and it fulfilled that obligation in its filing. Moreover, the AT&T Petition does not allege that SureWest failed to comply with any general requirements in the FCC's rules or in the Tariff Review Plan Order regarding the basis for its cost or demand forecasts.

Rates of return are an outcome of many factors, including cost and demand. Companies forecast revenue requirements and demand volumes, and prices are set so that the firm will earn the allowed rate of return based on its forecasts. Earnings that exceed the allowed rate of return can reflect unanticipated, wholly desirable cost cutting or demand expansion, rather than systematic under-forecasting of demand or over-forecasting of revenue requirements. Under-earnings can occur as well. Nowhere does AT&T even suggest which elements of the forecast—demand or revenue

requirements—were in error. Rather, AT&T does no more than infer that a systematic forecasting error has occurred.<sup>3</sup>

Thus, AT&T's recommended statistical analysis approach is an insufficient basis for suspending SureWest's tariff filing. The Petition fails to make a showing of specific facts demonstrating that the SureWest filing is *prima facie* unlawful, or even raising significant questions regarding the lawfulness of the filing.

AT&T's statistical analysis approach is also flawed on broader policy and procedural grounds. By urging the Commission to suspend individual tariff filings in order to investigate alleged "systematic" problems with all ILECs filings over the last few years, AT&T is asking the Commission to use a narrowly targeted enforcement procedure to investigate concerns more appropriately addressed in a rulemaking proceeding. The Commission acknowledged in the 1997 Annual Access Tariff Suspension Order that its "rules do not prescribe a ... forecasting methodology." 13 FCC Rcd at 5686, para. 21. AT&T is apparently concerned that in the absence of a specifically required demand forecasting methodology, ILECs are developing inaccurate access rates. If the Commission shares AT&T's concern, then clearly the most efficient and effective manner of developing a record on appropriate methods of forecasting demand is in a rulemaking proceeding, where comments and reply comments can be

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<sup>3</sup> AT&T's superficial analysis of SureWest's Special Access earnings also fails to consider the rate changes SureWest has proposed in its filing. SureWest proposes to reduce its Special Access prices on average by 15% in its filing. See SureWest TRP, RTE-2, line 130. This would reduce SureWest's annual revenues from Special Access services significantly, from \$13.8 million to \$11.7 million, a reduction of \$2.1 million.

filed directly addressing this issue, outside of the tight procedural deadlines and other litigation concerns of an enforcement proceeding.

Lastly, AT&T's suggested use of suspension in order to give "other parties ... sufficient time to identify the errors that cause the systematic overearnings..." (Petition at page 6) contradicts Congress' intent in enacting Section 204(a)(3) of the Communications Act. In response to the growing competition in local services that would result from the Telecommunications Act of 1996, Congress sought to revise the tariff filing rights of ILECs in order to give them greater flexibility to react to competition (through shorter filing times) and greater certainty regarding the legal status of the rates so filed (through "deemed lawful" status). AT&T's suggestion that the Commission use tariff suspension in order to give "other parties" (including IXC/CLEC competitors of ILECs such as AT&T) extensive amounts of time to review ILEC filings directly contradicts the Congressional goals expressed in Section 204(a)(3). That statutory section was a clear mandate to the Commission, upheld by the D.C. Circuit,<sup>4</sup> that it should not allow tariff proceedings to be used as "fishing expeditions" by competitors to improperly cast uncertainty on ILEC rates and earnings. The Commission should not allow itself to be "used" in this way by AT&T.

### **III. SureWest's Filing Already Proposes Reductions in Its Access Rates.**

In Section III of the Petition, AT&T asserts that because certain LECs earned more than an 11.25% rate of return on their access rates, the Commission should either require such carriers to make mid-term adjustments to account for such earnings, or

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<sup>4</sup> *ACS of Anchorage, Inc. v. FCC*, 290 F.3d 403 (2002).

should suspend their tariffs “to allow for true-ups if rates are later found to be unlawful.” While SureWest has shown that there is no legitimate basis for suspension of its tariff filing, it notes that its filing in fact proposes substantial reductions in access rates.

Specifically, the filing proposes the following rate reductions:

- Special Access rates would be reduced on average by 15 percent. See SureWest TRP, RTE-2, line 130.

- Flat-rate switched traffic-sensitive rates would be reduced by 8 to 15 percent. See SureWest TRP, RTE-1, line 190, 200

- Per-minute switched TS rates would be reduced by 4.37 percent. See SureWest TRP, RTE-1, line 120.

- Per-minute transport rates would be reduced by 15-20 percent. See SureWest TRP, RTE-1, lines 210, 220.

SureWest’s proposed rates are targeted to earn an 11.25 percent rate of return on a prospective basis.<sup>5</sup> For the past several years, SureWest has consistently reduced almost all of its rates.<sup>6</sup> Notably, the latest proposed tariff changes continue the rate reductions, yet AT&T pursues its repetitive petitions against SureWest.

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<sup>5</sup> AT&T appears to suggest (Petition at page 7-8) that in its proposed mid-term corrections, ILECs should adjust their rates for the year 2004 to earn a rate of return significantly less than the authorized 11.25%, so that when combined with alleged overearnings in the year 2003, the carrier’s rate of return for the entire two year monitoring period averages out to 11.25%. SureWest believes that this proposal is a form of retroactive ratemaking that is inconsistent with Commission rules and policies. For example, if an ILEC earned only 5% on an access service in the first year of a monitoring period, AT&T would not condone a rate revision targeted to earn a 17.5% rate of return for the second year of that monitoring period. Accordingly, AT&T cannot be asking carriers to enact the same principle in reverse in this case, *i.e.*, that ILECs should set rates to earn less than 11.25% for the remainder of the current monitoring period.

<sup>6</sup> See Exhibit No. 1, attached.

#### **IV. SureWest's Corporate Operating Expenses are Reasonable.**

In an effort to homogenize all local exchange carriers and their operations, AT&T invents a corporate expense benchmark and demands that the Commission suspend any rate which would exceed this "AT&T imposed benchmark." AT&T admits in its pleading that the Commission has established no such benchmark,<sup>7</sup> but this does not deter AT&T from suggesting that all local exchange carriers be held to the "AT&T imposed benchmark." If AT&T proposes the creation of a federal benchmark for corporate expense factors in access charges, then this tariff proceeding is not the appropriate forum. Rather, AT&T should file a Petition for Rulemaking, and its attempt to circumvent the Administrative Procedure Act in this proceeding should fail. Furthermore, as indicated further below, the "AT&T imposed benchmark" is based upon flawed assumptions as well as unreasonable policy considerations.

A. AT&T's Numerical Methodology is Flawed. To support its novel claim that a few rate-of-return carriers have overstated their corporate operations expenses, AT&T averages the corporate expenses of fourteen telephone companies and then targets the two carriers not within the average.<sup>8</sup> SureWest is one of the target carriers. However, the fallacy of AT&T's claim is readily apparent to anyone familiar with a basic bell curve. Save a completely homogenous industry, there always will be components of an average which fall outside of the average. AT&T's attempt at convincing the

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<sup>7</sup> See, Petition at p. 9, disclosing that ". . . the Commission capped [ ] corporate expenses . . . for USF funding purposes. Such constraints, however, were not placed on carriers in the development of their access charges."

<sup>8</sup> *Id.* AT&T claims at page 9 that only SureWest and Puerto Rico Telephone overstate their expenses.

Commission to accept the “AT&T imposed benchmark” and single-out two carriers who do not fall within 100% of this arbitrary benchmark must fail.

AT&T also skews its numerical methodology for arriving at the “AT&T imposed benchmark” by selecting a misleading statistical sample. Half of the local exchange carriers in the 14 carrier sample proposed by AT&T are affiliates of larger conglomerates. Typically in such situations, the corporate parent provides company-wide management, reducing such costs for affiliates. Not surprisingly, every single one of these seven affiliated carriers falls beneath the “AT&T imposed benchmark.”<sup>9</sup> These carriers drive down the average of the sample and improperly skew the result.

Notably, affiliated carriers benefit from other significant economies of scale over single LATA or smaller study area carriers. Indeed, one need look no further than the Commission decision referred to by AT&T to debunk the “AT&T imposed benchmark.” AT&T readily quotes from a Commission Order finding that corporate operating expenses are discretionary.<sup>10</sup> However, AT&T’s quote omits the very next line from the Commission Order which, as noted above by SureWest, recognizes that “small study areas, based on the number of lines, may experience greater amounts of corporate operations expense per line than larger study areas.”<sup>11</sup> AT&T’s disingenuous

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<sup>9</sup> See Petition at Exhibit D. The Exhibit reveals that the “AT&T imposed benchmark” is set at \$67.32 and all ALLTEL and CenturyTel affiliates have AT&T calculated per loop expenses of less than this amount.

<sup>10</sup> *Id.* at 9.

<sup>11</sup> In the Matter of Federal-State Joint Board on Universal Service, *Report and Order*, 12 FCC Rcd 8776, 8931 (1997). See also the Commission’s decision in Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, *Fourteenth*

presentation of Commission decisions and the numerical methodology should not be countenanced.

The AT&T imposed benchmark suffers from additional numerical flaws. AT&T uses 2002 base expense data (column b of Exhibit D) and compares it with 2005 data and announces that the increase between the two years is an overstatement. Contrary to AT&T's claim, however, a simple review of the corporate expense data over the four year period eliminates any "sticker shock" effect that AT&T is attempting to create by comparing 2002 prices with 2005 projections.<sup>12</sup> Further, AT&T is using only Category 1.3 lines for its calculation. This data is reported for USF funding purposes, however it is of little use for calculating access charges and per access line assignment of expenses since a review of the total number of access channels, rather than Category 1.3 lines, reveals that SureWest's expense category is reasonable.<sup>13</sup>

B. The "AT&T Imposed Benchmark" is an Untenable Policy. AT&T proposes that companies should not be permitted to recover corporate costs in excess of the "AT&T imposed Benchmark." However, the policy implication of the "AT&T imposed benchmark" is impossibly restrictive and would interfere improperly in a company's

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*Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256, 16 FCC Rcd 11244, para. 61 (2001) allowing a greater amount of corporate expense per line for smaller study areas than larger ones because statistical analysis of carrier data show that study areas with fewer loops have more corporate operations expense per loop.*

<sup>12</sup> See Exhibit No. 2.

<sup>13</sup> *Id.*

operations. Local exchange carriers are being presented with increasingly larger and more complex administrative expenses. Compliance with corporate requirements such as the Sarbanes-Oxley Act, as well as with regulatory requirements including local number portability, and state regulation - - SureWest is located in California - - all result in steadily increasing administrative expenses. AT&T should not be permitted to limit its competitor's general and administrative resources with the "AT&T imposed benchmark."

**V. SureWest Has Properly Projected Demand.**

AT&T accuses SureWest of substantially understating its 2004/2005 traffic sensitive demand and claims that such understatement results in increased access rates. Most surprisingly, AT&T - - a competitive local exchange carrier - - states that there is no justification for why an incumbent local exchange carrier would predict a decrease in demand.

A. It is Well Accepted that ILEC Access is Decreasing. AT&T attacks SureWest's projected decrease in traffic demand by claiming that there is no justification for such an assumption.<sup>14</sup> It seems incredible that AT&T - - a company that provides competitive local exchange service, strongly advocates its VOIP service, and which did not pay access charges for its "IP-in-the-middle" service - - would submit a publicly accessible document which declares that there is no "legitimate justification" for incumbent local exchange carriers to assume that demand for their services may decrease. The Commission need look no further than its own *Trends in Telephone Service* report, which it released last month, to find the fallacy in AT&T's attack. As the

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<sup>14</sup> See Petition at pages 11 - 12.

FCC's report indicates, incumbent local exchange carrier lines have decreased by more than 25 million lines in the past three years with a precipitous decline between December 2002 and June 2003.<sup>15</sup> Should AT&T truly be seeking a "legitimate justification for such an assumption" it might consider looking to the FCC and the industry.

The basis for these trends is well known to the Commission. Not only do ILECs face significant competition from traditional wireline CLECs, but they face growing inter-modal competition as well. The Commission is familiar with the increasing substitution of mobile wireless services for traditional POTS. Moreover, broadband services, and the IP-enabled voice services they facilitate, are not only growing at a rapid pace, they are being provided in the majority of cases by entities other than traditional ILECs, such as cable-modem providers. Unlike most other ILECs, 100 percent of SureWest's telephone subscribers are able to receive cable-modem service from an incumbent cable operator, such as Comcast. In sum, SureWest is particularly vulnerable to the competitive trends that are reducing its access services.

A review of AT&T's exhibits reveals that it must have recognized these trends with even a perfunctory review of the SureWest data.<sup>16</sup> As SureWest has reported and AT&T reproduced in table format, actual demand for SureWest access services has followed the national trend and decreased during the past several years. The FCC, SureWest, and even AT&T are aware that switched access demand is decreasing for

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<sup>15</sup> An FCC prepared table and chart are attached at Exhibit No. 3. The information is taken from the FCC *Trends in Telephone Service*, rel. May 6, 2004.

<sup>16</sup> See Petition at Exhibit E-3.

incumbent local exchange carriers. For AT&T to demand a justification of this industry recognized fact is no more than a transparent attempt to impose a delay in the ILEC tariffing process, and its petition should be dismissed accordingly.

B. AT&T's Linear Regression Analysis is Error Prone. AT&T claims that it has conducted "a simple linear regression analysis using actual 2000-2003 demand" and further claims that the results are reflected in its Exhibit E.<sup>17</sup> However, such a claim suffers from several flaws. Initially, it is difficult to imagine how AT&T was able to conduct a linear regression analysis using only four data points (2000, 2001, 2002, and 2003), but it is even more difficult to imagine how this linear regression could have produced results (2004 and 2005) which were outside of the X and Y axes of a 2000 - 2003 analysis. Not only is the linear regression flawed, but somehow AT&T has created 2004 and 2005 increases in direct contrast to the projections and data that SureWest has prepared. This anomaly occurs, in part due to the fact that a linear regression will interpret the 2000 - 2003 data as having a two year cycle with an increase in alternating years - a linear regression analysis is wholly inapplicable with such limited data.

The Commission should take particular note of AT&T Exhibit E-3. At that exhibit, AT&T misleadingly labels 2004 and 2005 data as Calendar and Tariff Period "Actuals" when this information is no more than some type of guess made by AT&T. Although reference is made to a SureWest cost support source, the 2004 and 2005 data found at the source is not properly reflected in the AT&T exhibit. SureWest submitted a DMD-1

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<sup>17</sup> *Id.* at 11.

worksheet which projected 285,730,000 local switching minutes.<sup>18</sup> Inexplicably, AT&T prints the “actual” 2004 calendar year minutes as 341,415,000 (Exhibit E-3, column a) and declares that there is a difference between the actual 2004 minutes of usage and the 2004 projection made by SureWest. Not only is the “actual” 2004 minutes-of-usage not available, but there is no support for the randomly selected, and larger, number that AT&T has slipped into its exhibit. AT&T should not be permitted to make up sums, put them in a pleading and then claim that SureWest’s projections do not match AT&T’s sums.

C. SureWest Uses a Rigorous Projection Process. SureWest uses numerous external factors when developing demand projections. Among these factors, SureWest incorporates data on residential migration factors, employment, population, income, gross domestic product, among others in its service area. SureWest also analyzes current and statistically significant historical data to project minutes of usage. Attached at Exhibit No. 5 is the latest minutes-of-usage projection conducted by SureWest that incorporates these myriad factors. Rather than relying upon the scant four data points which AT&T claims were the sole basis of its “linear regression” SureWest employs four dozen data points to calculate its projections.

**VI. SureWest has Properly Calculated its Cash Working Capital.**

Not surprisingly, AT&T has lodged its traditional annual complaint against SureWest’s cash working capital (“CWC”). As in previous years, the Commission

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<sup>18</sup> This worksheet is attached hereto for immediate reference at Exhibit 4.

should deny AT&T's Petition.<sup>19</sup> AT&T continues to ignore the fact that SureWest is a Class A company and that, as a result, a 15 day lead-lag period is neither available nor applicable to SureWest's CWC calculation. Moreover, AT&T continues to employ a method of calculating CWC which defies accounting theory.

A. AT&T's Calculations are Incorrect. AT&T proposes an unfoundedly simplistic interpolation formula in which it first divides SureWest's total expense less depreciation by 365 days (Exhibit F-1, column D). AT&T's second and unusual final step is to simply divide that amount (1/365th of the total expense and tax) into SureWest's stated CWC (Exhibit F-1, Column F). AT&T then declares that the result is too high and calls for suspension of the tariff. The proper calculation is not that simple.

A cursory review of the components included in the CWC calculation reveals glaring flaws in the formula that AT&T has invented. For example, in calculating the CWC requirements, AT&T incorrectly used the wrong expense data. Specifically, it used data from the TRP COS-1P, which represents expenses and taxes after the addition of the CWC to the net return. The result of this error is that AT&T has calculated the tax effect on the net return of the CWC twice.

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<sup>19</sup> See In the Matter of 1998 Annual Access Tariff Filings, DA 98-1294, *Memorandum Opinion and Order*, 13 FCC Rcd 25215 (1998) denying 1998 petition against Roseville Telephone Company; see also *Protested Tariff Transmittals, Actions Taken*, DA 99-1299, *Public Notice*, 14 FCC Rcd 13102 (1999) denying 1999 petition against Roseville Telephone Company; see In the Matter of 2000 Annual Access Tariff Filings, DA 00-1487, *Memorandum Opinion and Order*, 15 FCC Rcd 11741 (2000) denying 2000 petition against Roseville Telephone Company; see also In the Matter of 2002 Annual Access Tariff Filings, DA 02-1555, *Order*, 17 FCC Rcd 12842 (2002) denying 2002 petition against Roseville Telephone Company.

Using its flawed methodology, AT&T accuses SureWest of using 46 lag days, which is significantly greater from the actual - - and supported - - 26 day lag period used by SureWest. Attached hereto as Exhibit No. 6 is the Part 36 spreadsheet which was originally and timely submitted with SureWest's Tariff transmittal. As the cost support spreadsheet displays, SureWest has provided detailed information regarding its CWC calculation and the factors that are included in the same. Moreover, the CWC factor of .07123 is clearly provided in the spreadsheet. Thus, using the proper calculation method, the correct net lag period for Roseville is 26 days, not 46 days as asserted by AT&T.

B. There is no 15 Day Standard Period for Class A Carriers. AT&T attempts to convince the Division, without any citation to a Commission Rule or policy, that a 15-day "standard" lag period should be used in calculating SureWest's "Excess CWC" (Exhibit F-1, column G). This assertion is completely baseless.

The Commission divides incumbent LECs into two classes: Class A and Class B.<sup>20</sup> SureWest is a Class A carrier.<sup>21</sup> As a result, SureWest must calculate its CWC using one of two methods provided for within the Commission's Rules.<sup>22</sup> Neither of these methods - - a full lead lag study, or use of the Commission's formula at Section 65.820(e) - - uses a 15 day standard period benchmark. The 15-day benchmark is

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<sup>20</sup> 47 C.F.R. §32.11.

<sup>21</sup> See In the Matter of 2000 Biennial Regulatory Review - Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2, Report and Order, 16 FCC Rcd 19911, at fn. 10 (2001).

<sup>22</sup> 47 C.F.R. § 65.820(d).

applicable to Class B carriers, but not applicable to SureWest. Accordingly, AT&T's assertion that SureWest's CWC is excessive because it is based on a net lag of more than 15 days, is patently incorrect.

## **VII. Conclusion**

AT&T has failed to make the substantial and specific factual allegations required for the Commission to suspend and investigate SureWest's Tariff.

WHEREFORE, SureWest Telephone requests that AT&T's Petition be denied and that the SureWest tariff revisions be allowed to go into effect on July 1, 2004.

Respectfully submitted,

SUREWEST TELEPHONE

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June 30, 2004

SureWest Telephone  
Reply to Petition of AT&T Corp.  
Exhibit No. 1

## Summary of Special Access and Broadband Service Rate Changes Interstate InterLATA

Service		07/01/04		07/01/03		07/02/02
<b>Channel Termination</b>						
Voice Grade 2 Wire						24.00
Voice Grade 4 Wire						33.05
Program Audio - monthly						21.24
Program Audio - daily						2.12
DDS						48.00
DS1	-8.00%	83.68				90.96
DS3						1,942.08
1year plan w/term equip	-8.00%	1,391.04				1,512.00
1year plan w/o term equip	-1.62%	1,223.04				1,243.20
3year plan w/term equip	-15.00%	1,113.84				1,310.40
3year plan w/o term equip	-10.92%	945.84				1,061.76
5year plan w/term equip	-17.00%	1,026.28				1,236.48
5year plan w/o term equip	-13.70%	858.28				994.56
DS3x3						2,399.04
1year plan w/term equip	-15.00%	2,501.86				2,943.36
1year plan w/o term equip	-7.88%	2,098.66				2,278.08
3year plan w/term equip	-18.00%	2,049.87				2,499.84
3year plan w/o term equip	-15.79%	1,646.67				1,955.52
5year plan w/term equip	-22.00%	1,860.86				2,385.72
5year plan w/o term equip	-9.62%	1,457.66				1,612.80
DS3x12						6,693.12
3year plan w/term equip	-22.00%	6,164.12				7,902.72
3year plan w/o term equip	-0.84%	5,357.72				5,402.88
5year plan w/term equip	-22.00%	5,220.63				6,693.12
5year plan w/o term equip	-2.25%	4,414.23				4,515.84
<b>Channel Mileage</b>						
Channel Mileage Facility						
Voice Grade						2.15
Program Audio - monthly						3.80
Program Audio - daily						0.38
DDS						5.50
DS1	-8.02%	20.31	-23.33%	22.08		28.80
DS3	-10.00%	55.80				62.00
DS3x3	-22.00%	141.52				181.44
DS3x12	-22.00%	251.60				322.56
Channel Mileage Termination						
Voice Grade						12.50
Program Audio - monthly						8.06
Program Audio - daily						0.27
DDS						2.50
DS1	-8.00%	44.16	-41.18%	48.00		81.60
DS3						
1 year plan	-3.00%	306.36				315.84
3 year plan	-5.00%	255.36				268.80
5 year plan	-8.00%	228.75				248.64
DS3x3						
1 year plan	-14.82%	669.75				786.24
3 year plan	-15.00%	582.62				685.44
5 year plan	-22.00%	503.19				645.12
DS3x12						
3 year plan	-11.00%	1,435.39				1,612.80
5 year plan	-15.00%	1,165.25				1,370.88
<b>Multiplexing</b>						
DS3 to DS1	-8.00%	272.03				295.68
DS1 to Voice	-8.00%	238.46				259.20
<b>ADSL Service</b>						
Option 1 Monthly						59.00
Option 1 Year Plan			-12.82%	34.00		39.00
Option 2 Monthly			-40.94%	88.00		149.00
Option 2 Year Plan			-41.09%	76.00		129.00
Option 3 Monthly						69.00
Option 3 Year Plan						49.00
Option 4 Monthly			-23.60%	68.00		89.00
Option 4 Year Plan			-23.19%	53.00		69.00
Option 5 Monthly						269.00
Option 5 Year Plan						239.00
Option 6 Monthly						329.00

## Summary of Special Access and Broadband Service Rate Changes

### Interstate InterLATA

Service		07/01/04		07/01/03		07/02/02
Option 6 Year Plan						299.00
Option 7 Monthly						59.00
Option 7 Year Plan						34.00
Option 8 Monthly						51.00
Option 8 Year Plan						26.00
Frame Relay						
56/64 Kbps Monthly						125.00
56/64 1 year plan			-1.04%	118.75		120.00
56/64 3 year plan						112.00
56/64 5 year plan						100.00
128 Kbps Monthly	-15.00%	212.50	-3.85%	250.00		260.00
128 1 year plan	-15.00%	201.88	-3.06%	237.50		245.00
128 3 year plan	-15.00%	191.25				225.00
128 5 year plan	-15.00%	170.00				200.00
384 Kbps Monthly	-15.00%	280.50	-12.00%	330.00		375.00
384 1 year plan	-15.00%	266.48	-10.43%	313.50		350.00
384 3 year plan	-15.00%	252.45	-5.71%	297.00		315.00
384 5 year plan	-15.00%	224.40	-10.51%	264.00		295.00
1.536 Mbps Monthly	-15.00%	314.50	-29.52%	370.00		525.00
1.536 1 year plan	-15.00%	298.78	-29.70%	351.50		500.00
1.536 3 year plan	-15.00%	283.05	-31.34%	333.00		485.00
1.536 5 year plan	-15.00%	251.60	-34.95%	296.00		455.00
ATM						
UNI	-15.00%	289.00				340.00
NNI	-15.00%	289.00				340.00
WADSL						
Month to Month						
Down 384/Up 128						59.00
Down 1.5/Up 384			-40.94%	88.00		149.00
Down 786/Up 384			-23.60%	68.00		89.00
Down up to 1.0 Mbps/128 up						59.00
Volume Term - One Year						
Down 384/Up 128						
0-49			-12.82%	34.00		39.00
50-2499	-2.00%	31.36	-13.51%	32.00		37.00
2500-7499	-5.00%	28.50	-14.29%	30.00		35.00
7500+	-7.00%	26.04	-15.15%	28.00		33.00
Down 1.5/Up 384						
0-49			-41.09%	76.00		129.00
50-2499	-2.00%	70.56	-41.46%	72.00		123.00
2500-7499	-5.00%	64.60	-41.38%	68.00		116.00
7500+	-7.00%	60.45	-40.91%	65.00		110.00
Down 768/Up 384						
0-49			-23.19%	53.00		69.00
50-2499	-2.00%	49.00	-24.24%	50.00		66.00
2500-7499	-5.00%	45.60	-22.58%	48.00		62.00
7500+	-7.00%	41.85	-23.73%	45.00		59.00
Down up to 1.0 Mbps/up 128 Kbps						
0-49						34.00
50-2499	-2.00%	31.36				32.00
2500-7499	-5.00%	28.50				30.00
7500+	-7.00%	26.04				28.00
Down 128/Up 128						
0-49				26.00		
50-2499				24.00		
2500-7499				22.00		
7500+				20.00		
Volume Term - Two Years						
Down 384/Up 128						
0-49			-15.79%	32.00		38.00
50-2499	-5.00%	28.50	-16.67%	30.00		36.00
2500-7499	-15.00%	23.80	-15.15%	28.00		33.00
7500+	-22.00%	18.72	-17.24%	24.00		29.00
Down 1.5/Up 384						
0-49			-41.27%	74.00		126.00
50-2499	-5.00%	66.50	-41.18%	70.00		119.00
2500-7499	-15.00%	54.40	-40.74%	64.00		108.00
7500+	-22.00%	44.46	-41.24%	57.00		97.00

## Summary of Special Access and Broadband Service Rate Changes

### Interstate InterLATA

Service		07/01/04		07/01/03		07/02/02
<b>Down 768/Up 384</b>						
0-49			-22.39%	52.00		67.00
50-2499	-5.00%	45.60	-25.00%	48.00		64.00
2500-7499	-15.00%	38.25	-22.41%	45.00		58.00
7500+	-22.00%	31.20	-23.08%	40.00		52.00
<b>Down up to 1.0 Mbps/up 128 Kbps</b>						
0-49			-3.03%	32.00		33.00
50-2499	-5.00%	28.50	-3.23%	30.00		31.00
2500-7499	-15.00%	23.80	0.00%	28.00		28.00
7500+	-22.00%	18.72		24.00		
<b>Down 128/Up 128</b>						
0-49				24.00		
50-2499				22.00		
2500-7499				20.00		
7500+				16.00		
<b>EhterNet Service</b>						
<b>5 Mbps Connection</b>						
Monthly Port						
Monthly Usage						240.00
1Year Port	-5.00%	465.50				490.00
1Year Usage	-5.00%	199.50				210.00
3Year Port	-10.00%	377.37				419.30
3Year Usage	-10.00%	161.73				179.70
5Year Port	-25.00%	261.98				349.30
5Year Usage	-25.00%	112.28				149.70
<b>10 Mbps Connection</b>						
Monthly Port						665.00
Monthly Usage						285.00
1Year Port	-5.00%	565.25				595.00
1Year Usage	-5.00%	242.25				255.00
3Year Port	-10.00%	472.50				525.00
3Year Usage	-10.00%	202.50				225.00
5Year Port	-25.00%	288.75				385.00
5Year Usage	-25.00%	123.75				165.00
<b>100 Mbps Connection</b>						
Monthly Port						1295.00
Monthly Usage						555.00
1Year Port	-5.00%	1163.75				1225.00
1Year Usage	-5.00%	498.75				525.00
3Year Port	-10.00%	945.00				1050.00
3Year Usage	-10.00%	405.00				450.00
5Year Port	-25.00%	682.50				910.00
5Year Usage	-25.00%	292.50				390.00
<b>1 Gigabit Connection</b>						
Monthly Port						4900.00
Monthly Usage						2100.00
1Year Port	-5.00%	3657.50				3850.00
1Year Usage	-5.00%	1567.50				1650.00
3Year Port	-10.00%	2520.00				2800.00
3Year Usage	-10.00%	1080.00				1200.00
5Year Port	-25.00%	1575.00				2100.00
5Year Usage	-25.00%	675.00				900.00
<b>WMVT Service (3 year term)</b>						
Commitment Level 1				35.00		
Commitment Level 2	-10.00%	27.00		30.00		
Commitment Level 3	-22.00%	18.72		24.00		
Commitment Level 4	-24.98%	17.63		23.50		

SureWest Telephone  
Reply to Petition of AT&T Corp.  
Exhibit No. 2

**SureWest Telephone  
Corporate Operations Expense**

	2002	2003	2004	2005	Corporate Operations Expense Per Loop			
					2002	2003	2004	2005
Corporate Ops Exp	\$ 17,233,716	\$ 19,086,176	\$ 21,114,000	\$ 21,903,664				
Category 1.3 USF Switched Loops	134,361	133,707	133,056	132,409	\$128.26	\$ 142.75	\$ 158.69	\$ 165.42
Total Special/Broadband Service Channels	276,710	300,161	298,179	288,569				
Total Loops and Channels	411,071	433,868	431,235	420,978	\$ 41.92	\$ 43.99	\$ 48.96	\$ 52.03

SureWest Telephone  
Reply to Petition of AT&T Corp.  
Exhibit No. 3

# *Trends in Telephone Service*

*Industry Analysis and Technology Division  
Wireline Competition Bureau*

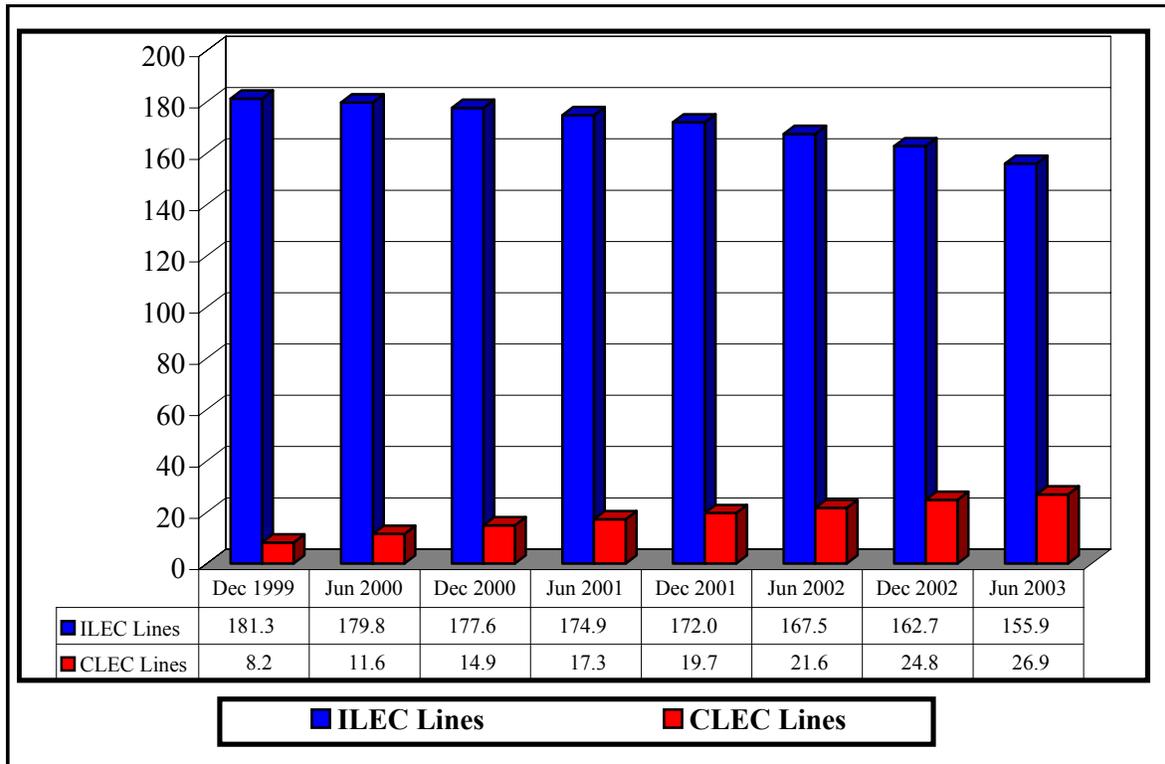
*May 2004*

This report is available for reference in the FCC's Information Center at 445 12th Street, S.W., Courtyard Level. Copies may be purchased by calling Qualex International, Portals II, 445 12th Street S.W., Room CY-B402, Washington DC 20554 at (202) 863-2893, facimile (202) 863-2898, or via e-mail [qualexint@aol.com](mailto:qualexint@aol.com). The report can also be downloaded from the **FCC-State Link** Internet site at [www.fcc.gov/wcb/stats](http://www.fcc.gov/wcb/stats).

**Table 8.1**  
**End-User Switched Access Lines Reported**

<b>Date</b>	<b>ILEC Lines</b>	<b>CLEC Lines</b>	<b>Total</b>	<b>CLEC Share</b>
December 1999	181,307,695	8,194,243	189,501,938	4.3 %
June 2000	179,761,930	11,557,381	191,319,311	6.0
December 2000	177,641,529	14,871,409	192,555,081	7.7
June 2001	174,861,248	17,274,727	191,760,433	9.0
December 2001	172,043,582	19,653,441	191,697,023	10.3
June 2002	167,472,318	21,644,928	189,117,246	11.4
December 2002	162,742,937	24,780,979	187,523,916	13.2
June 2003	155,922,118	26,890,594	182,812,712	14.7

**Chart 8.1**  
**End-User Switched Access Lines Reported**  
**(Lines in Millions)**

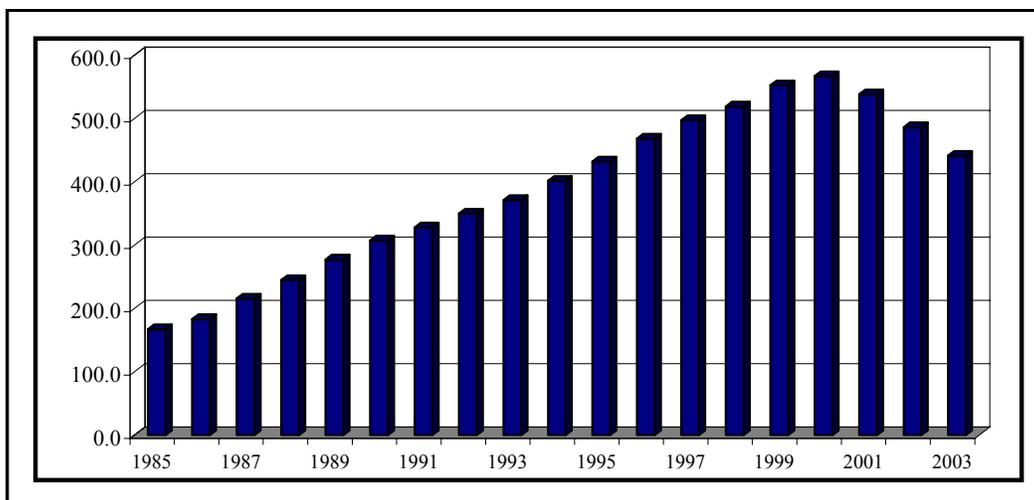


**Table 10.1**  
**Interstate Switched Access Minutes**  
**(In Billions)**

Year	Period	Access Minutes	Year	Period	Access Minutes	Year	Period	Access Minutes
1984	Third Quarter	37.5	1991	First Quarter	79.2	1998	First Quarter	124.0
	Fourth Quarter	39.6		Second Quarter	81.9		Second Quarter	131.3
				Third Quarter	82.6		Third Quarter	130.7
				Fourth Quarter	84.4		Fourth Quarter	132.8
			<b>Total 1991</b>	<b>328.0</b>		<b>Total 1998</b>	<b>518.8</b>	
1985	First Quarter	39.6	1992	First Quarter	85.6	1999	First Quarter	135.6
	Second Quarter	41.5		Second Quarter	86.5		Second Quarter	138.1
	Third Quarter	42.8		Third Quarter	87.9		Third Quarter	138.3
	Fourth Quarter	43.3		Fourth Quarter	89.8		Fourth Quarter	140.3
	<b>Total 1985</b>	<b>167.1</b>		<b>Total 1992</b>	<b>349.7</b>		<b>Total 1999</b>	<b>552.3</b>
1986	First Quarter	43.0	1993	First Quarter	90.6	2000	First Quarter	142.6
	Second Quarter	44.8		Second Quarter	91.2		Second Quarter	142.6
	Third Quarter	46.7		Third Quarter	93.6		Third Quarter	141.5
	Fourth Quarter	48.5		Fourth Quarter	95.9		Fourth Quarter	140.2
	<b>Total 1986</b>	<b>183.1</b>		<b>Total 1993</b>	<b>371.2</b>		<b>Total 2000</b>	<b>566.9</b>
1987	First Quarter	51.2	1994	First Quarter	98.7	2001	First Quarter	137.4
	Second Quarter	52.5		Second Quarter	97.9		Second Quarter	136.3
	Third Quarter	55.0		Third Quarter	101.9		Third Quarter	133.1
	Fourth Quarter	57.0		Fourth Quarter	102.9		Fourth Quarter	131.4
	<b>Total 1987</b>	<b>215.7</b>		<b>Total 1994</b>	<b>401.4</b>		<b>Total 2001</b>	<b>538.3</b>
1988	First Quarter	59.0	1995	First Quarter	105.6	2002	First Quarter	124.7
	Second Quarter	59.6		Second Quarter	106.8		Second Quarter	123.9
	Third Quarter	62.1		Third Quarter	109.0		Third Quarter	119.5
	Fourth Quarter	64.0		Fourth Quarter	110.6		Fourth Quarter	118.1
	<b>Total 1988</b>	<b>244.6</b>		<b>Total 1995</b>	<b>431.9</b>		<b>Total 2002</b>	<b>486.1</b>
1989	First Quarter	66.2	1996	First Quarter	115.7	2003	First Quarter	114.2
	Second Quarter	68.5		Second Quarter	114.7		Second Quarter	112.1
	Third Quarter	69.7		Third Quarter	117.5		Third Quarter	110.0
	Fourth Quarter	72.6		Fourth Quarter	120.2		Fourth Quarter	107.8
	<b>Total 1989</b>	<b>277.1</b>		<b>Total 1996</b>	<b>468.1</b>		<b>Total 2003</b>	<b>444.1</b>
1990	First Quarter	74.7	1997	First Quarter	122.1			
	Second Quarter	75.8		Second Quarter	124.4			
	Third Quarter	77.9		Third Quarter	124.9			
	Fourth Quarter	79.1		Fourth Quarter	125.8			
	<b>Total 1990</b>	<b>307.4</b>		<b>Total 1997</b>	<b>497.3</b>			

Source: National Exchange Carrier Association, MOU/Data/Summary of National Exchange Carrier (NECA) Total Pool Results, December 18, 2003. Industry Analysis and Technology Division, Wireline Competition Bureau, *Universal Service Monitoring Report* (December 2003).

**Chart 10.1**  
**Interstate Switched Access Minutes**  
**(In Billions)**



SureWest Telephone  
Reply to Petition of AT&T Corp.  
Exhibit No. 4

DMD-1

Filing Date:

6/24/2004

Filing Entity:

SureWest Telephone

Transmittal Number:

9

COSA:

2334AN04

Page 3 of 3

Rate-of-Return TRP

Traffic Sensitive

Minutes-of-Use

Historical	Premium Local Switching (A)	Non-Premium Local Switching (B)	Total Local Switching (C)	Total Chargeable Switching (D)	Total Tandem Switching* (E)	Tandem Switching Transport ** (F)
100 1st Qtr. 2000	78,440	0	78,440	78,440	59,923	119,846
110 2nd Qtr. 2000	81,653	0	81,653	81,653	62,564	125,129
120 3rd Qtr. 2000	84,947	0	84,947	84,947	65,269	130,537
130 4th Qtr. 2000	83,657	0	83,657	83,657	62,165	124,330
140 1st Qtr. 2001	86,414	0	86,414	86,414	53,573	107,146
150 2nd Qtr. 2001	85,809	0	85,809	85,809	48,101	96,203
160 3rd Qtr. 2001	86,811	0	86,811	86,811	48,176	96,351
170 4th Qtr. 2001	85,426	0	85,426	85,426	49,667	99,334
180 1st Qtr. 2002	86,378	0	86,378	86,378	59,257	118,514
190 2nd Qtr. 2002	84,222	0	84,222	84,222	58,084	116,169
200 3rd Qtr. 2002	85,848	0	85,848	85,848	58,713	117,426
210 4th Qtr. 2002	84,409	0	84,409	84,409	58,614	117,228
	----	----	----	----	----	----
220 Pycos Year, 1/03 - 12/03	335,335	0	335,335	335,335	268,838	537,675
	----	----	----	----	----	----
230 Test Year, 7/04 - 6/05	285,730	0	285,730	285,730	245,740	491,479

Notes: Local switching MOU are the same as the billable units for the interconnection charge.

\* Refers to the MOU switched at a company tandem, as discussed in Part 69. 11(f-g).

\*\* Refers to the MOU carried over non-dedicated trunks; i.e., tandem switched transport or common trunks.

SureWest Telephone  
Reply to Petition of AT&T Corp.  
Exhibit No. 5

**SureWest Telephone**  
**Local Switching Demand Actuals vs Forecast**  
(In Thousands 000)

	Calendar Year Actual	Calendar Yr Eviews	% Difference	Calendar Yr Linear Regression	% Difference
2000	328,697	322,761	-1.81%	300,659	-8.53%
2001	344,460	343,644	-0.24%	353,617	2.66%
2002	340,857	334,380	-1.90%	381,860	12.03%
2003	335,335	332,524	-0.84%	372,251	11.01%
Projected 2004	302,078	302,595	0.17%	341,415	13.02%
Projected 2005	271,284	271,284	0.00%	326,530	20.36%

	Split Year Actual	Split Year Eviews		Split Year Linear Regression	
00/01	340,827	341,047	0.06%	327,138	-4.02%
01/02	342,837	349,972	2.08%	367,739	7.26%
02/03	339,369	331,293	-2.38%	377,056	11.10%
03/04	328,081	322,497	-1.70%	356,833	8.76%
Projected 04/05	285,730	285,730	0.00%	333,973	16.88%

**SureWest Telephone  
Projected MOU**

**Monthly Demand Projections**

2004-2005 Tariff Period		
2003	2004	2005
Actuals	Forecast	Forecast
28,501,234	27,561,244	23,970,047
25,903,325	24,600,941	21,198,946
29,398,355	27,163,281	23,673,070
28,826,569	25,980,355	22,735,786
28,432,785	26,063,232	22,954,713
28,050,064	25,113,472	22,215,444
28,667,551	25,321,992	22,547,851
28,314,486	26,036,768	23,357,899
27,939,155	24,860,367	22,389,106
28,280,445	25,209,175	22,856,508
25,545,146	23,553,125	21,412,640
27,476,282	24,001,288	21,972,096
Annual Total	335,335,397	305,465,239
Split Yr Total		285,730,719
Split Yr Change		-11.46%
Annual Change	-8.91%	-11.19%
18 month Change		-14.79%
SA HISTORICAL MOU BASE		
CALINCLOG(-1)		
CALPOPLOG(-1)		
CALEARNLOG(-2)		
GDPLOG(-2)		
CALEMPLOG(-2)		
PCTDCLLOG(-1)		

SureWest Telephone  
Reply to Petition of AT&T Corp.  
Exhibit No. 6

CWC-1

CASH WORKING CAPITAL WORKSHEET

CWC-1

LN	DESCRIPTION	TOTAL COMPANY	ALLOCATION BASIS	INTERSTATE				INTRASTATE				EXCHANGE PVT LINE	EAS	EXCHANGE MESSAGE
				MESSAGE TOLL		SPECIAL ACCESS		MESSAGE TOLL		SPECIAL ACCESS				
				INTRALATA	INTERLATA	INTRALATA	INTERLATA	INTRALATA	INTERLATA	INTRALATA	INTERLATA			
1	PLANT SPECIFIC EXPENSES	15,820,214	S-9, LN 27	0	2,679,539	0	1,458,428	2,049,858	1,292,348	133,369	175,458	40,647	4,932,686	3,057,881
2	PLANT NON SPECIFIC EXP EXCL DEP & AMORT	11,554,209	VARIOUS	0	3,414,162	0	1,196,162	1,379,775	901,241	86,324	125,151	26,006	3,198,316	1,227,072
3	CUSTOMER OPERATIONS EXP - MARKETING	3,199,839	S-11, LN 12	0	377,338	0	207,644	203,878	355,892	73,324	18,556	0	1,179,419	783,788
4	CUSTOMER OPERATIONS EXP - SERVICES	17,020,338	S-11, LN 44	0	1,100,342	0	98,616	1,154,953	567,018	39,299	36,171	0	2,764,912	11,259,027
5	CORPORATE OPERATIONS EXPENSE	21,508,833	S-12, LN 13	0	2,808,543	0	1,397,700	2,260,463	1,471,188	156,875	167,740	31,464	5,700,343	7,514,515
6	EQUAL ACCESS EXPENSE	0	S-12, LN 15	0	0	0	0	0	0	0	0	0	0	0
7	OTHER EXPENSE - CONTRIBUTIONS	38,000	S-12, LN 14	0	4,962	0	2,469	3,994	2,599	277	296	56	10,071	13,276
8	INTEREST ON CUSTOMER DEPOSITS	0	S-12, LN 17	0	0	0	0	0	0	0	0	0	0	0
9	FEDERAL INCOME TAX (ACTUAL)	14,080,804	S-12, LN 31	0	7,511,241	0	3,700,207	-2,900,578	-2,184,570	-156,825	-204,461	276,799	3,032,103	5,006,889
10	STATE INCOME TAX (ACTUAL)	5,272,197	S-12, LN 32	0	2,812,392	0	1,385,448	-1,086,047	-817,957	-58,719	-76,555	103,640	1,135,293	1,874,702
11	OTHER OPERATING TAX	1,792,810	S-12, LN 33	0	309,778	0	196,113	240,674	157,085	15,402	20,998	4,288	568,155	280,317
12	OTHER OPERATING TAX - DIRECT ASSIGN	0	S-12, LN 34	0	0	0	0	0	0	0	0	0	0	0
13	GROSS RECEIPTS TAX (ACTUAL)	0	RECORDS	0	0	0	0	0	0	0	0	0	0	0
14	INTEREST ON CAPITAL LEASES	0	S-12, LN 16	0	0	0	0	0	0	0	0	0	0	0
15	OTHER FIXED CHARGES - OPERATING	743,201	S-12, LN 18	0	125,599	0	72,885	98,373	66,884	6,052	8,070	1,697	232,786	130,855
16	TOTAL CASH WORKING CAPITAL EXPENSES	91,030,445		0	21,143,897	0	9,715,671	3,405,342	1,811,730	295,380	271,424	484,596	22,754,084	31,148,322
17	CASH WORKING CAPITAL RATIO		RECORDS	0.07123	0.07123	0.07123	0.07123	0.06027	0.06027	0.06027	0.06027	0.06027	0.06027	0.06027
18	CASH WORKING CAPITAL	5,824,626		0	1,506,080	0	692,047	205,240	109,193	17,803	16,359	29,207	1,371,389	1,877,309
19	MINIMUM BANK BALANCE	0	/LN 16	0	0	0	0	0	0	0	0	0	0	0
20	WORKING CASH ADVANCES	0	/LN 16	0	0	0	0	0	0	0	0	0	0	0
21	TOTAL CASH WORKING CAPITAL	5,824,626		0	1,506,080	0	692,047	205,240	109,193	17,803	16,359	29,207	1,371,389	1,877,309

**CERTIFICATE OF SERVICE**

I, Joan P. George, a secretary in the law firm of Fletcher, Heald & Hildreth, P.L.C., do hereby certify that a true copy of the foregoing *Reply of SureWest Telephone to Petition of AT&T* was sent this 30<sup>th</sup> day of June, 2004, via hand and e-mail where indicated and otherwise by facsimile to the following:

Raj Kannan \* (3 paper; (raj.kannan@fcc.gov))  
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Wireline Competition Bureau  
Federal Communications Commission  
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\_\_\_\_\_  
/s/ Joan P. George

Joan P. George

\* By Hand and E-mail